

## 2014 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**

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LEARN CONSTANTLY SO WE CAN CONTINUALLY IMPROVE

## TO OUR SHAREHOLDERS

**CHARLES N. FUNK**, President & CEO

**KEVIN W. MONSON**, Chairman

### One year ago in this space, we trumpeted 2013 as a year of achievement and success.

While we were then (and still are) optimistic about our future, never did we dream that 2014 would be a year of even greater achievement, success, and, yes, excitement. We look forward to sharing many of these successes in this annual report. After you have had the opportunity to reflect on what transpired in 2014, we believe that you will share our optimism about the future of MidWestOne.

One of the words we tend to use frequently in our business is “perspective”. We often are so caught up in the day to day grind that we forget to take the long view. This year, we begin this letter with a look back at the past decade. At year-end, 2004, we were ISB Financial Corp. operating two banks, Iowa State Bank & Trust Company in Iowa City and First State Bank, in Conrad, Iowa. We had 10 banking offices, \$636 million in assets and approximately 450 shareholders. Then, as today, we were well known in the communities we serve as being a standout corporate citizen with our employees playing key roles in nearly all aspects of community life.

Our 2008 merger with the former MidWestOne significantly changed our company. We became a public company and our shareholder count increased nearly ten-fold. We became one of Iowa’s largest commercial banks and our footprint expanded to 25 offices in 19 communities in eastern, southeastern and north-central Iowa. As we look back on the excitement that ensued from the merger announcement, little could we have predicted the immediate future. The Great Recession was soon upon us and merger integration was difficult as we set out to implement a common culture in our new company. After difficult earnings years in 2008 and 2009, we turned the corner in

2010. 2011 was a record year of earnings per share for MidWestOne as was 2012, 2013 and, again in, 2014.

For the past several years, we have expressed our desire to better leverage our growing capital base through acquisition. We looked “far and wide” in our footprint for opportunities, but the reality was (and is) that Iowa has not seen the industry consolidation that has occurred in other states. Thus, we gradually began to look beyond our current footprint for opportunities and on November 21, 2014, we announced a merger with Golden Valley, Minnesota based Central Bancshares, Inc. Just as the 2008 merger was transformational, so, too, is this opportunity for our company. We will discuss this further, later in this letter.

2014 financial results were good. Basic earnings per share increased slightly to \$2.20, up from \$2.19 in 2013. This is the best EPS performance in the 80 year history of your company. We incurred \$1 million of merger related expenses in the fourth quarter of 2014. Without these one-time expenses, our basic earnings per share jumps to \$2.32. Including the merger related expenses, 2014 net income was \$18,522,000 compared to \$18,607,000 in 2013. 2014 return on assets was 1.05% and return on tangible common equity was 10.61%. We would hasten to add that our return on tangible common equity was achieved with a stout capital ratio of 10.29% of tangible equity to tangible assets at year-end 2014. In this low interest rate environment, we believe these returns are acceptable and accomplished with less risk than other organizations which employ more leverage than does MidWestOne.

Total assets increased in 2014 to \$1.800 billion at year-end. This was accomplished with modest deposit

growth of 2.4% and good loan growth. Our loans outstanding were \$1.133 billion at year-end 2014, up 4.1% from year-end 2013. Importantly, much of this growth came in the last few months of 2014 and, as this letter is written, 2015 is off to a robust beginning in terms of lending activity. Each year, we’ve discussed our strategic goal to be “in the 80’s” in terms of the closely monitored loan to deposit ratio. We ended 2014 at 80.4% and believe that this ratio will likely trend higher in 2015. We believe we can deliver competitive returns to our shareholders with moderate risk with this ratio “in the 80’s”.

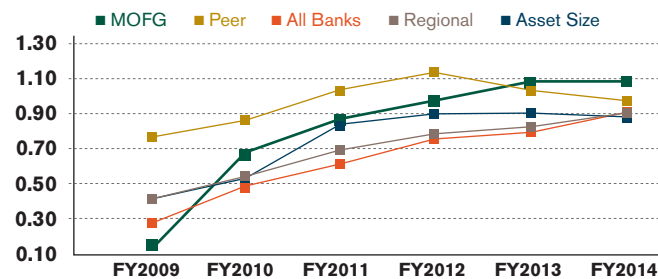
The combination of achieving good loan growth and managing our deposit expenses resulted in a net interest margin for 2014 of 3.53%, up from 3.46% in 2013. We admit to being surprised that we’ve been able to keep the margin at these levels during a seventh year of record low interest rates. The fact that we did allowed net interest income to increase by a modest 1.7% in 2014. As we forecast in last year’s letter, increasing top line revenues was a challenge in 2014.

One goal that has challenged us since our 2008 merger has been to increase non-interest revenue to 30% of total revenues. We have moved further away from this goal but with that said, there has been significant progress in several key non-interest revenue areas. Our Trust Department continued its string of impressive annual performances. Over the past six years, Trust revenues have increased at a 7% annual pace with assets under management increasing from \$250 million 6 years ago to over \$410 million at December 31, 2014. Likewise, the Investment Services department registered another very good performance in 2014. Investment

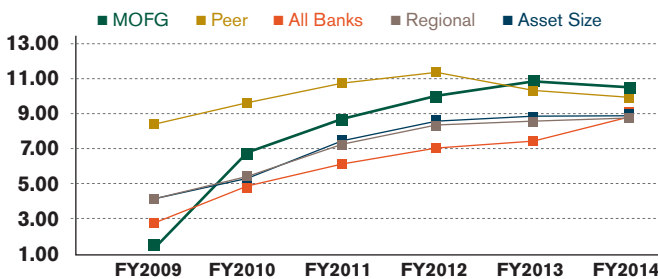


Charles N. Funk, President & CEO (left) and Kevin W. Monson (left), Chairman.

**RETURN ON AVERAGE ASSETS (%)**



**RETURN ON AVERAGE EQUITY (%)**



Services has increased its revenue in 2014 by 15% from 2013 while its assets under management have grown to over \$389 million at December 31, 2014, up over \$110 million, or 39.6%, from the December 31, 2013 level. We are very pleased with the progress of these two important departments and look forward to continued contributions from them in 2015.

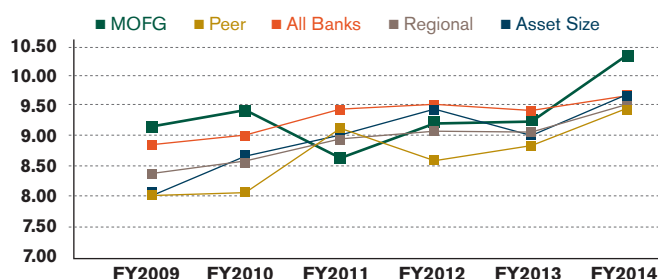
MidWestOne Insurance Services was again profitable in 2013, though we continue to demand more improvement in its operating performance in the years ahead. 2014 net income was in line with 2013 results. Readers will recall that this subsidiary was not profitable in the 2008-2012 time frame and much hard work and planning has occurred to assure that income streams from this subsidiary company will contribute greater returns in the next few years. Adding Central Insurance, LLC as part of our recent transaction will help move MidWestOne Insurance Services forward.

A year ago, we began a comprehensive look at the fees we charge for our services and our ability (or inability) to collect these fees. One of 2014's greatest achievements in improving key non-interest revenue areas was the resulting plan that has been implemented and has been yielding bottom line results. As such, service charges and fees for our deposit services increased by 10% from 2013 levels and returned to about the same level as we collected in 2012. Many of our associates played important roles in this project.

We continue to struggle, however, with the mortgage lending revenues of the bank. Mortgage lending has become much more complex due to the continual onslaught of regulation from the Dodd-Frank Act. While we are complying with the increased requirements, we are not doing it productively and this is reflected in the 51.6% reduction in origination and loan servicing fees, to \$1.554 million, in 2014. To be sure, 2014 was a year of generally reduced mortgage activity for most banks, but we must demand more. One of our highest corporate priorities is to give our mortgage customers excellent products in 2014 and to do it with improved efficiency. This remains a good opportunity for our company.

Another hallmark of MidWestOne is our efficiency. This was not the case five years ago. With top-line revenue growth increasingly challenged, management of expenses is essential for delivering good returns to shareholders. Non-interest expense in 2014 was 3.2% higher than in 2013. However, when backing the merger related expenses out of this line item, the number is less than 1.0%. More importantly, the efficiency ratio—which measures how much it costs to generate a dollar of revenue, the lower the better—was a very good 58.74% and this number includes the merger expenses. At MidWestOne Bank, this metric was an outstanding 54.59%. For us to deliver good returns to our shareholders, we must continue to keep this important ratio at an acceptable level in the future.

**TANGIBLE EQUITY / TANGIBLE ASSETS (%)**



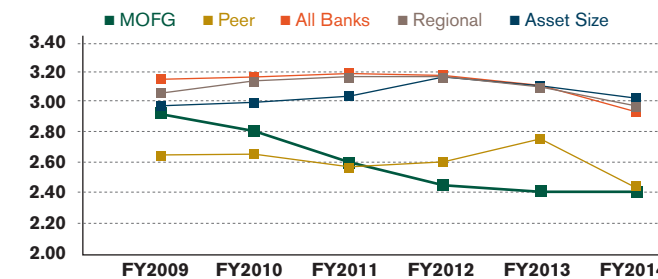
In our corporate strategic plan, the first topic discussed is asset quality and its importance to our future success. The quickest way to oblivion in our industry is to make bad loans. 2014 was another outstanding year in this regard. Net charge-offs were a low 0.09% of bank loans. We contributed \$1,200,000 to our loan loss reserve during the year and fully covered net charged off loans. At year-end, the loan loss reserve stood at a robust 1.44% of total bank loans and this represented 125.7% of non-performing assets. Simply stated, these numbers represent strength in our balance sheet.

For several years, we have discussed our desire to better deploy our equity. Our year-end numbers illustrate exactly why we made these statements. As noted above, our tangible common equity to tangible assets was a robust 10.29% at year-end 2014, well above our strategic goal in the 8% range. Tier 1 capital, which is a focus of our regulators, was 10.85%, well above regulatory minimums. As the equity accounts continued their yearly growth, delivering a desired return on equity becomes more difficult. The Central Bank merger will definitely deploy our capital in a more assertive manner. Our strong capital position has allowed us to return a portion of our earnings to our shareholders. We recently increased our quarterly dividend to \$0.15 per share. During 2014, we repurchased 165,766 shares of MOFG common stock at an average price of \$24.05 per share. When combined with our dividend payments during the year, we returned \$8,855,000, or 48% of our net income, to our shareholders in 2014.

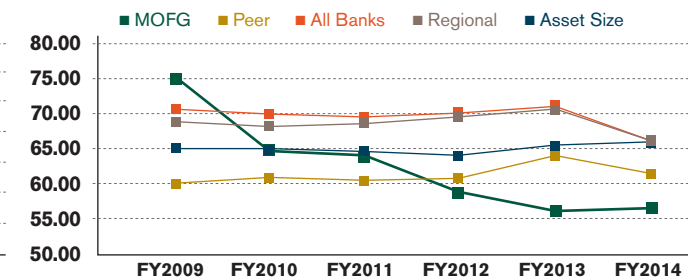
As we consider how our four important constituencies fared in 2014, we think you will be pleased.

Our customers gave us high marks for our services during the year. Each year we survey our customers in each market to assure we are living up to our high expectations in servicing them. Overall satisfaction of respondents

**NONINTEREST EXPENSE / AVERAGE ASSETS (%)**



**EFFICIENCY RATIO (%)**



scored overall satisfaction at 4.5 on a 5 point scale, up from 4.4 in 2013. Satisfaction ratings with bank technology services, such as online banking and mobile banking also improved 9% over the year as our associates took on greater efforts to better educate our customers on how to best use these services. In addition, we continued to invest in technology that will add increased security while improving ease of use for our customers.

We continue to be amazed at the growth of our employees and the esprit de corps that is present in our company. For the second consecutive year, we were recognized by the *Des Moines Register* as one of the 100 best places to work in the state of Iowa. This recognition comes from an anonymous survey of all employees. We also watched as many (truly, too many to name here) employees saw growth in their careers. Our corporate Rally Day was held on Columbus Day in 2014 with all associates present and it may have been our best ever as we celebrated the many accomplishments of this dedicated group of employees. We offer special mention to President's Award winners Jesse Gleason, Cedar Falls Commercial Banker, Karina Beltran, West Liberty Personal Banker, and Jason Johnson, of Iowa City Deposit Operations. These three represent the best of the best in 2014.

We continue to say with pride that we did not cut even a dollar from our training budgets in the downturn of 2008-09. This is because we know we must give our employees every tool they need to succeed in today's competitive marketplace. Each year, we send many employees to banking and professional schools in Iowa and around the nation. 2014 marked the fifth class of the MidWestOne Leadership Institute and we have another 11 officers in the 2015 class, which recently commenced.

We know our culture is special and we do not take it for granted. This is why we instituted "Gratitude Friday,"

which is the last Friday of each month. On this day, we remind and encourage each employee to reach out to someone via a handwritten note of gratitude. It is small things such as Gratitude Friday that accumulate over time to form a strong and lasting culture.

Community involvement is a constant at MidWestOne and all surveys of our customers reveal that we are known for our generous support of community and that our customers consider this to be important. We expect our officers to serve on not-for-profit boards and we expect them to roll up their sleeves and contribute in a significant manner. Our \$50,000 Community Impact Grant in 2014 was awarded to the Parkersburg community for the Diamonds and Dreams sports complex. The 15-acre sports complex will include four baseball/softball diamonds, two soccer fields, and a Miracle Field – just the second wheelchair accessible ball diamond in Iowa. We will never back down from our obligation to robustly champion the communities we serve. That is a promise.

Shareholders were well served in 2014, though the appreciation of our stock was not what it had been in prior years. If one looks at the graphic presentation of our stock (in our 10-K) compared to both the SNL Midwestern Bank Index and the NASDAQ

composite index, MidWestOne has outperformed both indices over the last five years. We fully acknowledge that we have no control over the short term movements in our stock price. We know that we must deliver good decision-making that leads to strong financial performance over a period of time and then trust that performance is ultimately reflected in our share price. Be assured we do not chase quarterly returns at the expense of the long term. We will continue to do the things that build a stronger company for the years ahead.

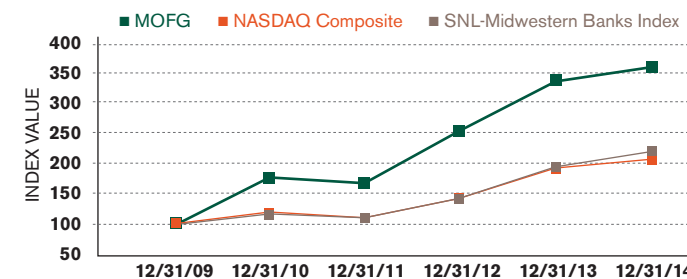
2014 was also a year of sudden endings and new beginnings.

We mourned the passing of our wonderful Trust Department employee and Vice President, John Chadima, who died suddenly on August 19. For 33 years, John Chadima embodied our corporate mission statement of "taking care of our customers and those who should be" and, without warning, he was taken from us. To say that we miss John daily is an understatement.

We welcomed Senior Vice President, Jeff Burkhart, to our company as Regional President in our Burlington market. Jeff is well known in Iowa banking circles and we look forward to his contribution.

We celebrated the promotion of Michael Corbett to Senior Vice President

**TOTAL RETURN PERFORMANCE**



Index	PERIOD ENDING					
	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
MidWestOne Financial Group, Inc.	100.00	175.45	172.37	246.30	333.43	361.37
NASDAQ Composite	100.00	118.15	117.22	138.02	193.47	222.16
SNL-Midwestern Banks Index	100.00	124.18	117.30	141.18	193.28	210.12

and Controller. Mike was rewarded for his fine work in managing the Accounting Department at the bank.

And now, we look to an exciting future. We have applied for regulatory approval for our proposed merger with Central Bancshares. We will be soon asking our shareholders for approval as well. Central Bank, with 13 offices on the Minnesota side of the Twin Cities metro, seven in Western Wisconsin and two in Florida, certainly adds geographic breadth to the MidWestOne footprint. More than that, Central brings a devoted and talented group of employees into the MidWestOne fold. As we've had opportunities to meet these employees, we've been impressed with their friendly natures as well as their excitement to join with our company. Central founder, John Morrison, who will join our Board of Directors as Chairman, has built a company that is ready to take the next step in its evolution. We believe that once our merger is integrated, we will have a company that has the necessary scale and earnings power to grow over the next five years. There is no question that hard work and tough decisions are immediately in front of us as we seek to bring these companies together. But we've been through this before, in 2008-09, and to a person, our management teams are ready for the challenge. We look forward to our annual meeting when we can lay out our plans in greater detail for our shareholders.

It is our great privilege to serve you, our loyal shareholders. As our company continues to evolve in a positive way, we appreciate that our shareholders have been supportive for many years. We continue to welcome your questions and comments at any time about any aspect of our business. You're the Ones for whom we will diligently work, for whom we diligently build as we strive to exceed your expectations.

Yours very truly,



Charles N. Funk  
President & CEO



Kevin W. Monson  
Chairman



## CENTRAL BANCSHARES ACQUISITION

On November 21 it was announced that MidWestOne Financial Group, Inc., the parent of MidWestOne Bank, would merge with Central Bancshares, Inc., parent of Central Bank, headquartered in Golden Valley, Minnesota. Following the merger of Central Bancshares into MidWestOne Financial Group we will operate MidWestOne Bank and Central Bank as separate banking subsidiaries.

The combined company is expected to have nearly \$3 billion in assets, creating one of the premier publicly traded financial services companies in Iowa and Minnesota. Central Bank operates 20 offices in the Minneapolis/St. Paul metropolitan area and western Wisconsin and two branches in southwest Florida. MidWestOne Bank has 25 offices in Iowa. The merger is expected to close during the second quarter of 2015 and is subject to approval by MidWestOne's shareholders and regulatory agencies, as well as other customary closing conditions.

For over 80 years, our mission has been to take care of our customers... and those who should be. It is clear that Central Bank embodies that same principle. That, combined with the commonly shared strong support of community, is what makes this an attractive partner for MidWestOne.

Following the merger, Charles N. Funk will continue to be the President and Chief Executive Officer of MidWestOne. John M. Morrison, Central's current Chairman and sole shareholder, will become the Chairman of the combined company's board of directors, while Kevin W. Monson, MidWestOne's current Chairman, will become Vice Chairman of the combined company's board. The headquarters will remain in Iowa City.

This acquisition will serve to further strengthen MidWestOne as a company. Strong and successful companies are ones that continue, over time, to grow and expand. The added scale will allow MidWestOne to continue to provide best in class services and products in the years ahead.



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

### From Left:

**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

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

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

**Patricia A. Heiden:** Executive Director, Oaknoll Retirement Residence, MOFG and MidWestOne Bank Board Member

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

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

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

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

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

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

**Richard R. Donohue:** Former Managing Partner of TD&T CPAs, MOFG and MidWestOne Bank Board Member

### Not Pictured:

**John S. Koza:** Retired Bank Executive, MidWestOne Bank, Director Emeritus of MOFG and MidWestOne Bank

**William N. Ruud:** President, University of Northern Iowa, MOFG Board Member



## MIDWESTONE FINANCIAL GROUP, INC. EXECUTIVE OFFICERS

(From left)

**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

## 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:** Corporate Secretary

# Rock steady

## DO BANKERS SECRETLY YEARN TO PLAY ROCK 'N' ROLL?

Kent Jehle, MidWestOne's Executive Vice President and Chief Credit Officer, wasn't a frustrated teenage musician. But he and some of his high school pals did become self-described KISS fanatics back then, obsessed by the elaborately costumed hard-rock band since the '70s. It's a passion that has been slow to wane.

Kent only recently cleared his extensive collection of KISS paraphernalia out of his home office. "I figured it was time to put it away," he sighs, although it's clear he would jump at the chance to see the group perform again.

You don't have to be a rock fan to know that the best bands are examples of effective teams in action. Kent's own introduction to teamwork came not in a concert hall but on the athletic field. His father, who ran the family's insurance and real estate firm in West Liberty, Iowa, attended the UI in the 1950s and played football for the University of Iowa's legendary coach Forest Evashevski

"I was never the athlete my dad was," Kent admits, "but being part of a team came pretty naturally. Through high school sports, I learned a lot about how teams work, how to identify strengths and weaknesses, and how to pull a strong team together."

Those skills are very much in evidence in Kent's leadership role at MidWestOne, where his talents caught the attention of Director Emeritus Dick Summerwill back in 1986, when Kent first contacted the bank about a commercial lending job. Kent, who says

"math always came easy to me," earned a degree in finance from the UI and spent several years as a bank examiner for the state's Division of Banking.

"A friend told me about an opening at what was then Iowa State Bank & Trust Company," Kent explains, "and I met with a couple of bank executives here, including Dick Summerwill. He told me they'd never hired a bank examiner before, but it was the 1980s, there was a lot going on, and the bank had a lot of respect for examiners and their abilities."

Mentored by Dick, Jack Koberg, and other experienced executives at the bank, Kent was tapped in the early 1990s to head the bank's commercial lending department. "I was only in my 30s, and I remember Dick telling me at the time that although it would have been nice if I'd had more experience, the bank liked what I'd done so far and decided to give me a chance to do more," Kent recalls. "That meant a lot to me, and it inspired me to encourage others throughout my career."

Kent ably led the commercial banking enterprise for more than 10 years, and was promoted to his current position at the time of the MidWestOne merger in 2008. As Chief Credit Officer, he now plays a key role on multiple teams within the bank.

"Because of my tenure in Iowa City, I still work with a majority of our larger commercial banking customers, making sure we take care of their needs," Kent says. "I also travel to our other markets to consult with clients and further those relationships. It's important that we support our lenders within their local communities. It underscores that we



are all one bank, and helps strengthen teamwork throughout the organization."

Kent also credits Charlie Funk as a mentor and is quick to deflect credit when discussing his own career progression. "It's funny how things play out," he says. "When the timing is right, some doors open, and you take advantage of the opportunities that come your way. But if you're inexperienced and try to go it alone, you're not going to be as successful. That's why the team approach has always been big with me. You're only as good as your team, so you want a good team around you."

Kent's home team includes his wife, Susan, who works in administration at University of Iowa Children's Hospital,

four children, and several grandchildren. "I think people look at me and imagine I'm a pretty hardcore business guy, but really, I'm a softy," Kent laughs. "I always say, 'the first one's one me,' because I trust people to be open and honest, so we can agree on the facts and move forward without any surprises."

Those who might be surprised by Kent's KISS obsession will be reassured to know he has no interest in leaping on stage as a solo act. "One of the great things about the MidWestOne team is even in times of adversity, we support each other, we put in the extra time to get the job done, and we work through it together," he says. "To me, that's the true test of teamwork."

## COMMUNITY BANK KUDOS

MidWestOne has enjoyed considerable national recognition in recent years, and in 2014 Kent Jehle became our latest attention-getter. In a story entitled "Main Street Sensations" in the July 2014 issue of ICBA Independent Banker, Kent was named as one of eight Outstanding Community Lenders from across the U.S. In the accompanying profile, Kent was praised by MidWestOne President and CEO Charles N. Funk for his steady hand and strategic thinking, particularly in guiding the bank's lending portfolio through the recent recession with impressively positive results. We extend our congratulations to Kent for this well-deserved honor, and our thanks for his exceptional service to his coworkers and customers.

# The farm team

**IF YOU WERE RAISED ON A FAMILY FARM,** you know some basic truths.

You know that farming is difficult, yet deeply rewarding. You know that farming requires teamwork, and teamwork requires open and honest communication. And you know that like the Iowa weather, farming changes constantly, which can bring challenges as well as opportunities for growth.

As a farmer himself, Eldon Zumbach is well aware that many of these truths about farming apply to banking as well. Perhaps that's why, as Market President of the MidWestOne office in Belle Plaine, Iowa, Eldon and his staff are so successful in working together to serve their agricultural and commercial customers.

"We have a really solid team here, with the right people in the right positions," says Eldon, who's been with the Belle Plaine office since 1991. Belle Plaine has an 11-person staff, including ag and commercial lenders Cory Ahrendsen, Second Vice President; and Mike Argo, Commercial/Agricultural Banking Officer.

"The three of us work very well together," Eldon explains, "and communication keeps everything running smoothly, both among our staff and especially with our clients. We're serving a lot of second- and third-generation farm families now, which is exciting. Tapping into the knowledge of other team members helps us recognize

opportunities or situations before they happen, and be proactive with our customers and their needs."

Cory, who grew up on a farm in Western Iowa, has been with MidWestOne since 2006 and still "farms on the side," agrees with Eldon's assessment. "Having the three of us all working in ag and commercial lending means we can play off each other's strengths. Each of us is a bit more knowledgeable in certain areas, like livestock or crops or new technology, and we're always bouncing ideas off of one another, so it gives us a better perspective on the big picture."

Mike is a Belle Plaine native and the newest member of the MidWestOne team, joining the staff in 2012. He says working with ag lenders with as much experience as Eldon and Cory has been a tremendous learning experience. "We each have our own accounts, but if one of us is out of the office, our customers they know they can talk to any of us and get what they need." Mike says. "It helps us provide better and faster customer service."

"In both farming and banking, change is pretty constant," Eldon observes. "Working as one team is the best way to turn change to our customers' advantage."

Front, Darwin Rieck and Barry Werning of Rieck Farms near Belle Plaine  
Back, MidWestOne bankers Eldon Zumbach, Cory Ahrendsen, and Mike Argo

"In both farming and banking, change is pretty constant. Working as one team is the best way to turn change to our customers' advantage."

Eldon Zumbach,  
Market President, Belle Plaine



# Building bridges

## WHEN SUE ARMBRECHT JOINED MIDWESTONE

as Cedar Valley Market President in 2009, she saw great opportunities for growing the business. For Sue, that meant expanding her team as well as increasing their capacity for relationship-building, both with customers and with one another.

“Strong relationships are enormously important to us, and they’re a sign of how well we’re living our MidWestOne values,” Sue says. “Not just working as one team, but putting the customer first, operating with integrity, and believing in our culture. If we’re doing a good job of relationship-building, it comes back to us in countless ways, from business referrals to being a better workplace.”

Sue’s growth strategy was to identify key service areas, such as insurance and investments, “where I could see that more value would come from having greater depth for an office our size,” she explains. “We’ve made great progress in the last five years, with about 17 people in the Cedar Falls office today and another seven in Waterloo. But we call ourselves Cedar Valley because, really, we’re all connected. And that’s exactly the feeling we’re trying to build.”

Her primary partner in business growth has been Vice President and Regional Credit Officer Jesse Gleason, who’s been with MidWestOne since early 2008. Working together, Jesse and Sue have developed a number of relationship-management tools, from team meetings and reports to shared client calls and one-on-one coaching, that keep their staff motivated and on track.

“When our customers have multiple relationships within the bank, they feel more like part of the family,” Jesse says. “That builds trust and confidence, and increases the likelihood that if they use us for personal banking, they’ll consider us for business loans and other services – and refer us to their friends and neighbors.”

Both Sue and Jesse credit the company’s leadership with making their jobs easier.

“When you hear [MidWestOne President and CEO] Charlie Funk talking about the importance of working as one team, it creates a consistency that resonates throughout the organization and reinforces what we do on a daily basis,” Jesse says. “Everyone hears the same message, and everyone understands the high standards we work to maintain. It’s something we take a lot of pride in, and I think our customers share that pride as well. We’re all in this together.”

“We’ve come a long way together since the merger in 2008 – not just as a bank, but in terms of our partnership as team leaders.”

Jodee Clarke, commercial loan and special asset processor, Waterloo

WORK AS ONE TEAM



# On the same page

## MODERN TECHNOLOGY HAS REVOLUTIONIZED TEAMWORK.

Today’s “online, everywhere, all the time” business culture has made it possible for large and geographically dispersed teams to communicate and collaborate more smoothly than ever before.

That’s certainly true of Keith Graff’s team. As Vice President, Loan Operations, he oversees more than 20 MidWestOne staff members in offices 80 miles apart. While he appreciates the newest high-tech tools, he says it’s the more personal, “high-touch” approach to customer service that’s the real secret to his team’s behind-the-scenes success.

“Not many people realize that ‘loan ops’ interacts with nearly every department within the bank,” Keith explains. “You may not know we’re here, but we’re working hard to provide seamless service to our customers and our co-workers.”

Loan Operations, Keith explains, consists of three primary functions. “First is the team I call ‘true operations,’ which includes staff members who administer our computer systems, review daily reports, and handle day-to-day back room operations. Second are our commercial loan and special asset processors, headed by Jodee Clarke from our Waterloo office; and third are our consumer loan processors, led

by Lori Johnson here in Iowa City. They’re total professionals and they make my job easy.”

Jodee and Lori agree that their use of technology – including frequent conference calls, web-based meetings, online “funding sheets” for lenders, and other tools – has helped keep team members on the same page. Over time, however, it’s the strong relationships among the Loan Operations team, whether built over the phone or face-to-face, that form the backbone of this group’s high-functioning effectiveness.

“We’ve come a long way together since the merger in 2008 – not just as a bank, but in terms of our partnership as team leaders,” Jodee says. “We talk and meet frequently, we’ve streamlined our processes, hired great employees, invested in training, and made sure we’re meeting the highest expectations.”

“With the staff we have on board today, whatever I ask my co-workers to do, I’m confident will be done well,” says Lori. “It’s rewarding to help team members improve their knowledge and skills, and to grow in their positions. And it all comes back to the bank’s EDGE philosophy – Extraordinary Deeds through Genuine Effort.”

New technology is a great help, but it seems old-fashioned people power is what’s driving the Loan Operations team to the edge of perfection.



## FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share amounts)

	2014	2013	2012
<b>YEAR-END BALANCES</b>			
Assets	\$1,800,302	\$1,755,218	\$1,792,819
Investment Securities	526,466	531,186	590,210
Loans	1,132,519	1,088,412	1,035,284
Loan Pool Participations	21,466	27,667	37,784
Deposits	1,408,542	1,374,942	1,399,733
Stockholders' Equity	192,731	178,016	173,932
<b>AVERAGE BALANCES</b>			
Assets	\$1,760,776	\$1,756,344	\$1,721,792
Investment Securities	534,371	568,518	562,889
Loans	1,092,280	1,059,356	1,001,259
Loan Pool Participations	24,321	32,648	44,507
Total Deposits	1,384,084	1,359,479	1,335,476
Shareholders' Equity	186,375	175,666	165,429
<b>RESULTS OF OPERATIONS</b>			
Net Interest Income	\$54,853	\$53,962	\$53,350
Provision for Loan Losses	1,200	1,350	2,379
Noninterest Income	15,313	14,728	19,737
Noninterest Expense	43,413	42,087	48,960
Income Before Income Taxes	25,553	25,253	21,748
Net Income	18,522	18,607	16,534
<b>PER COMMON SHARE</b>			
Net Income - Basic	\$2.20	\$2.19	\$1.95
Net Income - Diluted	2.19	2.18	1.94
Dividends	0.58	0.50	0.36
Book Value	23.07	20.99	20.51
Closing Price	28.81	27.20	20.51
<b>ASSET QUALITY</b>			
Bank Loans Past Due 30-89 Days	3,862	4,901	6,141
Non-Performing Bank Loans	13,021	13,776	10,654
Net Charge Offs	1,016	1,128	2,098
<b>RATIOS</b>			
Return on Average Equity	9.94%	10.59%	9.99%
Return on Average Tangible Common Equity	10.61%	11.43%	10.95%
Return on Average Assets	1.05%	1.06%	0.96%
Net Interest Margin	3.53%	3.46%	3.46%
Efficiency Ratio	58.74%	57.23%	67.32%
Average Equity as a % of Average Assets	10.58%	10.00%	9.75%
Allowance for Bank Loan Losses as a % of Bank Loans	1.44%	1.49%	1.54%
Net Bank Loan Charge-offs as a % of Average Bank Loans	0.09%	0.11%	0.21%
Non-performing Bank Loans as a % of Bank Loans	1.15%	1.27%	1.03%

## SHARE PRICE

2013	HIGH	LOW	CASH DIVIDEND DECLARED
First Quarter	\$24.25	\$20.80	\$0.125
Second Quarter	\$24.25	\$23.14	\$0.125
Third Quarter	\$28.48	\$23.40	\$0.125
Fourth Quarter	\$29.30	\$23.50	\$0.125

2014	HIGH	LOW	CASH DIVIDEND DECLARED
First Quarter	\$27.67	\$23.53	\$0.145
Second Quarter	\$26.18	\$22.50	\$0.145
Third Quarter	\$24.95	\$23.00	\$0.145
Fourth Quarter	\$29.10	\$22.73	\$0.145

## CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share amounts)

	DECEMBER 31,	
	2014	2013
<b>ASSETS</b>		
Cash and due from banks	\$23,028	\$24,516
Federal funds sold and other short-term investments	381	374
<b>Cash and cash equivalents</b>	<b>23,409</b>	<b>24,890</b>
Securities available for sale	474,942	498,561
Securities held to maturity	51,524	32,625
Loans held for sale	801	357
Loans	1,132,519	1,088,412
Allowance for loan losses	(16,363)	(16,179)
<b>Loans, net</b>	<b>1,116,156</b>	<b>1,072,233</b>
Loan pool participations, net	19,332	25,533
Premises and equipment, net	37,770	27,682
Accrued interest receivable	10,898	10,409
Intangible assets, net	8,259	8,806
Bank owned life insurance	38,142	29,598
Other real estate owned	1,916	1,770
Other assets	17,153	22,754
<b>Total assets</b>	<b>\$1,800,302</b>	<b>\$1,755,218</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits:		
Non-interest-bearing demand	\$214,461	\$222,359
Interest-bearing checking	618,540	592,673
Savings	102,527	94,559
Certificates of deposit under \$100,000	235,395	256,283
Certificates of deposit over \$100,000	237,619	209,068
<b>Total Deposits</b>	<b>1,408,542</b>	<b>1,374,942</b>
Federal funds purchased and securities sold under agreements to repurchase	78,229	66,665
Federal Home Loan Bank borrowings	93,000	106,900
Long-term debt	15,464	15,464
Accrued expenses and other liabilities	12,336	13,231
<b>Total liabilities</b>	<b>1,607,571</b>	<b>1,577,202</b>
<b>Shareholders' Equity</b>		
Preferred stock, no par value, with a liquidation preference of \$1,000 per share; authorized 500,000 shares; no shares issued and outstanding as of December 31, 2014 and 2013	-	-
Capital stock, common, \$1 par value; authorized 15,000,000 shares; 8,690,398 shares issued at December 31, 2014 and 2013	8,690	8,690
Additional paid-in capital	80,537	80,506
Treasury stock, at cost; 334,732 shares and 208,599 shares at December 31, 2014 and 2013, respectively	(6,945)	(3,702)
Retained earnings	105,127	91,473
Accumulated other comprehensive income	5,322	1,049
<b>Total shareholders' equity</b>	<b>192,731</b>	<b>178,016</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$1,800,302</b>	<b>\$1,755,218</b>

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in thousands, except per share amounts)

INTEREST INCOME	YEAR ENDED DECEMBER 31,		
	2014	2013	2012
Loans	\$48,466	\$48,828	\$51,355
Loan pool participations	1,516	2,046	1,978
Securities:			
Taxable securities	8,921	9,905	10,836
Tax-exempt securities	5,455	5,298	5,078
Federal funds sold and other short-term investments	46	17	55
<b>Total interest income</b>	<b>64,404</b>	<b>66,094</b>	<b>69,302</b>
<b>INTEREST EXPENSE:</b>			
Interest-bearing checking	2,168	2,362	3,007
Savings	145	140	143
Certificates of deposit	4,714	6,453	8,814
Federal funds purchased and securities sold under agreements to repurchase	127	166	204
Federal Home Loan Bank advances	2,092	2,686	3,094
Long-term debt	281	296	656
Other borrowings	24	29	34
<b>Total interest expense</b>	<b>9,551</b>	<b>12,132</b>	<b>15,952</b>
<b>Net interest income</b>	<b>54,853</b>	<b>53,962</b>	<b>53,350</b>
<b>Provision for Loan Losses</b>	<b>1,200</b>	<b>1,350</b>	<b>2,379</b>
<b>Net interest income after provision for loan losses</b>	<b>53,653</b>	<b>52,612</b>	<b>50,971</b>
<b>NONINTEREST INCOME:</b>			
Trust, investment, and insurance fees	5,771	5,345	4,995
Service charges on deposit accounts	3,279	2,980	3,247
Mortgage origination and servicing fees	1,554	3,209	3,578
Bank-owned life insurance income	1,102	922	953
Investment securities impairment losses	-	-	(345)
Securities gains, net	1,227	65	805
Other income	2,380	2,207	6,504
<b>Total noninterest income</b>	<b>15,313</b>	<b>14,728</b>	<b>19,737</b>
<b>NONINTEREST EXPENSE:</b>			
Salaries and employee benefits	24,918	24,596	30,684
Net occupancy and equipment	6,293	6,356	6,246
Data processing	1,565	1,452	1,679
FDIC insurance	964	1,066	1,224
Amortization of intangible assets	547	663	778
Other expenses	9,126	7,954	8,349
<b>Total noninterest expense</b>	<b>43,413</b>	<b>42,087</b>	<b>48,960</b>
<b>Income before income taxes</b>	<b>25,553</b>	<b>25,253</b>	<b>21,748</b>
<b>Income Taxes</b>	<b>7,031</b>	<b>6,646</b>	<b>5,214</b>
<b>Net income</b>	<b>\$18,522</b>	<b>\$18,607</b>	<b>\$16,534</b>
<b>EARNINGS PER COMMON SHARE</b>			
Basic	\$ 2.20	\$ 2.19	\$ 1.95
Diluted	\$ 2.19	\$ 2.18	\$ 1.94

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(dollars in thousands, except per share amounts)

YEARS ENDED DECEMBER 31, 2014, 2013, AND 2012	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
<b>Balance, December 31, 2011</b>	<b>\$ -</b>	<b>\$8,690</b>	<b>\$80,333</b>	<b>\$(2,312)</b>	<b>\$63,645</b>	<b>\$6,138</b>	<b>\$156,494</b>
Net income	-	-	-	-	16,534	-	16,534
Dividends paid on common stock (\$0.36 per share)	-	-	-	-	(3,054)	-	(3,054)
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	-	-	-	-	-	4,912	4,912
<b>Balance, December 31, 2012</b>	<b>\$ -</b>	<b>\$8,690</b>	<b>\$80,383</b>	<b>\$(3,316)</b>	<b>\$77,125</b>	<b>\$11,050</b>	<b>\$173,932</b>
Net income	-	-	-	-	18,607	-	18,607
Dividends paid on common stock (\$0.50 per share)	-	-	-	-	(4,259)	-	(4,259)
Stock options exercised (56,314 shares)	-	-	9	296	-	-	305
Release/lapse of restriction on RSUs (19,585 shares)	-	-	(270)	285	-	-	15
Repurchase of common stock (40,713 shares)	-	-	-	(967)	-	-	(967)
Stock compensation	-	-	384	-	-	-	384
Other comprehensive income, net of tax	-	-	-	-	-	(10,001)	(10,001)
<b>Balance, December 31, 2013</b>	<b>\$ -</b>	<b>\$8,690</b>	<b>\$80,506</b>	<b>\$(3,702)</b>	<b>\$91,473</b>	<b>\$1,049</b>	<b>\$178,016</b>
Net income	-	-	-	-	18,522	-	18,522
Dividends paid on common stock (\$0.58 per share)	-	-	-	-	(4,868)	-	(4,868)
Stock options exercised (15,419 shares)	-	-	(26)	285	-	-	259
Release/lapse of restriction on RSUs (27,491 shares)	-	-	(436)	459	-	-	23
Repurchase of common stock (165,766 shares)	-	-	-	(3,987)	-	-	(3,987)
Stock compensation	-	-	493	-	-	-	493
Other comprehensive income, net of tax	-	-	-	-	-	4,273	4,273
<b>Balance, December 31, 2014</b>	<b>\$ -</b>	<b>\$8,690</b>	<b>\$80,537</b>	<b>\$(6,945)</b>	<b>\$105,127</b>	<b>\$5,322</b>	<b>\$192,731</b>

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<b>Burlington</b>	3225 Division Street	319-754-6526
<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
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<b>Melbourne</b>	202 Main Street	641-482-3105
<b>Oskaloosa</b>	309 High Avenue East	641-673-8603
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<b>Pella</b>	700 Main Street	641-628-4904

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