MidWestOne Financial Group, Inc.
Form 10-K
March 09, 2012

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

FORM 10-K

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

For the fiscal year ended December 31, 2011

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

For the transition period from to

Commission file number 000-24630

MIDWESTONE FINANCIAL GROUP, INC.
(Exact name of Registrant as specified in its charter)

Iowa	42-1206172
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

102 South Clinton Street, Iowa City, IA 52240
(Address of principal executive offices, including zip code)
(319) 356-5800
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of each exchange on which registered
Common Stock, $1.00 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

Indicate by check mark if registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
o Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes x No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the last sales price quoted on the NASDAQ Global Select Market on June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $95.8 million.

The number of shares outstanding of the registrant's common stock, par value $1.00 per share, as of March 7, 2012, was 8,467,317.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement for the 2012 Annual Meeting of Shareholders of MidWestOne Financial Group, Inc., to be held on April 19, 2012, are incorporated by reference into Part III of this Annual Report on Form 10-K.

MIDWESTONE FINANCIAL GROUP, INC.
Annual Report on Form 10-K
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PART I

ITEM 1. BUSINESS.

General

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

On March 14, 2008, we consummated a merger-of-equals transaction with the former MidWestOne Financial Group, Inc., in Oskaloosa, Iowa (“Former MidWestOne”). Prior to the merger, we operated under the name “ISB Financial Corp.” We were the surviving entity in the merger and, upon completion of the merger, changed our name from ISB Financial Corp. to MidWestOne Financial Group, Inc. and our common stock began trading on the NASDAQ Global Select Market under the symbol “MOFG.” All references herein to the “Company” and “MidWestOne” refer to the surviving organization in the merger. Following the merger, we consolidated our three bank subsidiaries, Iowa State Bank & Trust Company, First State Bank and MidWestOne Bank, into a single bank charter and renamed the surviving bank MidWestOne Bank.

We operate primarily through our bank subsidiary, MidWestOne Bank, an Iowa state non-member bank chartered in 1934 with its main office in Iowa City, Iowa, and MidWestOne Insurance Services, Inc., our wholly-owned subsidiary that operates through three agencies located in central and east-central Iowa.

As of December 31, 2011, we had total consolidated assets of $1.7 billion, total deposits of $1.3 billion and total shareholders' equity of $156.5 million, all of which is common shareholders' equity. For the year ended December 31, 2011, we generated net income available to common shareholders of $12.7 million, which was an increase from the net income available to common shareholders of $9.3 million and $3.6 million for the years ended December 31, 2010 and 2009, respectively. For our complete financial information as of December 31, 2011 and 2010 and for each of the years in the three-year period ended December 31, 2011, see Item 8. Financial Statements and Supplementary Data.

MidWestOne Bank operates a total of 25 branch locations, plus its specialized Home Loan Center, in 15 counties throughout central and east-central Iowa. MidWestOne Bank provides full service retail banking in the communities in which its branch offices are located. Deposit products offered include checking and other demand deposit accounts, NOW accounts, savings accounts, money market accounts, certificates of deposit, individual retirement accounts and other time deposits. MidWestOne Bank offers commercial and industrial, agricultural, real estate mortgage and consumer loans. Other products and services include debit cards, automated teller machines, on-line banking, mobile banking, and safe deposit boxes. The principal service consists of making loans to and accepting deposits from individuals, businesses, governmental units and institutional customers. MidWestOne Bank also has a trust and investment department through which it offers a variety of trust and investment services, including administering estates, personal trusts, conservatorships, pension and profit-sharing funds and providing property management, farm management, custodial services, financial planning, investment management and retail brokerage (through an agreement with a third-party registered broker-dealer).

Operating Strategy

Our operating strategy is based upon a sophisticated community banking model delivering a complete line of financial products and services while following five guiding principles: hire and retain excellent employees; take care of our customers; conduct business with the utmost integrity; work as one team; and learn constantly so we can continually improve.

Management believes the personal and professional service offered to customers provides an appealing alternative to the “megabanks” that have resulted from large out-of-state national banks acquiring Iowa-based community banks. While we employ a community banking philosophy, we believe that our size, combined with our complete line of financial products and services, is sufficient to effectively compete in our relevant market areas. To remain price competitive, management also believes that we must grow organically, manage expenses, and remain disciplined in our asset/liability management practices.

Market Areas

Our principal offices are located in Iowa City, Iowa. The city of Iowa City is located in east-central Iowa, approximately 220 miles west of Chicago, Illinois, and approximately 115 miles east of Des Moines, Iowa. It is strategically situated approximately 60 miles west of the Mississippi River on Interstate 80 and is the home of the University of Iowa, a public university with approximately 21,000 undergraduate students and 9,000 graduate and professional students. Iowa City is the home of the University

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of Iowa Hospitals and Clinics, a 729-bed comprehensive academic medical center and regional referral center with 1,432 staff physicians, residents, and fellows and 1,806 professional nurses. The city of Iowa City has a total population of approximately 68,000 and the Iowa City MSA has a total population of approximately 150,000. Iowa City is the sixth largest city in the state of Iowa. Based on deposit information collected by the FDIC as of June 30, 2011, the most recent date for which data is available, MidWestOne Bank had the second highest deposit market share in the Iowa City MSA at approximately 18.3%.

MidWestOne Bank operates branch offices and a loan production office in 15 counties in central and east-central Iowa. Based on deposit information collected by the FDIC as of June 30, 2011, in eight of those 15 counties, MidWestOne Bank held between 8% and 26% of the deposit market share. In another county, MidWestOne Bank held 37% of the deposit market share.

Lending Activities

General

We provide a range of commercial and retail lending services to businesses, individuals and government agencies. These credit activities include commercial, industrial and agricultural loans; real estate construction loans; commercial and residential real estate loans; and consumer loans.

We market our services to qualified lending customers. Lending officers actively solicit the business of new companies entering their market areas as well as long-standing members of the business communities in which we operate. Through professional service, competitive pricing and innovative structure, we have been successful in attracting new lending customers. We also actively pursue consumer lending opportunities. With convenient locations, advertising and customer communications, we believe that we have been successful in capitalizing on the credit needs of our market areas.

Our management emphasizes credit quality and seeks to avoid undue concentrations of loans to a single industry or based on a single class of collateral. We have established lending policies that include a number of underwriting factors to be considered in making a loan, including location, loan-to-value ratio, cash flow, interest rate and credit history of the borrower.

Real Estate Loans

Construction Loans. We offer loans both to individuals who are constructing personal residences and to real estate developers and building contractors for the acquisition of land for development and the construction of homes and commercial properties. These loans are generally in-market to known and established borrowers. Construction loans generally have a short term, such as one to two years. As of December 31, 2011, construction loans constituted approximately 7% of our total loan portfolio.

Mortgage Loans. We offer residential, commercial and agricultural mortgage loans. As of December 31, 2011, we had $634.9 million in combined residential, commercial and agricultural mortgage loans outstanding, which represented approximately 64% of our total loan portfolio.

Residential mortgage lending is a focal point for us, as residential real estate loans constituted approximately 24% of our total loan portfolio at December 31, 2011. Included in this category of loans are home equity loans made to individuals. As long-term interest rates have remained at relatively low levels since 2008, many customers opted for mortgage loans that have a fixed rate with 15- or 30-year maturities. We generally retain short-term residential mortgage loans that we originate for our own portfolio but sell most long-term loans to other parties while retaining servicing rights on the majority of those. We also perform loan servicing activity for third parties on participations sold. At December 31, 2011, we serviced approximately $317.4 million in mortgage loans for others. We do not offer subprime mortgage loans and do not operate a wholesale mortgage business.

We also offer mortgage loans to our commercial and agricultural customers for the acquisition of real estate used in their business, such as offices, farmland, warehouses and production facilities, and to real estate investors for the acquisition of apartment buildings, retail centers, office buildings and other commercial buildings. As of December 31, 2011, commercial and agricultural real estate mortgage loans constituted approximately 40% of our total loan portfolio.

Commercial and Industrial Loans

We have a strong commercial loan base. We focus on, and tailor our commercial loan programs to, small- to mid-sized businesses in our market areas. Our loan portfolio includes loans to wholesalers, manufacturers, contractors, business services companies and retailers. We provide a wide range of business loans, including lines of credit for working capital and operational purposes and term loans for the acquisition of equipment. Although most loans are made on a secured basis, loans may be made on an unsecured basis where warranted by the overall financial condition of the borrower. Terms of commercial business loans generally range from one to five years.

Our commercial and industrial loans are primarily made based on the reported cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The collateral support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any exists. The primary repayment risks of commercial loans are that the cash flows of the borrower may be unpredictable, and the collateral securing these loans may fluctuate in value. As of December 31, 2011, commercial and industrial loans comprised approximately 24% of our total loan portfolio.

Agricultural Loans

Due to the rural market areas in and around which we operate, agricultural loans are an important part of our business. Agricultural loans include loans made to finance agricultural production and other loans to farmers and farming operations. Agricultural loans comprised approximately 9% of our total loan portfolio at December 31, 2011. Agricultural loans, most of which are secured by crops and machinery, are generally provided to finance capital improvements and farm operations as well as acquisitions of livestock and machinery. The ability of the borrower to repay may be affected by many factors outside of the borrower's control, including adverse weather conditions, loss of livestock due to disease or other factors, declines in market prices for agricultural products and the impact of government regulations. The ultimate repayment of agricultural loans is dependent upon the profitable operation or management of the agricultural entity.

Our agricultural lenders work closely with our customers, including companies and individual farmers, and review the preparation of budgets and cash flow projections for the ensuing crop year. These budgets and cash flow projections are monitored closely during the year and reviewed with the customers at least once annually. We also work closely with governmental agencies to help agricultural customers obtain credit enhancement products such as loan guarantees or interest rate assistance.

Consumer Lending

Our consumer lending department provides all types of consumer loans, including personal loans (secured or unsecured) and automobile loans. Consumer loans typically have shorter terms, lower balances, higher yields and higher risks of default than one- to four-family residential real estate mortgage loans. Consumer loan collections are dependent on the borrower's continuing financial stability, and are therefore more likely to be affected by adverse personal circumstances. As of December 31, 2011, consumer loans comprised only 2% of our total loan portfolio.

Loan Pool Participations

We hold in our portfolio participation interests in pools of loans that are owned and serviced by States Resources Corporation, a third-party loan servicing organization located in Omaha, Nebraska (the “Servicer”). We do not have any ownership interest in or control over the Servicer. The loans in those pools were purchased at varying discounts to their outstanding principal amount. Former MidWestOne began the program of acquiring participation interests from the Servicer in 1988 and we continued with this program following the Merger (although these loan participations have constituted a smaller percentage of our total loan portfolio than they did of Former MidWestOne's total loan portfolio). In 2010, after extensive discussion and analysis of our current loan pool portfolio, we decided to exit this line of business as current balances pay down. This decision was based primarily on our desire to focus on our core business of providing community banking products and services. Additionally, recent loan pool yields have not provided a return reflective of the inherent risk of this investment, a situation we do not expect to change in the near future, making further investment in this class of assets unattractive.

The following discussion summarizes the accounting treatment of our loan pool participations.

A cost “basis” was assigned to each individual loan acquired on a cents per dollar basis (discounted price), which was based on the Servicer's assessment of the recovery potential of each such loan in relation to the total discounted price paid to acquire the pool. This methodology assigned a higher basis to performing loans with greater potential collectibility and a lower basis to those loans identified as having little or no potential for collection.

Loan pool participations are shown on our balance sheet as a separate asset category; they are not included within the loan balance on our balance sheet. The original carrying value of loan pool participation interests represents the discounted price paid by us to acquire our participation interests in various loan pools purchased by the Servicer. Our investment balance with

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respect to the participation interest is reduced as the Servicer collects principal payments on the loans and remits the proportionate share of such payments to us.

Loan pools are accounted for in accordance with the provisions of ASC Topic 310 (guidance formerly contained in Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer") issued by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants. According to ASC Topic 310, in order to apply the interest method of recognition to these types of loans, there must be sufficient information to reasonably estimate the amount and timing of the cash flows expected to be collected. When that is not the case, the loan is accounted for on nonaccrual status applying cash basis income recognition to the loan.

In each case, where circumstances change or new information leads the Servicer to believe that collection of the loan or recovery of the basis through collateral would be less than originally determined, the cost basis assigned to the loan is written down or written off through a charge against discount income. The Servicer and MidWestOne representatives evaluate at least quarterly the collectibility of the loans and the recovery of the underlying basis. On a quarterly basis, those loans that are determined to have a possible recovery of less than the assigned basis amount are placed on a "watch list." The amount of basis exceeding the estimated recovery amount on the "watch list" loans is written off by a charge against discount income.

Interest income and discount on loan pool participations that we record is net of collection expenses incurred by the Servicer and net of the servicing fee and share of recovery profit paid to the Servicer. Collection expenses include salary and benefits paid by the Servicer to its employees, legal fees, costs to maintain and insure real estate owned, and other operating expenses. Under the terms of our agreement with the Servicer, the Servicer receives a servicing fee based on one percent of the gross monthly collections of principal and interest, net of collection costs. Additionally, the Servicer receives a tiered percentage share of the recovery profit in excess of the investor's required return on investment on each individual loan pool. The Servicer's percentage share of recovery profit is linked to a ten-tier index and ranges from zero to 27 percent depending upon the return on investment achieved. MidWestOne's minimum required return on investment is based on the two-year treasury rate at the time a loan pool was purchased plus four percent. For every one percent increase obtained over our minimum required return, the Servicer percentage moves up one tier level. In the event that the return on a particular pool does not exceed the required return on investment, the Servicer does not receive a percentage share of the recovery profit. Discount income is added to interest income and reflected as one amount on our consolidated statements of operations.

The Servicer provides us with monthly reports detailing collections of principal and interest, face value of loans collected and those written off, actual operating expenses incurred, remaining asset balances (both in terms of cost basis and principal amount of loans), a comparison of actual collections and expenses with target collections and budgeted expenses, and summaries of remaining collection targets. The Servicer also provides aging reports and "watch lists" for the loan pool participations. Monthly meetings are held between our representatives and representatives of the Servicer to review collection efforts and results and to discuss future plans of action. Additionally, our personnel and the Servicer's personnel communicate on almost a daily basis to discuss various issues regarding the loan pool participations. Our representatives visit the Servicer's operation on a regular basis, and our loan review officer performs asset reviews on a regular basis.

Our overall cost basis in the loan pool participations represents a discount from the aggregate outstanding principal amount of the loans underlying the pools. For example, as of December 31, 2011, such cost basis was $52.2 million, while the contractual outstanding principal amount of the underlying loans as of such date was approximately $128.6 million. The discounted cost basis inherently reflects the assessed collectibility of the underlying loans. We do not include any amounts related to the loan pool participations in our totals of nonperforming loans.

As part of the ongoing collection process, the Servicer may, from time to time, foreclose on real estate mortgages and acquire title to property in satisfaction of such debts. This real estate may be held by the Servicer as "real estate owned" for a period of time until it can be sold. Because our investments in loan pool participations are classified separately from our loan portfolio, we do not include the real estate owned that is held by the Servicer with the amount of any other real estate that we may hold directly as a result of our own foreclosure activities.

The underlying loans in the loan pool participations include both fixed-rate and variable-rate instruments. No amounts for interest due are reflected in the carrying value of the loan pool participations. Based on historical experience, the average period of collectibility for loans underlying our loan pool participations, many of which have exceeded contractual maturity dates, is approximately three to five years. Our management has reviewed the recoverability of the underlying loans and believes that the carrying value does not exceed the fair value of its investment in loan pool participations.

Other Products and Services

Deposit Products

We believe that we offer competitive deposit products and programs that address the needs of customers in each of the local markets served. The deposit products are offered to individuals, nonprofit organizations, partnerships, small businesses, corporations and public entities. These products include noninterest bearing and interest bearing demand deposits, savings accounts, money market accounts and certificates of deposit.

Trust and Investment Services

We offer trust and investment services in our market areas to help our business and individual clients in meeting their financial goals and preserving wealth. Our services include administering estates, personal trusts, conservatorships, pension and profit-sharing funds and providing property management, farm management, investment advisory, retail securities brokerage, financial planning and custodial services. Licensed brokers (who are registered representatives of a third-party registered broker-dealer) serve selected branches and provide investment-related services including securities trading, financial planning, mutual funds sales, fixed and variable annuities and tax-exempt and conventional unit trusts.

Insurance Services

Through our insurance subsidiary, MidWestOne Insurance Services, Inc., we offer property and casualty insurance products to individuals and small businesses in markets that we service.

Liquidity and Funding

A discussion of our liquidity and funding programs has been included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations under “Liquidity,” and Item 7A. Quantitative and Qualitative Disclosures About Market Risk under “Liquidity Risk.”

Competition

We encounter competition in all areas of our business pursuits. To compete effectively, grow our market share, maintain flexibility and keep pace with changing economic and social conditions, we continuously refine and develop our products and services. The principal methods of competing in the financial services industry are through service, convenience and price.

The banking industry is highly competitive, and we face strong direct competition for deposits, loans, and other financial-related services. Our offices in central and east-central Iowa compete with other commercial banks, thrifts, credit unions, stockbrokers, finance divisions of auto and farm equipment companies, agricultural suppliers, and other agricultural-related lenders. Some of these competitors are local, while others are statewide or nationwide. We compete for deposits principally by offering depositors a wide variety of deposit programs, convenient office locations, hours and other services, and for loan originations primarily through the interest rates and loan fees we charge, the variety of our loan products and the efficiency and quality of services we provide to borrowers, with an emphasis on building long-lasting relationships. Some of the financial institutions and financial service organizations with which we compete are not subject to the same degree of regulation as that imposed on federally insured Iowa-chartered banks. As a result, such competitors have advantages over us in providing certain services. As of December 31, 2011, there were approximately 96 other banks having 332 offices or branches operating within the 15 counties in which we have locations. Based on deposit information collected by the FDIC, as of June 30, 2011, we maintained approximately 9.0% of the bank deposits within the 15 counties in which we operate. New competitors may develop that are substantially larger and have significantly greater resources than us. Currently, major competitors in some of our markets include Wells Fargo Bank, U.S. Bank, Regions Bank, Hills Bank and Trust and Marion County Bank.

Employees

As of December 31, 2011, we had 383 full-time equivalent employees. We provide our employees with a comprehensive program of benefits, some of which are on a contributory basis, including comprehensive medical and dental plans, life insurance, long-term and short-term disability coverage, a 401(k) plan, and an employee stock ownership plan. None of our employees are represented by unions. Our management considers its relationship with our employees to be good.

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Company Website

We maintain an internet website for MidWestOne Bank at www.midwestone.com. We make available, free of charge, on this website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Information on, or accessible through, our website is not part of, or incorporated by reference in, this Annual Report on Form 10-K.

Supervision and Regulation

General

Financial institutions, their holding companies and their affiliates are extensively regulated under federal and state law. As a result, our growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory authorities, including the Iowa Superintendent of Banking (the “Iowa Superintendent”), the Board of Governors of the Federal Reserve System (the “Federal Reserve”), the Federal Deposit Insurance Corporation (the “FDIC”) and the newly created Bureau of Consumer Financial Protection (the "Bureau"). Furthermore, taxation laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board (the “FASB”) and securities laws administered by the Securities and Exchange Commission (the “SEC”) and state securities authorities have an impact on our business. The effect of these statutes, regulations, regulatory policies and accounting rules are significant to our operations and results, and the nature and extent of future legislative, regulatory or other changes affecting financial institutions are impossible to predict with any certainty.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of financial institutions, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than shareholders. These federal and state laws, and the regulations of the bank regulatory authorities issued under them, affect, among other things, the scope of business, the kinds and amounts of investments banks may make, reserve requirements, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with insiders and affiliates and the payment of dividends. In addition, turmoil in the credit markets in recent years prompted the enactment of unprecedented legislation that allowed the U.S. Department of the Treasury (“Treasury”) to make equity capital available to qualifying financial institutions to help restore confidence and stability in the U.S. financial markets, which imposes additional requirements on institutions in which Treasury invests.

In addition, we are subject to regular examination by regulatory authorities, which results in examination reports and ratings (that are not publicly available) that can impact the conduct and growth of business. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and our subsidiaries. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory or regulatory provision.

Financial Regulatory Reform

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) into law. The Dodd-Frank Act represents a sweeping reform of the supervisory and regulatory framework applicable to financial institutions and capital markets in the United States, certain aspects of which are described below in more detail. The Dodd-Frank Act creates new federal governmental entities responsible for overseeing different aspects of the U.S. financial services industry, including identifying emerging systemic risks. It also shifts certain authorities and responsibilities among federal financial institution regulators, including the supervision of holding company affiliates and the regulation of consumer financial services and products. In particular, and among other things, the Dodd-Frank Act: creates a Bureau of Consumer Financial Protection authorized to regulate providers of consumer credit, savings, payment and other consumer financial products and services; narrows the scope of federal preemption of state consumer laws enjoyed by national banks and federal savings associations and expands

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the authority of state attorneys general to bring actions to enforce federal consumer protection legislation; imposes more stringent capital requirements on bank holding companies and subjects certain activities, including interstate mergers and acquisitions, to heightened capital conditions; significantly expands underwriting requirements applicable to loans secured by 1-4 family residential real property; restricts the interchange fees payable on debit card transactions for issuers with $10 billion in assets or greater; requires the originator of a securitized loan, or the sponsor of a securitization, to retain at least 5% of the credit risk of securitized exposures unless the underlying exposures are qualified residential mortgages or meet certain underwriting standards to be determined by regulation; creates a Financial Stability Oversight Council as part of a regulatory structure for identifying emerging systemic risks and improving interagency cooperation; provides for enhanced regulation of advisers to private funds and of the derivatives markets; enhances oversight of credit rating agencies; and prohibits banking agency requirements tied to credit ratings.

Numerous provisions of the Dodd-Frank Act are required to be implemented through rulemaking by the appropriate federal regulatory agencies. Some of the required regulations have been issued and some have been released for public comment, but many have yet to be released in any form. Furthermore, while the reforms primarily target systemically important financial service providers, their influence is expected to filter down in varying degrees to smaller institutions over time. Management of the Company and Bank will continue to evaluate the affect of the changes; however, in many respects, the ultimate impact of the Dodd-Frank Act will not be fully known for years, and no current assurance may be given that the Dodd-Frank Act, or any other new legislative changes, will not have a negative impact on the results of operations and financial condition of the Company and our subsidiaries.

The Increasing Importance of Capital

While capital has historically been one of the key measures of the financial health of both holding companies and depository institutions, its role is becoming fundamentally more important in the wake of the financial crisis. Not only will capital requirements increase, but the type of instruments that constitute capital will also change, and, as a result of the Dodd-Frank Act, after a phase-in period, bank holding companies will have to hold capital under rules as stringent as those for insured depository institutions. Moreover, the actions of the international Basel Committee on Banking Supervision, a committee of central banks and bank supervisors, to reassess the nature and uses of capital in connection with an initiative called “Basel III,” discussed below, will have a significant impact on the capital requirements applicable to U.S. bank holding companies and depository institutions.

Required Capital Levels. The Dodd-Frank Act mandates the Federal Reserve to establish minimum capital levels for bank holding companies on a consolidated basis that are as stringent as those required for insured depository institutions. The components of Tier 1 capital will be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. As a result, the proceeds of trust preferred securities will be excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by bank holding companies with less than $15 billion of assets. Since we have assets of less than $15 billion, we will be able to maintain our trust preferred proceeds as capital but will have to comply with new capital mandates in other respects, and will not be able to raise Tier 1 capital in the future through the issuance of trust preferred securities.

Under current federal regulations, the Bank is subject to, and, after a phase-in period, the Company will be subject to, the following minimum capital standards: (i) a leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly-rated banks with a minimum requirement of at least 4% for all others; and (ii) a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8% and a minimum ratio of Tier 1 capital to total risk-weighted assets of 4%. For this purpose, Tier 1 capital consists primarily of common stock, noncumulative perpetual preferred stock and related surplus less intangible assets (other than certain loan servicing rights and purchased credit card relationships). Total capital consists primarily of Tier 1 capital plus Tier 2 capital, which includes other non-permanent capital items such as certain other debt and equity instruments that do not qualify as Tier 1 capital and a portion of the Bank's allowance for loan and lease losses.

The capital requirements described above are minimum requirements. Federal law and regulations provide various incentives for banking organizations to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a banking organization that is “well-capitalized” may qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities, may qualify for expedited processing of other required notices or applications and may accept brokered deposits. Additionally, one of the criteria that determines a bank holding company's eligibility to operate as a financial holding company (see “-Acquisitions, Activities and Changes in Control” below) is a requirement that all of its depository institution subsidiaries be “well-capitalized.” Under the Dodd-Frank Act, that requirement is extended such that, as of July 21, 2011, bank holding companies, as well as their depository institution subsidiaries, had to be well-capitalized in order to operate as financial holding companies. Under the capital regulations of the Federal Reserve, in order to be “well-capitalized” a banking organization must maintain a ratio of total capital to total risk-weighted assets of 10% or greater, a ratio of Tier 1 capital to total risk-weighted assets of 6% or greater and a ratio of Tier 1 capital to total assets of 5% or greater.

Higher capital levels may also be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve's capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (i.e., Tier 1 capital less all intangible assets), well above the minimum levels.

It is important to note that certain provisions of the Dodd-Frank Act and Basel III, discussed below, will ultimately establish strengthened capital standards for banks and bank holding companies, will require more capital to be held in the form of common stock and will disallow certain funds from being included in a Tier 1 capital determination. Once fully implemented, these provisions may represent regulatory capital requirements which are meaningfully more stringent than those outlined above.

Prompt Corrective Action. A banking organization's capital plays an important role in connection with regulatory enforcement as well. Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution's asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

As of December 31, 2011: (i) the Bank was not subject to a directive from the FDIC to increase capital to an amount in excess of the minimum regulatory capital requirements; (ii) the Bank exceeded its minimum regulatory capital requirements under FDIC capital adequacy guidelines; and (iii) the Bank was "well-capitalized," as defined by FDIC regulations. As of December 31, 2011, the Company had regulatory capital in excess of the Federal Reserve's requirements and met the Dodd-Frank Act requirements.

Basel III. The current risk-based capital guidelines that apply to the Bank and will apply to the Company are based upon the 1988 capital accord of the international Basel Committee on Banking Supervision, a committee of central banks and bank supervisors, as implemented by the U.S. federal banking agencies on an interagency basis. In 2008, the banking agencies collaboratively began to phase-in capital standards based on a second capital accord, referred to as "Basel II," for large or "core" international banks (generally defined for U.S. purposes as having total assets of $250 billion or more or consolidated foreign exposures of $10 billion or more). Basel II emphasized internal assessment of credit, market and operational risk, as well as supervisory assessment and market discipline in determining minimum capital requirements.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement to a strengthened set of capital requirements for banking organizations in the United States and around the world, known as Basel III. The agreement is currently supported by the U.S. federal banking agencies. As agreed to, Basel III is intended to be fully-phased in on a global basis on January 1, 2019. Basel III would require, among other things: (i) a new required ratio of minimum common equity equal to 7% of total assets (4.5% plus a capital conservation buffer of 2.5%); (ii) an increase in the minimum required amount of Tier 1 capital from the current level of 4% of total assets to 6% of total assets; (iii) an increase in the minimum required amount of total capital, from the current level of 8% to 10.5% (including 2.5% attributable to the capital conservation buffer). The purpose of the conservation buffer (to be phased in from January 2016 until January 1, 2019) is to ensure that banks maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. There will also be a required countercyclical buffer to achieve the broader goal of protecting the banking sector from periods of excess aggregate credit growth.

Pursuant to Basel III, certain deductions and prudential filters, including minority interests in financial institutions, mortgage servicing rights and deferred tax assets from timing differences, would be deducted in increasing percentages beginning January 1, 2014, and would be fully deducted from common equity by January 1, 2018. Certain instruments that no longer qualify as Tier 1 capital, such as trust preferred securities, also would be subject to phase-out over a 10-year period beginning January 1, 2013.

The Basel III agreement calls for national jurisdictions to implement the new requirements beginning January 1, 2013. At that time, the U.S. federal banking agencies, including the Federal Reserve, will be expected to have implemented appropriate changes to incorporate the Basel III concepts into U.S. capital adequacy standards.

The Company

General. As the sole shareholder of the Bank, we are a bank holding company. As a bank holding company, we are registered with, and are subject to regulation by, the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the “BHCA”). In accordance with Federal Reserve policy, and as now codified by the Dodd-Frank Act, we are legally obligated to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where we might not otherwise do so. Under the BHCA, we are subject to periodic examination by the Federal Reserve. We are also required to file with the Federal Reserve periodic reports of our operations and such additional information regarding the Company and our subsidiaries as the Federal Reserve may require.

Acquisitions, Activities and Change in Control. The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company of another bank or bank holding company. Subject to certain conditions (including deposit concentration limits established by the BHCA and the Dodd-Frank Act), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its insured depository institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state depository institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company. Furthermore, in accordance with the Dodd-Frank Act, as of July 21, 2011, bank holding companies must be well-capitalized in order to effect interstate mergers or acquisitions. For a discussion of the capital requirements, see “-The Increasing Importance of Capital” above.

The BHCA generally prohibits us from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve prior to November 11, 1999 to be “so closely related to banking . . . as to be a proper incident thereto.” This authority would permit us to engage in a variety of banking-related businesses, including the ownership and operation of a thrift, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development), and mortgage banking and brokerage. The BHCA generally does not place territorial restrictions on the domestic activities of nonbank subsidiaries of bank holding companies.

Federal law also prohibits any person or company from acquiring “control” of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. “Control” is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 10% and 24.99% ownership.

Financial Holding Company Regulation. Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature, incidental to any such financial activity or complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. We have elected (and the Federal Reserve has accepted our election) to operate as a financial holding company.

In order to become and maintain our status as a financial holding company, the Company and the Bank must be well-capitalized, well-managed, and have a least a satisfactory Community Reinvestment Act (“CRA”) rating. If the Federal Reserve determines that a financial holding company is not well-capitalized or well-managed, the company has a period of time in which to come into compliance, but during the period of noncompliance, the Federal Reserve may place any limitations on the company it believes to be appropriate. Furthermore, if the Federal Reserve determines that a financial holding company subsidiary bank has not received a satisfactory CRA rating, the company

will not be able to commence any new financial activities or acquire a company that engages in such activities.
Capital Requirements. Bank holding companies are required to maintain minimum levels of capital in accordance with Federal Reserve capital adequacy guidelines, as affected by the Dodd-Frank Act and Basel III. For a discussion of capital requirements, see “-The Increasing Importance of Capital” above. If capital levels fall below the minimum required levels, a bank holding company, among other things, may be denied approval to acquire or establish additional banks or nonbank businesses.

Emergency Economic Stabilization Act of 2008. Events in the U.S. and global financial markets over the past several years, including the deterioration of the worldwide credit markets, created significant challenges for financial institutions throughout the country. In response to this crisis affecting the U.S. banking system and financial markets, on October 3, 2008, the U.S. Congress passed, and the President signed into law, the Emergency Economic Stabilization Act of 2008 (the “EESA”). The EESA authorized the Secretary of the Treasury to implement various temporary emergency programs designed to strengthen the capital positions of financial institutions and stimulate the availability of credit within the U.S. financial system. Financial institutions participating in certain of the programs established under the EESA are required to adopt the Treasury's standards for executive compensation and corporate governance.

The TARP Capital Purchase Program. On October 14, 2008, the Treasury announced that it would provide Tier 1 capital (in the form of perpetual preferred stock) to eligible financial institutions. This program, known as the TARP Capital Purchase Program (the “CPP”), allocated $250 billion from the $700 billion authorized by the EESA to the Treasury for the purchase of senior preferred shares from qualifying financial institutions (the “CPP Preferred Stock”). Under the program eligible institutions were able to sell equity interests to the Treasury in amounts equal to between 1% and 3% of the institution's risk-weighted assets. The CPP Preferred Stock is non-voting and pays dividends at the rate of 5% per annum for the first five years and thereafter at a rate of 9% per annum. In conjunction with the purchase of the CPP Preferred Stock, the Treasury received warrants to purchase common stock from the participating public institutions with an aggregate market price equal to 15% of the preferred stock investment. Participating financial institutions were required to adopt the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under the CPP.

Pursuant to the CPP, on February 6, 2009, we entered into a Letter Agreement with Treasury, pursuant to which we issued: (i) 16,000 shares of the Fixed Rate Cumulative Perpetual Preferred Stock, Series A; and (ii) a warrant to purchase 198,675 shares of our common stock, par value $1.00 per share, for an aggregate purchase price of $16.0 million in cash.

CPP Repurchase. As approved by the Federal Reserve Board, Treasury and our other banking regulators, on July 6, 2011, we redeemed from Treasury all 16,000 outstanding shares of our CPP Preferred Stock, for a redemption price of approximately $16.1 million, including accrued but unpaid dividends to the date of redemption. On July 27, 2011, we also repurchased the warrant issued to Treasury for an aggregate purchase price of $1.0 million. As a result of our redemption of the CPP Preferred Stock, we are no longer subject to the limits on executive compensation and other restrictions stipulated under the CPP.

Dividend Payments. Our ability to pay dividends to our shareholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. As an Iowa corporation, we are subject to the limitations of Iowa law, which allows us to pay dividends unless, after such dividend, (i) we would not be able to pay our debts as they become due in the usual course of business or (ii) our total assets would be less than the sum of our total liabilities plus any amount that would be needed if we were to be dissolved at the time of the dividend payment, to satisfy the preferential rights upon dissolution of shareholders whose rights are superior to the rights of the shareholders receiving the distribution.

As a general matter, the Federal Reserve indicates that the board of directors of a bank holding company should eliminate, defer or significantly reduce the dividends if: (i) the company's net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the prospective rate of earnings retention is inconsistent with the company's capital needs and overall current and prospective financial condition; or (iii) the company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. The Federal Reserve also possesses enforcement powers over bank holding companies and their nonbank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies.

Federal Securities Regulation. Our common stock is registered with the SEC under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Consequently, we are subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the

Exchange Act.

Corporate Governance. The Dodd-Frank Act addresses many investor protection, corporate governance and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act will increase stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments, and authorizing the SEC to promulgate rules that would allow stockholders to nominate and solicit voters for their own candidates using a company's proxy materials. The legislation also directs the Federal Reserve to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded.

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The Bank

General. The Bank is an Iowa-chartered bank, the deposit accounts of which are insured by the FDIC's Deposit Insurance Fund to the maximum extent provided under federal law and FDIC regulations. As an Iowa-chartered bank, the Bank is subject to the examination, supervision, reporting and enforcement requirements of the Iowa Superintendent, the chartering authority for Iowa banks, and the FDIC, designated by federal law as the primary federal regulator of state-chartered, FDIC-insured banks that, like the Bank, are not members of the Federal Reserve System (“non-member banks”).

Deposit Insurance. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured depository institutions pay insurance premiums at rates based on their risk classification. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators.

On November 12, 2009, the FDIC adopted a final rule that required insured depository institutions to prepay on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011, and 2012. As such, on December 31, 2009, the Bank prepaid the FDIC its assessments based on its: (i) actual September 30, 2009 assessment base, increased quarterly by a 5% annual growth rate through the fourth quarter of 2012; and (ii) total base assessment rate in effect on September 30, 2009, increased by an annualized three basis points beginning in 2011. The FDIC began to offset prepaid assessments on March 30, 2010, representing payment of the regular quarterly risk-based deposit insurance assessment for the fourth quarter of 2009. Any prepaid assessment not exhausted after collection of the amount due on June 30, 2013, will be returned to the institution.

Amendments to the Federal Deposit Insurance Act also revise the assessment base against which an insured depository institution's deposit insurance premiums paid to the DIF will be calculated. Under the amendments, the assessment base will no longer be the institution's deposit base, but rather its average consolidated total assets less its average tangible equity. This may shift the burden of deposit insurance premiums toward those large depository institutions that rely on funding sources other than U.S. deposits. Additionally, the Dodd-Frank Act makes changes to the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. The FDIC is given until September 3, 2020 to meet the 1.35 reserve ratio target. Several of these provisions could increase the Bank's FDIC deposit insurance premiums.

The Dodd-Frank Act permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per insured depositor, retroactive to January 1, 2009. Furthermore, the legislation provides that non-interest bearing transaction accounts have unlimited deposit insurance coverage through December 31, 2012. This temporary unlimited deposit insurance coverage replaces the Transaction Account Guarantee Program (“TAGP”) that expired on December 31, 2010. It covers all depository institution noninterest-bearing transaction accounts, but not low interest-bearing accounts. Unlike TAGP, there is no special assessment associated with the temporary unlimited insurance coverage, nor may institutions opt-out of the unlimited coverage.

FICO Assessments. The Financing Corporation (“FICO”) is a mixed-ownership governmental corporation chartered by the former Federal Home Loan Bank Board pursuant to the Competitive Equality Banking Act of 1987 to function as a financing vehicle for the recapitalization of the former Federal Savings and Loan Insurance Corporation. FICO issued 30-year non-callable bonds of approximately $8.1 billion that mature in 2017 through 2019. FICO's authority to issue bonds ended on December 12, 1991. Since 1996, federal legislation has required that all FDIC-insured depository institutions pay assessments to cover interest payments on FICO's outstanding obligations. These FICO assessments are in addition to amounts assessed by the FDIC for deposit insurance. During the year ended December 31, 2011, the FICO assessment rate was approximately 0.01% of deposits. A rate reduction to .0068% began with the fourth quarter of 2011 to reflect the change from an assessment base computed on deposits to an assessment base computed on assets as required by the Dodd-Frank Act.

Supervisory Assessments. All Iowa banks are required to pay supervisory assessments to the Iowa Superintendent to fund the operations of that agency. The amount of the assessment is calculated on the basis of the Bank's total assets. During the year ended December 31, 2011, the Bank paid supervisory assessments to the Iowa Superintendent totaling

$150,000.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. For a discussion of capital requirements, see “-The Increasing Importance of Capital” above.

Dividend Payments. The primary source of funds for the Company is dividends from the Bank. Under the Iowa Banking Act, Iowa-chartered banks generally may pay dividends only out of undivided profits. In addition, the Iowa Superintendent may restrict the declaration or payment of a dividend by an Iowa-chartered bank, such as the Bank.

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The payment of dividends by any financial institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its minimum capital requirements under applicable guidelines as of December 31, 2011. As of December 31, 2011, approximately $9.5 million was available to be paid as dividends by the Bank. Notwithstanding the availability of funds for dividends, however, the FDIC may prohibit the payment of any dividends by the Bank if the FDIC determines such payment would constitute an unsafe or unsound practice.

Insider Transactions. The Bank is subject to certain restrictions imposed by federal law on “covered transactions” between the Bank and its affiliates. The Company is an affiliate of the Bank for purposes of these restrictions, and covered transactions subject to the restrictions include extensions of credit to the Company, investments in our stock or other securities and the acceptance of our stock or other securities as collateral for loans made by the Bank. The Dodd-Frank Act enhances the requirements for certain transactions with affiliates as of July 21, 2011, including an expansion of the definition of “covered transactions” and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained.

Certain limitations and reporting requirements are also placed on extensions of credit by the Bank to its directors and officers, to directors and officers of the Company, to principal shareholders of the Company and to “related interests” of such directors, officers and principal shareholders. In addition, federal law and regulations may affect the terms upon which any person who is a director or officer of the Company or the Bank or a principal shareholder of the Company may obtain credit from banks with which the Bank maintains correspondent relationships.

Safety and Soundness Standards. The federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the institution's rate of growth, require the institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal banking regulators, including cease and desist orders and civil money penalty assessments.

Branching Authority. The Bank has the authority under Iowa law to establish branches anywhere in the State of Iowa, subject to receipt of all required regulatory approvals.

Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger. The establishment of new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) has historically been permitted only in those states the laws of which expressly authorize such expansion. However, the Dodd-Frank Act permits well-capitalized banks to establish branches across state lines without these impediments.

State Bank Investments and Activities. The Bank is permitted to make investments and engage in activities directly or through subsidiaries as authorized by Iowa law. However, under federal law and FDIC regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law and FDIC regulations also prohibit FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank unless the bank meets, and continues to meet, its minimum regulatory capital

requirements and the FDIC determines the activity would not pose a significant risk to the deposit insurance fund of which the bank is a member. These restrictions have not had, and are not currently expected to have, a material impact on the operations of the Bank.
Transaction Account Reserves. Federal Reserve regulations require depository institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2012: the first $11.5 million of otherwise reservable balances are exempt from the reserve requirements; for transaction accounts aggregating more than $11.5 million to $71.0 million,

the reserve requirement is 3% of total transaction accounts; and for net transaction accounts in excess of $71.0 million, a 10% reserve ratio will be assessed. These reserve requirements are subject to annual adjustment by the Federal Reserve. The Bank is in compliance with the foregoing requirements.

Consumer Financial Services. There are numerous developments in federal and state laws regarding consumer financial products and services that impact the Bank's business. Importantly, the current structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011when the new Consumer Financial Protection Bureau commenced operations to supervise and enforce consumer protection laws. The Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including the Bank, as well as the authority to prohibit “unfair, deceptive or abusive” acts and practices. The Bureau has examination and enforcement authority over providers with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets, like the Bank, will continue to be examined by their applicable bank regulators. The Dodd-Frank Act also generally weakens the federal preemption available for national banks and federal savings associations, and gives state attorneys general the ability to enforce applicable federal consumer protection laws. It is unclear what changes will be promulgated by the Bureau and what effect, if any, such changes would have on the Bank.

The Dodd-Frank Act contains additional provisions that affect consumer mortgage lending. First, the new law significantly expands underwriting requirements applicable to loans secured by 1-4 residential real property and augments federal law combating predatory lending practices. In addition to numerous new disclosure requirements, the Dodd-Frank Act imposes new standards for mortgage loan originations on all lenders, including banks and savings associations, in an effort to strongly encourage lenders to verify a borrower's ability to repay. Most significantly, the new standards limit the total points and fees that the Bank and/or a broker may charge on conforming and jumbo loans to 3% of the total loan amount. Also, the Dodd-Frank Act, in conjunction with the Federal Reserve's final rule on loan originator compensation effective April 1, 2011, prohibits certain compensation payments to loan originators and prohibits steering consumers to loans not in their interest because it will result in greater compensation for a loan originator. These standards may result in myriad new system, pricing and compensation controls in order to ensure compliance and to decrease repurchase requests and foreclosure defenses. In addition, the Dodd-Frank Act generally requires lenders or securitizers to retain an economic interest in the credit risk relating to loans the lender sells and other asset-backed securities that the securitizer issues if the loans have not complied with the ability to repay standards. The risk retention requirement generally will be 5%, but could be increased or decreased by regulation.

Foreclosure and Loan Modifications. Federal and state laws further impact foreclosures and loan modifications, many of which laws have the effect of delaying or impeding the foreclosure process on real estate secured loans in default. Mortgages on commercial property can be modified, such as by reducing the principal amount of the loan or the interest rate, or by extending the term of the loan, through plans confirmed under Chapter 11 of the Bankruptcy Code. In recent years legislation has been introduced in Congress that would amend the Bankruptcy Code to permit the modification of mortgages secured by residences, although at this time the enactment of such legislation is not in prospect. The scope, duration and terms of potential future legislation with similar effect continue to be discussed. The Bank cannot predict whether any such legislation will be passed or the impact, if any, it would have on the Bank's business.

The legislature of Iowa has enacted several laws that impact the timing of foreclosures and encourage loan modification efforts, and there is momentum for further legislation to prevent foreclosures through loss mitigation and ensure that documents submitted to the court are authentic and free from deceit and fraud. These efforts are being led by Attorney General Tom Miller, who placed Iowa at the forefront of foreclosure reform. There may be momentum for further legislation in this regard in light of the settlement reached in early February of 2012 by 49 state attorneys general and the federal government with the country's five largest loan servicers: Ally/GMAC, Bank of America, Citi, JPMorgan Chase, and Wells Fargo. Every state except Oklahoma signed on to the settlement. The settlement will provide as much as $25 billion in relief to distressed borrowers in the states who signed on to the settlement; and direct payments to signing states and the federal government. The agreement settles state and federal investigations finding that the country's five largest loan servicers routinely signed foreclosure related documents outside the presence of a notary public and without really knowing whether the facts they contained were correct and holds the banks accountable for their wrongdoing on robo-signing and mortgage servicing. The agreement settles only some aspects of the banks' conduct related to the financial crisis (foreclosure practices, loan servicing, and origination of loans). State cases against the rating agencies and bid-rigging in the municipal bond market, for example, continue.

Special Cautionary Note Regarding Forward-Looking Statements

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

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

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

- credit quality deterioration or pronounced and sustained reduction in real estate market values could cause an increase in the allowance for credit losses and a reduction in net earnings;
- our management's ability to reduce and effectively manage interest rate risk and the impact of interest rates in general on the volatility of our net interest income;
- changes in the economic environment, competition, or other factors that may affect our ability to acquire loans or influence the anticipated growth rate of loans and deposits and the quality of the loan portfolio and loan and deposit pricing;
- fluctuations in the value of our investment securities;
- governmental monetary and fiscal policies;
- legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators (particularly with respect to the Dodd-Frank Act and the extensive regulations promulgated and to be promulgated thereunder), and changes in the scope and cost of FDIC insurance and other coverages;
- the ability to attract and retain key executives and employees experienced in banking and financial services;
- the sufficiency of the allowance for loan losses to absorb the amount of actual losses inherent in our existing loan portfolio;
- our ability to adapt successfully to technological changes to compete effectively in the marketplace;
- credit risks and risks from concentrations (by geographic area and by industry) within our loan portfolio;
- the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds, and other financial institutions operating in our markets or elsewhere or providing similar services;
- the failure of assumptions underlying the establishment of allowances for loan losses and estimation of values of collateral and various financial assets and liabilities;
- volatility of rate-sensitive deposits;
- operational risks, including data processing system failures or fraud;
- asset/liability matching risks and liquidity risks;
- the risks of mergers, acquisitions and divestitures, including, without limitation, the related time and costs of implementing such transactions, integrating operations as part of these transactions and possible failures to achieve expected gains, revenue growth and/or expense savings from such transactions;
- the costs, effects and outcomes of existing or future litigation;
- changes in general economic or industry conditions, nationally or in the communities in which we conduct business;
- changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies and the Financial Accounting Standards Board; and
- other factors and risks described under “Risk Factors” herein.

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

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ITEM 1A. RISK FACTORS.

An investment in our securities is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations. The value or market price of our securities could decline due to any of these identified or other risks, and you could lose all or part of your investment.

Our business has been and may continue to be adversely affected by conditions in the financial markets and economic conditions generally.

Since late 2007, the U.S. economy has generally experienced challenging economic conditions. Business activity across a range of industries and regions remains reduced from historical levels, and many businesses have experienced difficulty in remaining profitable. Likewise, many local governments have been experiencing lower tax revenues, impacting their ability to cover costs. Unemployment also generally increased during this period and remains at elevated levels. For the past few years, the financial services industry has generally been affected by significant declines in the values of many significant asset classes, reduced levels of liquidity and the lack of opportunities to originate new loans.

As a result of these economic conditions, many lending institutions, including the Bank, have experienced declines in the performance of their loans, including commercial loans, commercial and residential real estate loans and consumer loans, from historical norms. Moreover, competition among depository institutions for deposits and quality loans has increased significantly. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. Bank and bank holding company stock prices have generally been negatively affected over this time period, and the ability of banks and bank holding companies to raise capital or borrow in the debt markets has become more difficult than it had been prior to 2007. There have been significant new laws and regulations regarding lending and funding practices and liquidity standards, with a potential for further regulation in the future, and bank regulatory agencies in general have been very aggressive in responding to concerns and trends identified in examinations, including the increased issuance of many formal or informal enforcement actions or orders. The impact of new legislation in response to these developments may negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance or our stock price.

In addition, if the overall economic climate in the United States, generally, or our market areas, specifically, fails to improve significantly or declines further, this may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates, which may impact our charge-offs and provisions for credit losses. A worsening of these conditions likely would exacerbate the adverse effects of the recent market conditions on us and others in the financial services industry. Since 2007, the general business environment has had an adverse effect on our business, and there can be no assurance that the environment will improve meaningfully in the near term. Until conditions materially improve, we expect our business, financial condition and results of operations to be adversely affected relative to their potential in more favorable economic conditions.

Interest rates and other conditions impact our results of operations.

Our profitability is in large part a function of the spread between the interest rates earned on investments and loans and the interest rates paid on deposits and other interest-bearing liabilities. Like most banking institutions, our net interest spread and margin is affected by general economic conditions and other factors, including fiscal and monetary policies of the federal government, that influence market interest rates and our ability to respond to changes in such rates. At any given time, our assets and liabilities will be such that they are affected differently by a given change in interest rates. As a result, an increase or decrease in rates, the length of loan terms or the mix of adjustable and fixed rate loans in our portfolio could have a positive or negative effect on our net income, capital and liquidity. The competition for loans in the marketplace and the overall interest rate environment has kept interest rates on loans low. Interest rates paid on deposit products have declined steadily since 2008, but further significant decline is unlikely as interest rates on deposits have approached zero. We expect to continue battling net interest margin compression in 2012, with interest rates at generational lows.

We measure interest rate risk under various rate scenarios and using specific criteria and assumptions. A summary of this process, along with the results of our net interest income simulations, is presented at “Quantitative and Qualitative Disclosures about Market Risk” included under Item 7A of Part II of this Annual Report on Form 10-K. Although we believe our current level of interest rate sensitivity is reasonable and effectively managed, significant fluctuations in interest rates may have an adverse effect on our business, financial condition and results of operations.

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Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. Subsequently, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income.

Rising interest rates will result in a decline in value of our fixed-rate debt securities. The unrealized losses resulting from holding these securities would be recognized in other comprehensive income (or net income, if the decline is other-than-temporary), and reduce total shareholders' equity. Unrealized losses do not negatively impact our regulatory capital ratios; however, tangible common equity and the associated ratios would be reduced. If debt securities in an unrealized loss position are sold, such losses become realized and will reduce our regulatory capital ratios.

Our business is concentrated in and largely dependent upon the continued growth and welfare of the Iowa City and Oskaloosa markets and other markets in eastern and central Iowa.

We operate primarily in the Iowa City and Oskaloosa, Iowa, markets and their surrounding communities in eastern and central Iowa and, as a result, our financial condition, results of operations and cash flows are significantly impacted by changes in the economic conditions in those areas. Our success depends to a significant extent upon the business activity, population, income levels, deposits and real estate activity in these markets. Although our customers' business and financial interests may extend well beyond these market areas, adverse economic conditions that affect these market areas could reduce our growth rate, affect the ability of our customers to repay their loans to us, affect the value of collateral underlying loans and generally affect our financial condition and results of operations. Because of our geographic concentration, we are less able than other regional or national financial institutions to diversify our credit risks across multiple markets. Although, in general, the Iowa economy and real estate market have not been affected as severely as other areas of the United States in recent years, they are not immune to challenging economic conditions that affect the United States and world economies.

We must manage our credit risk effectively.

There are risks inherent in making any loan, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and risks resulting from changes in economic and industry conditions. We attempt to minimize our credit risk through prudent loan application approval procedures, careful monitoring of the concentration of our loans within specific industries and periodic independent reviews of outstanding loans by our credit review department. However, we cannot assure you that such approval and monitoring procedures will reduce these credit risks.

If the overall economic climate in the United States, generally, or our market areas, specifically, fails to improve, or even if it does, our borrowers may experience difficulties in repaying their loans, and the level of nonperforming loans, charge-offs and delinquencies could rise and require increases in the provision for loan losses, which would cause our net income and return on equity to decrease.

A significant portion of the Bank's loan portfolio consists of commercial loans, and we focus on lending to small to medium-sized businesses. The size of the loans we can offer to commercial customers is less than the size of the loans that our competitors with larger lending limits can offer. This may limit our ability to establish relationships with the area's largest businesses. As a result, we may assume greater lending risks than financial institutions that have a lesser concentration of such loans and tend to make loans to larger businesses. Collateral for these loans generally includes accounts receivable, inventory, equipment and real estate. However, depending on the overall financial condition of the borrower, some loans are made on an unsecured basis. In addition to commercial loans and commercial real estate loans, MidWestOne Bank is also active in residential mortgage and consumer lending. Should the economic climate worsen, our borrowers may experience financial difficulties, and the level of nonperforming loans, charge-offs and delinquencies could rise, which could negatively impact our business.

Nonperforming assets take significant time to resolve and adversely affect our results of operations and financial condition, and could result in further losses in the future.

As of December 31, 2011, our nonperforming loans (which consist of nonaccrual loans, loans past due 90 days or more and still accruing interest and loans modified under troubled debt restructurings) totaled $18.1 million, or 1.84% of our loan portfolio, and our nonperforming assets (which include nonperforming loans plus other real estate owned) totaled $22.1 million, or 2.24% of loans. In addition, we had $8.0 million in accruing loans that were 31-89 days delinquent as of December 31, 2011.

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Our nonperforming assets adversely affect our net income in various ways. We do not record interest income on nonaccrual loans or other real estate owned, thereby adversely affecting our net income and returns on assets and equity, increasing our loan administration costs and adversely affecting our efficiency ratio. When we take collateral in foreclosure and similar proceedings, we are required to mark the collateral to its then-fair market value, which may result in a loss. These nonperforming loans and other real estate owned also increase our risk profile and the capital our regulators believe is appropriate in light of such risks. The resolution of nonperforming assets requires significant time commitments from management and can be detrimental to the performance of their other responsibilities. If we experience increases in nonperforming loans and nonperforming assets, our net interest income may be negatively impacted and our loan administration costs could increase, each of which could have an adverse effect on our net income and related ratios, such as return on assets and equity.

Commercial, industrial and agricultural loans make up a significant portion of our loan portfolio.

Commercial, industrial and agricultural loans (including credit cards and commercially related overdrafts), were $330.5 million, or approximately 34% of our total loan portfolio, as of December 31, 2011. Our commercial loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral is accounts receivable, inventory and equipment. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation value of the pledged collateral and enforcement of a personal guarantee, if any exists. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The collateral securing these loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. In addition, if the United States economy fails to improve meaningfully or declines further, this could harm the businesses of our commercial and industrial customers and reduce the value of the collateral securing these loans. Payments on agricultural loans are dependent on the successful operation or management of the farm property. The success of the farm may be affected by many factors outside the control of the borrower, including adverse weather conditions that prevent the planting of a crop or limit crop yields (such as hail, drought and floods), loss of livestock due to disease or other factors, declines in market prices for agricultural products (both domestically and internationally) and the impact of government regulations (including changes in price supports, subsidies and environmental regulations). In addition, many farms are dependent on a limited number of key individuals whose injury or death may significantly affect the successful operation of the farm. If the cash flow from a farming operation is diminished, the borrower’s ability to repay the loan may be impaired. The primary crops in our market areas are corn and soybeans. Accordingly, adverse circumstances affecting these crops could have an adverse effect on our agricultural real estate loan portfolio. Likewise, agricultural operating loans involve a greater degree of risk than lending on residential properties, particularly in the case of loans that are unsecured or secured by rapidly depreciating assets such as farm equipment or assets such as livestock or crops. In these cases, any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation.

Our loan portfolio has a significant concentration of commercial real estate loans, which involve risks specific to real estate value.

Commercial real estate lending comprises a significant portion of our lending business. Specifically, commercial real estate loans were $396.0 million, or approximately 40% of our total loan portfolio, as of December 31, 2011. Of this amount, $133.4 million, or approximately 14%, of our total loan portfolio are loans secured by owner-occupied property. The market value of real estate securing our commercial real estate loans can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Although a significant portion of such loans are secured by real estate as a secondary form of repayment, adverse developments affecting real estate values in one or more of our markets could increase the credit risk associated with our loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected

properties.
If the problems that have occurred in residential real estate and mortgage markets throughout much of the United States were to spread to the commercial real estate market, particularly within one or more of our markets, the value of collateral securing our commercial real estate loans could decline. In such case, we may not be able to realize the amount of security that we anticipated at the time of originating the loan, which could cause us to increase our provision for loan losses and adversely affect our operating results, financial condition and/or capital. We generally have not experienced a downturn in credit performance by our commercial real estate loan customers, but in light of the general uncertainty that exists in the economy and credit markets nationally, there can be no guarantee that we will not experience any deterioration in such performance.

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Our allowance for loan losses may prove to be insufficient to absorb potential losses in our loan portfolio.

We established our allowance for loan losses in consultation with the credit officers of MidWestOne Bank and maintain it at a level considered adequate by management to absorb probable loan losses that are inherent in the portfolio. The amount of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates and the value of the underlying collateral, which are beyond our control, and such losses may exceed current estimates. At December 31, 2011, our allowance for loan losses as a percentage of total gross loans was 1.59% and as a percentage of total nonperforming loans was approximately 86.6%. Although management believes that the allowance for loan losses is adequate to absorb losses on any existing loans that may become uncollectible, we cannot predict loan losses with certainty, and we cannot assure you that our allowance for loan losses will prove sufficient to cover actual loan losses in the future. Loan losses in excess of our reserves may adversely affect our business, financial condition and results of operations.

We have investments in pools of performing and nonperforming loans that comprise a material component of our assets and generate significant interest income with yields that may fluctuate considerably resulting in inconsistent profitability from period to period.

Although we decided to exit our loan pool participation line of business in 2010, we continue to hold investments in certain loan pools until their balances pay down. As of December 31, 2011, approximately 3% of our earning assets were invested in loan pool participations, and approximately 2% of our gross total revenue for the year ended December 31, 2011 was derived from the loan pool participations. These loan pool participations represent a mixture of performing, subperforming and nonperforming loans. As of December 31, 2011, our loan pool investment of $52.2 million consisted of loans secured by commercial real estate (58.5%), commercial operating (7.3%), single-family residential real estate (10.9%), and other loans (23.3%). The loan pool investment is a “nontraditional” activity that has, until recent years, provided us and our predecessor entities with a higher return than typical loans and investment securities. The return on investment in loan pool participations and the effect on profitability can be unpredictable due to fluctuations in the balance of loan pool participations and collections from borrowers by the loan pool servicer. Loan pool balances can be affected by the payment and refinancing activities of the borrowers resulting in pay-offs of the underlying loans and reduction in the balances. Collections from the individual borrowers are managed by the loan pool servicer and are affected by the borrower's financial ability and willingness to pay, foreclosure and legal action, collateral value, and the economy in general. Any of these identified factors, and others not identified, could affect our return on loan pool investments.

Although we did not seek to purchase consumer or consumer real estate loans characterized as subprime or Alt-A credits, because the purchases of these assets was on a pool basis, we have acquired some subprime loans as characterized by borrowers or guarantors having FICO scores below 640. Consumer-based paper makes up approximately 8.9% of our loan pool investment and, as of December 31, 2011, approximately 0.7% of the basis amount of our loan pool investment represented subprime credit. Because we do not originate the consumer-based loans that may be characterized as Alt-A, and of the nature of the information provided to us with respect to any Alt-A loans in the loan pool participations, we are not able to verify the basis amount of our loan pool investment that represents Alt-A credit. Loans that are characterized as subprime and, to a lesser extent, Alt-A carry a higher risk of default by the underlying borrowers than other types of loans, which could affect the value of the overall loan pool investment.

We could recognize losses on securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.

As of December 31, 2011, the fair value of our securities portfolio was approximately $536.1 million. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. For example, fixed-rate securities acquired by us are generally subject to decreases in market value when interest rates rise. Additional factors include, but are not limited to, rating agency downgrades of the securities, defaults by the issuer or individual mortgagors with respect to the underlying securities, and continued instability in the credit markets. Any of the foregoing factors could cause an other-than-temporary impairment in future periods and result in realized losses. The process for determining whether impairment is other-than-temporary usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, we may recognize realized and/or unrealized losses in future periods, which could have an adverse effect on our financial condition and results of operations.

Downgrades in the credit rating of one or more insurers that provide credit enhancement for our state and municipal securities portfolio may have an adverse impact on the market for and valuation of these types of securities.

We invest in tax-exempt state and local municipal securities, some of which are insured by monoline insurers. As of

December 31, 2011, we had $220.4 million of municipal securities, which represented 41.1% of our total securities portfolio. Since the economic crisis unfolded in 2008, several of these insurers have come under scrutiny by rating agencies. Even though management generally purchases municipal securities on the overall credit strength of the issuer, the reduction in the credit rating of an insurer may negatively impact the market for and valuation of our investment securities. Such a downgrade could adversely affect our liquidity, financial condition and results of operations.

Our growth or future losses may require us to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We intend to grow our business organically and to explore opportunities to grow our business by taking advantage of attractive acquisition opportunities, including through FDIC-assisted transactions, and such growth plans may require us to raise additional capital to ensure that we have adequate levels of capital to support such growth on top of our current operations. We may at some point need to raise additional capital to support our growth plans and in this regard filed, in early 2010, a universal shelf-registration statement registering for future sale up to $25 million of securities that places us in a position to raise capital if the need were to arise or if an attractive opportunity were presented. Our ability to raise additional capital will depend on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on our financial condition and performance. Accordingly, we cannot assure you of our ability to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth or acquisitions could be materially impaired.

We may experience difficulties in managing our growth, and our growth strategy involves risks that may negatively impact our net income.

Although we do not have any current definitive plans to do so, we may expand into additional communities or attempt to strengthen our position in our current markets through opportunistic acquisitions of all or part of other financial institutions, including through FDIC-assisted transactions, or by opening new branches. To the extent that we undertake acquisitions or new branch openings, we are likely to experience the effects of higher operating expenses relative to operating income from the new operations, which may have an adverse effect on our levels of reported net income, return on average equity and return on average assets. Other effects of engaging in such growth strategies may include potential diversion of our management's time and attention and general disruption to our business.

To the extent that we grow through acquisitions or branch openings, we cannot assure you that we will be able to adequately and profitably manage this growth. Acquiring other banks and businesses will involve similar risks to those commonly associated with branching, but may also involve additional risks, including:

- potential exposure to unknown or contingent liabilities of banks and businesses we acquire;
- exposure to potential asset quality issues of the acquired bank or related business;
- difficulty and expense of integrating the operations and personnel of banks and businesses we acquire; and
- the possible loss of key employees and customers of the banks and businesses we acquire.

Liquidity risks could affect operations and jeopardize our business, financial condition and results of operations.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our primary sources of funds consist of cash from operations, investment maturities and sales, deposits and funds from sales of capital securities. Additional liquidity is provided by brokered deposits, bank lines of credit, repurchase agreements and the ability to borrow from the Federal Reserve Bank and the Federal Home Loan Bank. Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry.

Over the last few years the financial services industry and the credit markets generally have been materially and adversely affected by significant declines in asset values and by historically depressed levels of liquidity. The liquidity issues have been particularly acute for regional and community banks, as many of the larger financial institutions have curtailed their lending to regional and community banks to reduce their exposure to the risks of other banks. In addition, many of the larger correspondent lenders have reduced or even eliminated federal funds lines for their correspondent customers. Furthermore, regional and community banks generally have less access to the capital markets than do the national and super-regional banks because of their smaller size and limited analyst coverage.

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As a result, we rely more on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans and investment securities, respectively, to ensure that we have adequate liquidity to fund our operations. Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, pay dividends to our stockholders, or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

Legislative and regulatory actions taken now or in the future may increase our costs and impact our business, governance structure, financial condition or results of operations.

The Company and the Bank are subject to extensive regulation by multiple regulatory bodies. These regulations may affect the manner and terms of delivery of our services. If we do not comply with governmental regulations, we may be subject to fines, penalties, lawsuits or material restrictions on our businesses in the jurisdiction where the violation occurred, which may adversely affect our business operations. Changes in these regulations can significantly affect the services that we provide, as well as our costs of compliance with such regulations. In addition, adverse publicity and damage to our reputation arising from the failure or perceived failure to comply with legal, regulatory or contractual requirements could affect our ability to attract and retain customers.

Recent economic conditions, particularly in the financial markets, have resulted in government regulatory agencies and political bodies placing increased focus and scrutiny on the financial services industry. In recent years the U.S. government has intervened on an unprecedented scale by temporarily enhancing the liquidity support available to financial institutions, establishing a commercial paper funding facility, temporarily guaranteeing money market funds and certain types of debt issuances and increasing insurance on bank deposits.

This environment has subjected financial institutions to additional restrictions, oversight and costs. In addition, new legislative and regulatory proposals continue to be introduced that could further substantially increase the oversight of the financial services industry, impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices, including in the areas of compensation, interest rates, financial product offerings and disclosures, and have an effect on bankruptcy proceedings with respect to consumer residential real estate mortgages, among other things. If these regulatory trends continue, they could adversely affect our business and, in turn, our consolidated results of operations.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U.S. government securities, adjustments of the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.

Legislative and regulatory reforms applicable to the financial services industry may, if enacted or adopted, have a significant impact on our business, financial condition and results of operations.

On July 21, 2010, the Dodd-Frank Act was signed into law, which requires significant changes to the regulation of financial institutions and the financial services industry. The Dodd-Frank Act, together with the regulations developed and to be developed thereunder, includes provisions affecting large and small financial institutions alike, including several provisions that will affect how community banks, thrifts and small bank and thrift holding companies will be regulated in the future.

Ultimately, the Dodd-Frank Act will, among other things, impose new capital requirements on bank holding companies; change the base for FDIC insurance assessments to a bank's average consolidated total assets minus average tangible equity, rather than upon its deposit base, and permanently raise the standard deposit insurance limit to $250,000; and expand the FDIC's authority to raise insurance premiums. The legislation also called for the FDIC to raise the ratio of reserves to deposits from 1.15% to 1.35% for deposit insurance purposes by September 30, 2020 and to “offset the effect” of increased assessments on insured depository institutions with assets of less than $10 billion. The Dodd-Frank Act also authorized the Federal Reserve to limit interchange fees payable on debit card transactions, established the Bureau of Consumer Financial Protection as an independent entity within the

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Federal Reserve, with broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards, and contains provisions on mortgage-related matters, such as steering incentives, determinations as to a borrower's ability to repay and prepayment penalties. The Dodd-Frank Act also includes provisions that have affected, and will further affect in the future, corporate governance and executive compensation at all publicly-traded companies.

The Collins Amendment to the Dodd-Frank Act, among other things, eliminates certain trust preferred securities from Tier 1 capital, but permits trust preferred securities issued prior to May 19, 2010 by bank holding companies with total consolidated assets of $15 billion or less, such as the Company, to continue to be includible in Tier 1 capital. This provision also requires the federal banking agencies to establish minimum leverage and risk-based capital requirements that will apply to both insured banks and their holding companies. Regulations implementing the Collins Amendment must be issued within 18 months of July 21, 2010.

These provisions, or any other aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, if enacted or adopted, may impact the profitability of our business activities or change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans, and achieve satisfactory interest spreads, and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations in order to comply, and could therefore also materially and adversely affect our business, financial condition and results of operations. Our management continues to stay abreast of developments with respect to the Dodd-Frank Act, many provisions of which will continue to be phased-in over the next several months and years, and continues to assess its impact on our operations. The ultimate effect of the Dodd-Frank Act on the financial services industry in general, and us in particular, cannot be quantified at this time.

The U.S. Congress has also recently adopted additional consumer protection laws such as the Credit Card Accountability Responsibility and Disclosure Act of 2009, and the Federal Reserve has adopted numerous new regulations addressing banks' credit card, overdraft and mortgage lending practices. Additional consumer protection legislation and regulatory activity is anticipated in the near future.

The Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, adopted Basel III in September 2010, which is a strengthened set of capital requirements for banking organizations in the United States and around the world. Basel III is currently supported by the U.S. federal banking agencies. As agreed to, Basel III is intended to be fully-phased in on a global basis on January 1, 2019. However, the ultimate timing and scope of any U.S. implementation of Basel III remains uncertain. As agreed to, Basel III would require, among other things: (i) an increase in the minimum required common equity to 7% of total assets; (ii) an increase in the minimum required amount of Tier 1 capital from the current level of 4% of total assets to 8.5% of total assets; (iii) an increase in the minimum required amount of total capital, from the current level of 8% to 10.5%. Each of these increased requirements includes 2.5% attributable to a capital conservation buffer to position banking organizations to absorb losses during periods of financial and economic stress. Basel III also calls for certain items that are currently included in regulatory capital to be deducted from common equity and Tier 1 capital. The Basel III agreement calls for national jurisdictions to implement the new requirements beginning January 1, 2013. At that time, the U.S. federal banking agencies will be expected to have implemented appropriate changes to incorporate the Basel III concepts into U.S. capital adequacy standards. Basel III changes, as implemented in the United States, will likely result in generally higher regulatory capital standards for all banking organizations.

Such proposals and legislation, if finally adopted, would change banking laws and our operating environment and that of our subsidiaries in substantial and unpredictable ways. We cannot determine whether such proposals and legislation will be adopted, or the ultimate effect that such proposals and legislation, if enacted, or regulations issued to implement the same, would have upon our business, financial condition or results of operations.

Our ability to pay dividends is subject to certain limitations and restrictions, and there is no guarantee that we will be able to continue paying the same level of dividends in the future that we paid in 2011 or that we will be able to pay future dividends at all.

Our ability to pay dividends is limited by regulatory restrictions and the need to maintain sufficient consolidated capital. The ability of MidWestOne Bank to pay dividends to us is limited by its obligations to maintain sufficient capital and liquidity and by other general restrictions on dividends that are applicable to MidWestOne Bank, including the requirement under the Iowa Banking Act that it may not pay dividends in excess of its accumulated net profits. If these regulatory requirements are not met, MidWestOne Bank will not be able to pay dividends to us, and we may be unable to pay dividends on our common stock or preferred stock.

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In addition, as a bank holding company, our ability to declare and pay dividends is subject to the guidelines of the Federal Reserve regarding capital adequacy and dividends. The Federal Reserve guidelines generally require us to review the effects of the cash payment of dividends on common stock and other Tier 1 capital instruments (i.e., perpetual preferred stock and trust preferred debt) in light of our earnings, capital adequacy and financial condition. As a general matter, the Federal Reserve indicates that the board of directors of a bank holding company (including a financial holding company) should eliminate, defer or significantly reduce the Company's dividends if:

- the company's net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends;
- the prospective rate of earnings retention is inconsistent with the company's capital needs and overall current and prospective financial condition; or
- the company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

As of December 31, 2011, we had $15.5 million of junior subordinated debentures held by a statutory business trust that we control. Interest payments on the debentures, which totaled $0.7 million for the year ended December 31, 2011, must be paid before we pay dividends on our capital stock, including our common stock. We have the right to defer interest payments on the debentures for up to 20 consecutive quarters. However, if we elect to defer interest payments, all deferred interest must be paid before we may pay dividends on our capital stock.

Our ability to attract and retain management and key personnel may affect future growth and earnings.

Much of our success and growth has been influenced by our ability to attract and retain management experienced in banking and financial services and familiar with the communities in our market areas. Our ability to retain our executive officers, current management teams, branch managers and loan officers will continue to be important to the successful implementation of our strategy. It is also critical, as we grow, to be able to attract and retain qualified additional management and loan officers with the appropriate level of experience and knowledge about our market areas to implement our community based operating strategy. The Dodd-Frank Act also directs the Federal Reserve to promulgate rules prohibiting excessive compensation paid to bank holding company executives. These rules, when adopted, may make it more difficult to attract and retain the people we need to operate our businesses and limit our ability to promote our objectives through our compensation and incentive programs. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, results of operations and financial condition.

We face intense competition in all phases of our business from banks and other financial institutions.

The banking and financial services businesses in our markets are highly competitive. Our competitors include large regional banks, local community banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market mutual funds, small local credit unions as well as large aggressive and expansion-minded credit unions, and other nonbank financial services providers. Many of these competitors are not subject to the same regulatory restrictions as we are. Many of our unregulated competitors compete across geographic boundaries and are able to provide customers with a competitive alternative to traditional banking services.

Increased competition in our markets may result in a decrease in the amounts of our loans and deposits, reduced spreads between loan rates and deposit rates or loan terms that are more favorable to the borrower. Any of these results could have a material adverse effect on our ability to grow and remain profitable. If increased competition causes us to significantly discount the interest rates we offer on loans or increase the amount we pay on deposits, our net interest income could be adversely impacted. If increased competition causes us to modify our underwriting standards, we could be exposed to higher losses from lending activities. Additionally, many of our competitors are much larger in total assets and capitalization, have greater access to capital markets, have larger lending limits and offer a broader range of financial services than we can offer.

We have a continuing need for technological change, and we may not have the resources to effectively implement new technology.

The financial services industry continues to undergo rapid technological changes with frequent introductions of new technology-driven products and services. In addition to enabling us to better serve our customers, the effective use of technology increases efficiency and the potential for cost reduction. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow our market share. Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which could put us at a competitive disadvantage. Accordingly, we cannot provide you with assurance that we will be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in our operations could have a material adverse effect on our financial condition and results of operations. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of third-party service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage, there can be no assurance that these security measures will be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms we and our third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on our financial condition and results of operations.

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence. We maintain a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. Should our internal controls fail to prevent or detect an occurrence, and if any resulting loss is not insured or exceeds applicable insurance limits, such failure could have a material adverse effect on our business, financial condition and results of operations.

Adverse weather affecting the markets we serve could hurt our business and prospects for growth.

Substantially all of our business is conducted in the State of Iowa, and a significant portion is conducted in rural communities. The Iowa economy, in general, is heavily dependent on agriculture and therefore the overall Iowa economy, and particularly the economies of the rural communities that we serve, can be greatly affected by severe weather conditions, including droughts, storms, tornadoes and flooding. Unfavorable weather conditions may decrease agricultural productivity or could result in damage to our branch locations or the property of our customers, all of which could adversely affect the local economy. An adverse affect on the economy of Iowa would negatively affect our profitability.

There is a limited trading market for our common shares, and you may not be able to resell your shares at or above the price you paid for them.

Although our common shares are listed for quotation on The NASDAQ Global Select Market, the trading in our common shares has substantially less liquidity than many other companies listed on NASDAQ. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the market of willing buyers and sellers of our common shares at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. We cannot assure you that the volume of trading in our common shares will increase in the future.

Certain MidWestOne shareholders own a significant interest in the company and may exercise their control in a manner detrimental to your interests.

Certain MidWestOne shareholders who are descendants of our founder collectively control approximately 33.0% of our outstanding common stock and may have the opportunity to exert influence on the outcome of matters required to be submitted to shareholders for approval. In addition, this significant level of ownership by members of the founding family may contribute to the rather limited liquidity of our common stock on the NASDAQ Global Select Market.

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ITEM 1B. UNRESOLVED STAFF COMMENTS.
None.

ITEM 2. PROPERTIES.
Our headquarters and the MidWestOne Bank's main office are located at 102 South Clinton Street, Iowa City, Iowa, and consists of approximately 63,800 square feet. We currently operate 24 additional branches throughout central and east-central Iowa totaling approximately 120,000 square feet. The table below sets forth the locations of the Bank's branch offices:

822 12th St. Belle Plaine, Iowa	3225 Division St. Burlington, Iowa
4510 Prairie Pkwy. Cedar Falls, Iowa	120 W. Center St. Conrad, Iowa
110 1st Ave. Coralville, Iowa	101 W. Second St., Suite 100† Davenport, Iowa
2408 W. Burlington Fairfield, Iowa	58 East Burlington Fairfield, Iowa
926 Ave. G Ft. Madison, Iowa	325 S. Clinton St. * Iowa City, Iowa
1906 Keokuk St. Iowa City, Iowa	2233 Rochester Ave. Iowa City, Iowa
202 Main St. Melbourne, Iowa	10030 Hwy. 149 North English, Iowa
465 Hwy. 965 NE, Suite A † North Liberty, Iowa	124 South First St. Oskaloosa, Iowa
222 First Ave. East* Oskaloosa, Iowa	116 W. Main St. Ottumwa, Iowa
1001 Hwy. 57 Parkersburg, Iowa	700 Main St. Pella, Iowa
500 Oskaloosa St.* Pella, Iowa	112 North Main St. Sigourney, Iowa
3110 Kimball Ave. Waterloo, Iowa	305 W. Rainbow Dr. West Liberty, Iowa

* Drive up location only.
† Leased office.

In addition to the Bank's branch offices, the insurance subsidiary leases one property totaling approximately 4,800 square feet at 309 High Avenue East, Oskaloosa, Iowa.   The Bank owns 45 ATMs that are located within the

communities served by branch offices. We believe each of our facilities is suitable and adequate to meet our current operational needs.
During 2011 we demolished our drive up only location in Belle Plaine, and began construction on a new full service branch facility with attached drive up. The new building opened in February 2012, at which time we closed the Belle Plaine office shown above. The new office construction will not only increase the efficiency of our operations in Belle Plaine, but was necessitated by continued market growth in the community.

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ITEM 3. LEGAL PROCEEDINGS.

We and our subsidiaries are from time to time parties to various legal actions arising in the normal course of business. We believe that there is no threatened or pending proceeding against us or our subsidiaries, which, if determined adversely, would have a material adverse effect on our consolidated business or financial condition.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is listed on the NASDAQ Global Select Market under the symbol "MOFG." The following table presents for the periods indicated the high and low sale price for our common stock as reported on the NASDAQ Global Select Market:

	High	Low	Cash Dividend Declared
2010			
First Quarter	$11.94	$7.70	$0.05
Second Quarter	17.00	11.26	0.05
Third Quarter	15.70	12.37	0.05
Fourth Quarter	15.95	13.91	0.05
2011			
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

As of March 7, 2012, there were 8,467,317 shares of common stock outstanding held by approximately 520 holders of record. Additionally, there are an estimated 1,775 beneficial holders whose stock was held in street name by brokerage houses and other nominees as of that date.

Dividends

We may pay dividends on our common stock as and when declared by our Board of Directors out of any funds legally available for the payment of such dividends, subject to any and all preferences and rights of any preferred stock or a series thereof. The amount of dividend payable will depend upon our earnings and financial condition and other factors, including applicable governmental regulations and policies. See "Supervision and Regulation - The Company - Dividend Payments"

Repurchases of Company Equity Securities

On July 26, 2011, our Board of Directors authorized the implementation of a share repurchase program to repurchase up to $1.0 million of the Company's outstanding shares of common stock through December 31, 2011. Pursuant to the program, we repurchased 45,039 shares of common stock during the third quarter of 2011 for an aggregate cost of $658,000. On October 18, 2011, our Board of Directors amended the Company's share repurchase program by increasing the remaining amount of authorized repurchases to $5.0 million, and extending the expiration of the program to December 31, 2012. Pursuant to the program, we may repurchase shares from time to time in the open market, and the method, timing and amounts of repurchase will be solely in the discretion of the Company's management. The repurchase program does not require us to acquire a specific number of shares. Therefore, the amount of shares repurchased pursuant to the program will depend on several factors, including market conditions, capital and liquidity requirements, and alternative uses for cash available. For the year of 2011 we repurchased a total of 102,190 shares of common stock at a cost of $1.5 million, with $4.2 million remaining in the current share repurchase program at December 31, 2011.

The following table sets forth information about the Company's purchases of its common stock in the 4th quarter of 2011:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced	Approximate Dollar Value of Shares That May Yet Be Purchased Under the

			Programs	Program
October 1 - 31, 2011	—	$—	—	$5,000,000
November 1 - 30, 2011	47,227	14.69	47,227	4,306,063
December 1 - 31, 2011	9,924	14.67	9,924	4,160,435
Total	57,151	$14.69	57,151	$4,160,435

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Performance Graph

The following table compares MidWestOne's performance, as measured by the change in price of its common stock plus reinvested dividends, with the NASDAQ Composite Index and the SNL-Midwestern Banks Index for the five years ended December 31, 2011.

MidWestOne Financial Group, Inc.

Index	At 12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
MidWestOne Financial Group, Inc.	100.00	68.25	37.70	34.68	60.84	59.78
NASDAQ Composite	100.00	110.66	66.42	96.54	114.06	113.16
SNL-Midwestern Banks Index	100.00	77.94	51.28	43.45	53.96	50.97

For the years ended December 31, 2007 and 2006, our common stock was not traded on the NASDAQ Stock Market or any other stock exchange, but it was quoted on The Pink Sheets LLC. Accordingly, the prices in the graph above for such years reflect the most recent price quoted on The Pink Sheets LLC as of each such date.

The banks in the custom peer group - SNL-Midwestern Banks Index - represent all publicly traded banks, thrifts or financial service companies located in Iowa, Illinois, Indiana, Kansas, Kentucky, Michigan, Minnesota, Missouri, North Dakota, Nebraska, Ohio, South Dakota and Wisconsin.

ITEM 6. SELECTED FINANCIAL DATA.

The following selected financial data for each of the five years in the period ended December 31, 2011, have been derived from our audited consolidated financial statements and the results of operations for each of the five years in the period ended December 31, 2011. This financial data should be read in conjunction with the financial statements and the related notes thereto.

As previously discussed, on March 14, 2008, we consummated the merger with the Former MidWestOne. For accounting purposes, we were deemed to be the acquirer in the merger. Accordingly, the financial information in the table below for years prior to December 31, 2008 is the information for the Company prior to the merger and does not include financial information for the Former MidWestOne.

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Year Ended (In thousands, except per share data)	December 31, 2011	2010	2009	2008	2007
Summary of Income Data:					
Total interest income excluding loan pool participations	$67,473	$68,350	$71,549	$65,747	$38,305
Total interest and discount on loan pool participations	1,108	2,631	1,809	4,459	—
Total interest income including loan pool participations	68,581	70,981	73,358	70,206	38,305
Total interest expense	19,783	23,116	28,243	30,395	19,038
Net interest income	48,798	47,865	45,115	39,811	19,267
Provision for loan losses	3,350	5,950	7,725	4,366	500
Noninterest income	14,716	14,907	12,519	5,542	8,806
Noninterest expense	42,235	43,289	45,579	65,999	18,620
Income (loss) before income tax	17,929	13,533	4,330	(25,012)	8,953
Income tax expense (benefit)	4,612	3,403	(79)	(450)	2,305
Net income (loss)	$13,317	$10,130	$4,409	$(24,562)	$6,648
Less: Preferred stock dividends and discount accretion	645	868	779	—	—
Net income (loss) available to common shareholders	$12,672	$9,262	$3,630	$(24,562)	$6,648
Per share data:					
Net income (loss) - basic	$1.47	$1.08	$0.42	$(3.09)	$1.29
Net income (loss) - diluted	1.47	1.07	0.42	(3.09)	1.29
Cash dividends declared	0.22	0.20	0.30	0.46	0.65
Book value	18.35	18.39	17.69	15.15	14.98
Net tangible book value	17.15	15.27	14.42	13.58	14.14
Selected financial ratios:					
Return on average assets	0.82 %	0.65 %	0.29 %	(1.61)%	0.98 %
Return on average shareholders' total equity	8.42	6.44	2.99	(15.96)	8.83
Return on average common equity	8.87	7.16	3.31	(15.96)	8.83
Return on average tangible common equity	9.51	7.66	3.64	(6.16)	10.67
Dividend payout ratio	14.97	18.52	71.43	NM	50.39
Total shareholders' equity to total assets	9.23	10.02	9.92	8.66	11.02
Tangible common equity to tangible assets	8.68	8.37	8.16	7.81	10.57
Tier 1 capital to average assets	9.60	10.45	10.01	8.75	10.67
Tier 1 capital to risk-weighted assets	12.40	13.37	12.66	10.28	15.35
Net interest margin	3.34	3.43	3.27	3.29	3.27
Efficiency ratio	62.94	64.44	71.92	70.71	62.24
Gross revenue of loan pools to total gross revenue	1.74	4.19	3.14	9.83	—
	1.59	1.62	1.44	1.08	1.36

Allowance for bank loan losses to total bank loans					
Allowance for loan pool losses to total loan pools	4.09	3.14	2.51	2.29	—
Non-performing loans to total loans	1.84	2.11	1.44	1.50	0.32
Net loans charged off to average loans	0.30	0.50	0.48	0.48	0.09
Selected balance sheet data:					
Total assets	$1,695,244	$1,581,259	$1,534,783	$1,508,962	$701,983
Total loans net of unearned discount	986,173	938,035	966,998	1,014,814	401,554
Allowance for loan losses	15,676	15,167	13,957	10,977	5,466
Loan pool participations, net	50,052	65,871	83,052	92,932	—
Total deposits	1,306,642	1,219,328	1,179,868	1,128,189	526,615
Federal funds purchased and repurchase agreements	57,207	50,194	44,973	57,299	45,997
Federal Home Loan Bank advances	140,014	127,200	130,200	158,782	47,000
Long-term debt	15,464	15,464	15,588	15,640	—
Total shareholders' equity	156,494	158,466	152,208	130,342	77,392

NM - Percentage calculation not considered meaningful.

Non-GAAP Presentations:
Certain non-GAAP ratios are provided to evaluate and measure the Company's operating performance and financial condition, including return on average tangible common equity, tangible common equity to tangible assets, Tier 1 capital to average assets, Tier 1 capital to risk-weighted assets, and efficiency ratio. Management believes these ratios provide investors with

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information regarding the Company's balance sheet, profitability, financial condition and capital adequacy and how management evaluates such metrics internally. The following tables provide a reconciliation of each non-GAAP measure to the most comparable GAAP equivalent.

	As of or for the Year Ended December 31,				
(dollars in thousands)	2011	2010	2009	2008	2007
Average tangible common equity					
Average total shareholders' equity	$158,146	$157,190	$147,544	$138,603	$66,873
Less: Average preferred stock	(8,032)	(15,734)	(14,172)	—	—
Average goodwill and intangibles	(10,613)	(11,760)	(12,833)	(32,242)	(4,475)
Average tangible common equity	$139,501	$129,696	$120,539	$106,361	$62,398
Income					
Net income available to common shareholders	$12,672	$9,262	$3,630	$(24,562)	$6,648
Plus: Intangible amortization, net of tax(1)	591	679	753	18,015	9
Adjusted net income available to common shareholders	$13,263	$9,941	$4,383	$(6,547)	$6,657
Return on average tangible common equity	9.51 %	7.66 %	3.64 %	(6.16)%	10.67 %
Tangible Common Equity					
Total shareholders' equity	$156,494	$158,466	$152,208	$130,342	$77,392
Less: Preferred stock	—	(15,767)	(15,699)	—	—
Goodwill and intangibles	(10,247)	(11,243)	(12,272)	(13,524)	(4,624)
Tangible common equity	$146,247	$131,456	$124,237	$116,818	$72,768
Tangible Assets					
Total assets	$1,695,244	$1,581,259	$1,534,783	$1,508,962	$701,983
Less: Goodwill and intangibles	(10,247)	(11,243)	(12,272)	(13,524)	(13,524)
Tangible Assets	$1,684,997	$1,570,016	$1,522,511	$1,495,438	$688,459
Tangible common equity to tangible assets	8.68 %	8.37 %	8.16 %	7.81 %	10.57 %
Tier 1 capital					
Total shareholders' equity	$156,494	$158,466	$152,208	$130,342	$77,392
Plus: Long term debt (qualifying restricted core capital)	15,464	15,464	15,464	15,464	—
Less: Net unrealized (gains) loss on securities available for sale	(3,328)	1,826	(1,505)	(1,007)	54
Disallowed goodwill and intangibles	(10,374)	(11,327)	(12,286)	(13,439)	(4,379)
Tier 1 capital	$158,256	$164,429	$153,881	$131,360	$73,067
Average Assets					
Quarterly average assets	$1,658,738	$1,584,616	$1,549,049	$1,514,043	$688,917
Less: Disallowed goodwill and intangibles	(10,374)	(11,327)	(12,286)	(13,439)	(4,379)
Average assets	$1,648,364	$1,573,289	$1,536,763	$1,500,604	$684,538
Tier 1 capital to average assets	9.60 %	10.45 %	10.01 %	8.75 %	10.67 %
Risk-weighted assets	$1,276,512	$1,230,264	$1,215,240	$1,278,121	$476,113

Tier 1 capital to risk-weighted assets		12.40 %	13.37 %	12.66 %	10.28 %	15.35 %
Operating expense						
Total noninterest expense		$42,235	$43,289	$45,579	$65,599	$18,620
Less:	Amortization of intangibles and goodwill impairment	(896)	(1,029)	(1,141)	(27,295)	(13)
Operating expense		$41,339	$42,260	$44,438	$38,304	$18,607
Operating Revenue						
Tax-equivalent net interest income(1)		$51,261	$50,227	$47,682	$41,569	$20,834
Plus:	Noninterest income	14,716	14,907	12,519	5,542	8,806
	Impairment losses on investment securities	—	189	2,404	6,194	—
Less:	Gain (loss) on sale or call of available for sale securities	490	453	813	(346)	(256)
	Gain (loss) on sale of premises and equipment	(195)	(709)	8	(516)	—
Operating Revenue		$65,682	$65,579	$61,784	$54,167	$29,896
Efficiency ratio		62.94 %	64.44 %	71.92 %	70.71 %	62.24 %

(1) Computed on a tax-equivalent basis, assuming a federal income tax rate of 34%

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

We are the holding company for MidWestOne Bank, an Iowa state non-member bank with its main office in Iowa City, Iowa. We also are headquartered in Iowa City, Iowa, and are a bank holding company under the Bank Holding Company Act of 1956 that has elected to be a financial holding company. We also are the holding company for MidWestOne Insurance Services, Inc., which operates an insurance business through three agencies located in central and east-central Iowa.

MidWestOne Bank operates a total of 25 branch locations, plus its specialized Home Loan Center, in 15 counties throughout central and east-central Iowa. It provides full service retail banking in the communities in which its branch offices are and also offers trust and investment management services.

On March 14, 2008, we consummated our merger with the Former MidWestOne. Prior to such merger, we were named ISB Financial Corp. The results of operations for the years ended December 31, 2007 and prior include only our stand-alone operations for such year. The results of operations for the year ended December 31, 2008, include our operations for the entire year as well as the operations of Former MidWestOne for the period beginning March 15, 2008, through December 31, 2008. That is, the results of operations include approximately two and one-half months of our stand-alone operations and nine and one-half months of the operations of the Company and Former MidWestOne on a consolidated basis. The results of operations for the years ended December 31, 2009, 2010, and 2011, include the operations of the combined Company for the entire period.

For 2011, we reported $1.47 of per share earnings which is an all-time record in the 77-year history of our company. Both the economy and merger-related integration costs affected our earnings in 2008 and 2009, but 2010 and, especially, 2011 have been years of significant earnings improvement. Net income available to common shareholders was $12.7 million for 2011, 36.8% better than the $9.3 million reported for 2010. Similarly, 2011 earnings per diluted common share increased 37.4% from $1.07 in 2010 to $1.47 in 2011. Profitability metrics continue to improve, with the full-year return on assets increasing to 0.82% in 2011 from 0.65% in 2010. Return on average tangible common equity improved to 9.51% from 7.66% a year earlier.

2011 also was one of balance sheet growth at MidWestOne, as total assets ended the year at $1.70 billion, 7.2% higher than $1.58 billion at year-end 2010. Driven by gains in non-interest-bearing demand and interest-bearing checking accounts, total deposits were 7.2% higher at year-end 2011 than a year earlier. It is important that we find profitable means of deploying these deposits flowing into our bank. Thus, we are very much encouraged by the 5.1% growth in the bank loan portfolio when comparing year-end 2011 to year-end 2010. Most importantly, this growth occurred primarily in the fourth quarter of the year, which we believe bodes well for 2012. The agricultural economy remains strong in our footprint but we also sense a slow strengthening in the confidence level of our business customers.

The growth of the Company's balance sheet was a critical component of our improved earnings performance. That is because the net interest margin narrowed in 2011. The margin was 3.34% for 2011 compared with 3.43% in 2010. For numerous reasons, the Federal Reserve's low interest rate policy continues to present a challenge to commercial banks' net interest margins. Our ability to maintain this margin in 2012 will be a critical component of company performance.

We continue to focus on our longer term goal of growing non-interest income to 30% of gross revenues. In 2011, that number was 22.8%, net of security and fixed asset gains and losses. For 2011, mortgage origination fees were down significantly from the comparable periods in 2010, as 2010 represented a larger refinance period for first mortgages. We showed increases in Trust and Investment Services revenues, which were offset by lower Insurance Services revenues. For us to attain our 30% goal, we believe that we must grow our insurance agency revenues and increase the rate of growth in our Trust and Investment Services revenues. For 2011, service charges and fees on deposit accounts declined 8.4%, compared with 2010. Dodd-Frank and other regulatory pronouncements have negatively impacted our ability to collect fees for banking services, and we believe it is likely that regulatory developments will continue to make it difficult to maintain the existing level of depository fees and service charges.

The final component to MidWestOne's improved performance comes from a lower loan loss provision in 2011. For the full year, the provision was $3.4 million in 2011 versus $6.0 million in 2010. Asset quality ended the year with the best metrics in several quarters. Net charge-offs for the year fell to 0.30% of loans from 0.50% in 2010. At year-end 2011, non-performing bank loans to total loans were 1.84% compared to 2.11% at year-end 2010. Non-performing bank loans totaled $18.1 million compared to $19.8 million a year ago. Our credit quality numbers continue to measure well against our peers of similar size, with our annual net charge-offs never exceeding 0.50% in the past five years.

MidWestOne has been in the loan pool participations business since 1988. Loan pool participations are participation interests in performing, sub-performing and non-performing loans that were purchased from various non-affiliated banking organizations and are serviced by a third party. The “all-in” yield for 2011 was 1.85% compared to 3.88% in 2010. As previously discussed, we are not investing additional capital into the loan pool participations as we are slowly exiting this line of business as balances are paid or charged-off, and the year-end net balance was $50.1 million. Loan pools and OREO related to the pools comprise only 3.0% of company assets at December 31, 2011, a decline from 4.2% in 2010, and 5.4% in 2009.

Our shareholders saw some direct benefits from our improvement in operations, as we were able to complete the redemption of the 16,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A issued to the U.S. Treasury in conjunction with our participation in the TARP Capital Purchase Program ("CPP") on July 6, 2011, for $16.1 million (consisting of $16.0 million of principal and $0.1 million of accrued and unpaid dividends), and subsequently repurchased for $1.0 million the common stock warrant issued to the U.S. Treasury, also as part of the CPP, on July 27, 2011. We have increased our quarterly cash dividend twice since exiting TARP. On July 26, 2011, the Company's Board of Directors approved a 20% increase in the quarterly dividend from $0.05 to $0.06. Then, on January 17, 2012, the Board of Directors approved a 41.7% increase in the quarterly dividend to $0.085 per share to shareholders of record as of March 1, 2012. During 2011, we also returned $1.5 million to shareholders through the repurchase of 102,190 shares of MidWestOne common stock.

Critical Accounting Estimates

We have identified the following critical accounting policies and practices relative to the reporting of our results of operation and financial condition. These accounting policies relate to the allowance for loan losses, participation interests in loan pools, goodwill and intangible assets, and fair value of available for sale investment securities.

Allowance for Loan Losses

The allowance for loan losses is based on our estimate of probable incurred credit losses in our loan portfolio. In evaluating our loan portfolio, we take into consideration numerous factors, including current economic conditions, prior loan loss experience, the composition of the loan portfolio, and management's estimate of probable credit losses. The allowance for loan losses is established through a provision for loss based on our evaluation of the risk inherent in the loan portfolio, the composition of the portfolio, specific impaired loans, and current economic conditions. Such evaluation, which includes a review of all loans on which full collectability may not be reasonably assured, considers, among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, historical loss experience, and other factors that warrant recognition in providing for an adequate allowance for loan losses. In the event that our evaluation of the level of the allowance for loan losses indicates that it is inadequate, we would need to increase our provision for loan losses. We believe the allowance for loan losses as of December 31, 2011, was adequate to absorb probable losses in the existing portfolio.

Participation Interests in Loan Pools

The loan pool accounting practice relates to our estimate that the investment amount reflected on our financial statements does not exceed the estimated net realizable value or the fair value of the underlying collateral securing the purchased loans. In evaluating the purchased loan pool, we take into consideration many factors, including the borrowers' current financial situation, the underlying collateral, current economic conditions, historical collection experience, and other factors relative to the collection process. If the estimated net realizable value of the loan pool participations were to decline below their carrying amount, our yield on the loan pools would be reduced.

Intangible Assets

Intangible assets arise from purchase business combinations. As a general matter, intangible assets generated from purchase business combinations and deemed to have indefinite lives are not subject to amortization and are instead tested for impairment at least annually. The intangible assets reflected on our financial statements are deposit premium, insurance agency, trade name, and customer list intangibles. The establishment and subsequent amortization of these intangible assets involves the use of significant estimates and assumptions. These estimates and assumptions include, among other things, the estimated cost to service deposits acquired, discount rates, estimated attrition rates and useful lives, future economic and market conditions, comparison of our market value to book value and determination of appropriate market comparables. Actual future results may differ from those estimates. We assess these intangible assets for impairment annually or more often if conditions indicate a possible impairment. Each quarter we evaluate the estimated useful lives of intangible assets and whether events or changes in circumstances warrant a revision to the remaining periods of amortization. In accordance with ASC 350 (Financial Accounting Standards Board ("FASB") Statement No. 144), Accounting for the Impairment or Disposal of Long-Lived Assets, recoverability of these assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

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Fair Value of Available for Sale Securities

Securities available for sale are reported at fair value, with unrealized gains and losses reported as a separate component of accumulated other comprehensive income, net of deferred income taxes. Declines in fair value of individual securities, below their amortized cost, are evaluated by management to determine whether the decline is temporary or "other-than-temporary." Declines in the fair value of available for sale securities below their cost that are deemed "other-than-temporary" are reflected in earnings as impairment losses. In determining whether other than temporary impairment exists, management considers whether: (1) we have the intent to sell the security, (2) it is more likely than not that we will be required to sell the security before recovery of the amortized cost basis, and (3) we do not expect to recover the entire amortized cost basis of the security. When we determine that other-than-temporary-impairment (OTTI) has occurred, the amount of the OTTI recognized in earnings depends on whether we intend to sell the security or whether it is more likely than not we will be required to sell the security before recovery of its amortized cost basis. If we intend to sell, or it is more likely than not we will be required to sell, the security before recovery of its amortized cost basis, the OTTI recognized in earnings is equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If we do not intend to sell the security, and it is not more likely than not that we will be required to sell before recovery of its amortized cost basis, the OTTI is separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected, using the original yield as the discount rate, and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income (loss), net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment. The assessment of whether an OTTI exists involves a high degree of subjectivity and judgment and is based on the information available to management at the time.

Results of Operations - Three-Year Period Ended December 31, 2011

Summary

Our consolidated net income for the year ended December 31, 2011 was $13.3 million. After subtracting preferred stock dividends and discount accretion of $0.6 million, net income available to common shareholders was $12.7 million, or $1.47 per fully-diluted share, compared to net income of $10.1 million and net income available to common shareholders of $9.3 million, or $1.07 per fully-diluted share, for the year ended December 31, 2010. The increase in consolidated net income was due primarily to an increase in net interest income, after provision for loan losses, of $3.5 million. We also experienced a decrease in noninterest income of $0.2 million, mainly due to a decrease in mortgage origination and loan servicing fees of $0.8 million, as such amount declined to $2.7 million in 2011 from $3.5 million in 2010. Finally, decreased noninterest expense provided a $1.1 million positive impact to earnings in 2011 as compared to 2010, primarily due to a $1.2 million decline in FDIC Insurance expense.

The consolidated net income for the year ended December 31, 2010 was $10.1 million. After subtracting preferred stock dividends and discount accretion of $0.9 million, net income available to common shareholders was $9.3 million, or $1.07 per fully-diluted share, compared to net income of $4.4 million and net income available to common shareholders of $3.6 million, or $0.42 per fully-diluted share, for the year ended December 31, 2009. The increase in consolidated net income was due primarily to an increase in net interest income, after provision for loan losses, of $4.5 million. We also experienced an increase in noninterest income of $2.4 million in 2010, mainly due to a decrease in other-than-temporary impairment charges on investment securities of $2.2 million, as such amount declined to $0.2 million in 2010 from $2.4 million in 2009. Finally, decreased noninterest expense provided a $2.3 million positive impact to earnings in 2010 as compared to 2009.

Despite the continued challenging economy during 2011, we ended the year with an allowance for loan losses of $15.7 million, which represents 86.6% coverage of our nonperforming bank loans (excluding loan pool participations) at December 31, 2011 as compared to 76.7% coverage of our nonperforming bank loans at December 31, 2010 and 100.6% at December 31, 2009. Nonperforming loans totaled $18.1 million as of December 31, 2011 compared with

$19.8 million and $13.9 million at December 31, 2010 and December 31, 2009, respectively. For the year ended December 31, 2011, the provision for loan losses decreased to $3.4 million from $6.0 million for 2010, which had decreased from $7.7 million for 2009.
Various operating and equity ratios for the Company are presented in the table below for the years indicated. The dividend payout ratio represents the percentage of our prior year's net income that is paid to shareholders in the form of cash dividends. Average equity to average assets is a measure of capital adequacy that presents the percentage of average total shareholders' equity compared to our average assets. The equity to assets ratio is expressed using the period-end amounts instead of an average amount. As of December 31, 2011, under regulatory standards, MidWestOne Bank had capital levels in excess of the minimums necessary to be considered “well capitalized,” which is the highest regulatory designation.

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	12/31/2011	12/31/2010	12/31/2009
Return on average total assets	0.82 %	0.65 %	0.29 %
Return on average equity	8.42	6.44	2.99
Return on average common equity	8.87	7.16	3.31
Return on average tangible common equity	9.51	7.66	3.64
Dividend payout ratio	14.97	18.52	71.43
Average equity to average assets	9.71	10.08	9.56
Equity to assets ratio (at period end)	9.23	10.02	9.92

For information on the calculation of certain non-GAAP measures please see page 29.

Net Interest Income

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

Certain assets with tax favorable treatment are evaluated on a tax-equivalent basis. Tax-equivalent basis assumes a federal income tax rate of 34%. Tax favorable assets generally have lower contractual pre-tax yields than fully taxable assets. A tax-equivalent analysis is performed by adding the tax savings to the earnings on tax favorable assets. After factoring in the tax favorable effects of these assets, the yields may be more appropriately evaluated against alternative earning assets. In addition to yield, various other risks are factored into the evaluation process.

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The following table shows the consolidated average balance sheets, detailing the major categories of assets and liabilities, the interest income earned on interest-earning assets, the interest expense paid for the interest-bearing liabilities, and the related interest rates/yields for the periods, or as of the dates, shown. Average information is provided on a daily average basis.

	Year ended December 31,								
	2011			2010			2009		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Average Rate/Yield	Average Balance	Interest Income/ Expense	Average Rate/Yield	Average Balance	Interest Income/ Expense	Average Rate/Yield
Average earning assets:									
Loans (tax equivalent) (1)(2)(3)	$953,392	$52,636	5.52 %	$955,562	$55,055	5.76 %	$990,540	$59,115	5.97 %
Loan pool participations (4)	59,972	1,108	1.85	78,150	2,631	3.37	92,456	1,809	1.96
Investment securities:									
Taxable investments	382,064	10,934	2.86	302,435	9,667	3.20	232,656	8,797	3.78
Tax exempt investments (2)	125,402	6,329	5.05	113,136	5,950	5.26	115,309	6,146	5.33
Total investment securities	507,466	17,263	3.40	415,571	15,617	3.76	347,965	14,943	4.29
Federal funds sold and interest-bearing balances	15,766	37	0.23	16,982	40	0.24	26,638	58	0.22
Total earning assets	$1,536,596	$71,044	4.62 %	$1,466,265	$73,343	5.00 %	$1,457,599	$75,925	5.21 %
Noninterest-earning assets:									
Cash and due from banks	19,413			19,464			22,717		
Premises and equipment	25,886			27,995			29,573		
Allowance for loan losses	(17,878)			(16,958)			(15,229)		
Other assets	64,236			62,269			48,647		
Total assets	$1,628,253			$1,559,035			$1,543,307		
Average interest-bearing liabilities:									
Savings and interest-bearing demand deposits	$544,605	$4,091	0.75 %	$487,873	$4,443	0.91 %	$456,900	$4,714	1.03 %
Certificates of deposit	569,067	11,231	1.97	566,196	13,137	2.32	579,038	16,897	2.92
Total deposits	1,113,672	15,322	1.38	1,054,069	17,580	1.67	1,035,938	21,611	2.09
Federal funds purchased and repurchase agreements	48,410	272	0.56	43,545	303	0.70	46,515	464	1.00
Federal Home Loan Bank borrowings	131,306	3,494	2.66	132,656	4,650	3.51	149,403	5,450	3.65

Long-term debt and other	16,200	695	4.29	16,385	583	3.56	19,604	718	3.66
Total borrowed funds	195,916	4,461	2.28	192,586	5,536	2.87	215,522	6,632	3.08
Total interest-bearing liabilities	$1,309,588	$19,783	1.51 %	$1,246,655	$23,116	1.85 %	$1,251,460	$28,243	2.26 %
Net interest spread (2)			3.11 %			3.15 %			2.95 %
Noninterest-bearing liabilities									
Demand deposits	149,033			138,682			134,175		
Other liabilities	11,486			16,508			10,128		
Shareholders' equity	158,146			157,190			147,544		
Total liabilities and shareholders' equity	$1,628,253			$1,559,035			$1,543,307		
Interest income/earning assets (2)	$1,536,596	$71,044	4.62 %	$1,466,265	$73,343	5.00 %	$1,457,599	$75,925	5.21 %
Interest expense/earning assets	$1,536,596	$19,783	1.29 %	$1,466,265	$23,116	1.58 %	$1,457,599	$28,243	1.94 %
Net interest margin (2)(5)		$51,261	3.34 %		$50,227	3.43 %		$47,682	3.27 %
Non-GAAP to GAAP Reconciliation:									
Tax Equivalent Adjustment:									
Loans		473			324			418	
Securities		1,990			2,038			2,149	
Total tax equivalent adjustment		2,463			2,362			2,567	
Net Interest Income		$48,798			$47,865			$45,115	

(1) Loan fees included in interest income are not material.
(2) Computed on a tax-equivalent basis, assuming a federal income tax rate of 34%.
(3) Non-accrual loans have been included in average loans, net of unearned discount.
(4) Includes interest income and discount realized on loan pool participations.
(5) Net interest margin is tax-equivalent net interest income as a percentage of average earning assets.

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The following schedule presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the difference related to changes in outstanding balances and the increase or decrease due to the levels and volatility of interest rates. For each category of interest-earning assets and interest-bearing liabilities information is provided on changes attributable to (i) changes in volume (i.e. changes in volume multiplied by old rate) and (ii) changes in rate (i.e. changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

	Years Ended December 31, 2011, 2010, and 2009					
	Year 2011 to 2010 Change due to			Year 2010 to 2009 Change due to		
	Volume	Rate/Yield	Net	Volume	Rate/Yield	Net
(dollars in thousands)						
Increase (decrease) in interest income						
Loans (tax equivalent)	$(125)	$(2,294)	$(2,419)	$(2,051)	$(2,009)	$(4,060)
Loan pool participations	(518)	(1,005)	(1,523)	(225)	1,047	822
Investment securities:						
Taxable investments	2,103	(836)	1,267	1,796	(926)	870
Tax exempt investments	604	(225)	379	(115)	(81)	(196)
Total investment securities	2,707	(1,061)	1,646	1,681	(1,007)	674
Federal funds sold and interest-bearing balances	(3)	—	(3)	(23)	5	(18)
Change in interest income	2,061	(4,360)	(2,299)	(618)	(1,964)	(2,582)
Increase (decrease) in interest expense						
Savings and interest-bearing demand deposits	695	(1,047)	(352)	371	(642)	(271)
Certificates of deposit	67	(1,973)	(1,906)	(367)	(3,393)	(3,760)
Total deposits	762	(3,020)	(2,258)	4	(4,035)	(4,031)
Federal funds purchased and repurchase agreements	43	(74)	(31)	(28)	(133)	(161)
Federal Home Loan Bank borrowings	(47)	(1,109)	(1,156)	(593)	(207)	(800)
Other long-term debt	(7)	119	112	(115)	(20)	(135)
Total borrowed funds	(11)	(1,064)	(1,075)	(736)	(360)	(1,096)
Change in interest expense	751	(4,084)	(3,333)	(732)	(4,395)	(5,127)
Increase (decrease) in net interest income	$1,310	$(276)	$1,034	$114	$2,431	$2,545
Percentage increase in net interest income over prior period			2.1 %			5.3 %

Earning Assets, Sources of Funds, and Net Interest Margin

Average earning assets increased $70.3 million, or 4.8%, to $1.54 billion in 2011 as compared to $1.47 billion in 2010. Average earning assets in 2010 increased by $8.7 million, or 0.6%, from 2009. The growth in the average balance of earning assets in 2011 was due primarily to an increase in our portfolio of investment securities of $91.9 million, or 22.1%, somewhat offset by decreases in loan pool participation balances. Growth in the average balance of earning assets in 2010 was due primarily to an increase in our portfolio of investment securities of $67.6 million, mostly offset by decreases in both portfolio loan and loan pool participation balances. Interest-bearing liabilities averaged $1.31 billion for the year ended December 31, 2011, an increase of $62.9 million, or 5.0%, from the average balance for the year ended December 31, 2010. An increase in deposits of $59.6 million plus an increase in borrowed funds of $3.3 million during 2011 accounted for the increase in average interest-bearing liabilities. Interest-bearing liabilities averaged $1.25 billion for the year ended December 31, 2010, a slight decrease of $4.8 million, or 0.4%, from the average balance for the year ended December 31, 2009. For 2010, an increase in deposits of $18.1 million was offset by a decrease in borrowed funds of $22.9 million, resulting in virtually no change in average interest-bearing liabilities from December 31, 2009.

Interest income, on a tax-equivalent basis, decreased $2.3 million, or 3.1%, to $71.0 million in 2011 from $73.3 million in 2010. Tax equivalent interest income in 2010 decreased $2.6 million, or 3.4%, to $73.3 million from $75.9 million in 2009. Interest income declined in 2011 due primarily to lower yields on loan balances and new securities purchased. In 2010, interest income declined due primarily to lower yields on securities purchased to replace declining, higher yielding loan balances. Our yield on average earning assets was 4.62% in 2011 compared to 5.00% in 2010 and 5.21% in 2009. These declines were due to the generally lower rate environment and low new loan volumes due to the historically depressed national economy.

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Interest expense decreased during 2011 by $3.3 million, or 14.4%, to $19.8 million from $23.1 million in 2010. Interest expense in 2010 decreased by $5.1 million, or 18.2%, from 2009. The decrease in interest expense during 2011 compared to 2010 was due to the continued low interest rate environment in 2011, and its effect on new liabilities and those repricing during the year. The decrease in interest expense during 2010 compared to 2009 was also due to the continued low interest rate environment in 2010, and its effect on liabilities repricing during the year. The average rate paid on interest-bearing liabilities was 1.51% in 2011 compared to 1.85% in 2010 and 2.26% in 2009.

Net interest income, on a tax-equivalent basis, increased 2.1% in 2011 to $51.3 million from $50.2 million in 2010. Tax-equivalent net interest income in 2010 increased by $2.5 million, or 5.3%, from 2009. Net interest margin, which is our net interest income expressed as a percentage of average earning assets stated on a tax-equivalent basis, declined to 3.34% during 2011 compared to 3.43% in 2010 and 3.27% in 2009. The decreased yield on loans, loan pool participations, and investments during 2011 more than offset the lower rates paid on all categories of interest-bearing liabilities resulting in compressed margins. The net interest spread, also on a tax-equivalent basis, was 3.11% in 2011 compared to 3.15% in 2010 and 2.95% in 2009.

Net interest income increased in 2011 as compared to 2010 due primarily to the decrease in interest paid on interest-bearing liabilities exceeding the decrease in interest received on interest-earning assets. This is partially due to the presence of interest rate floors in portions of our loan portfolio, and the higher volume of investment securities. The increased net interest income for 2010 as compared to 2009 was due primarily to the decrease in interest paid on interest-bearing liabilities exceeding the decrease in interest received on interest-earning assets. This was also partially due to the presence of interest rate floors in portions of our loan portfolio, as well as by improved performance by our loan pool participations relative to 2009. The average balance sheets reflect a competitive marketplace on both the interest-earning assets and interest-bearing deposits. The competition for loans in the marketplace and the overall interest rate environment has kept interest rates on loans low. Interest rates paid on deposit products have declined steadily since 2008, but further significant decline is unlikely as interest rates on deposits have approached zero. We expect to continue battling net interest margin compression in 2012, with interest rates at generational lows.

Provision for Loan Losses

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

Our provision for loan losses was $3.4 million during 2011 compared to $6.0 million in 2010 and $7.7 million in 2009. The decrease in provision expense during 2011 was reflective of our management's belief that the allowance for loan losses was adequate based on the inherent risk in the portfolio as of December 31, 2011. During 2011, we added to the allowance for loan losses by maintaining a provision for loan losses that was greater than our net charge-off activity. The higher level of provision expense during 2010 was reflective of management’s assessment of the then-current risk in the loan portfolio as compared to the allowance for loan losses. During 2009, we added to the allowance for loan losses due primarily to higher charge-offs and increased volatility in our commercial real estate portfolio. The reduction since 2009 in the level of provision expense is indicative of our belief that weak credits have been identified and adequately provided for. See further discussion of the nonperforming loans, under the Nonperforming Assets section.

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Noninterest Income

	For the Year Ended December 31,							
	2011	2010	$ Change	% Change	2010	2009	$ Change	% Change
(dollars in thousands)								
Trust, investment, and insurance fees	$4,537	$4,556	$(19)	(0.4)%	$4,556	$4,180	$376	9.0 %
Service charges and fees on deposit accounts	3,702	4,042	(340)	(8.4)	4,042	3,988	54	1.4
Mortgage origination and loan servicing fees	2,691	3,506	(815)	(23.2)	3,506	2,770	736	26.6
Other service charges, commissions and fees	2,540	2,563	(23)	(0.9)	2,563	2,386	177	7.4
Bank-owned life insurance income	951	685	266	38.8	685	778	(93)	(12.0)
Impairment losses on investment securities	—	(189)	189	NM	(189)	(2,404)	2,215	(92.1)
Gain on sale of available for sale securities	490	453	37	8.2	453	813	(360)	(44.3)
Gain (loss) on sale of premises and equipment	(195)	(709)	514	NM	(709)	8	(717)	NM
Total noninterest income	$14,716	$14,907	$(191)	(1.3)%	$14,907	$12,519	$2,388	19.1 %
Noninterest income as a % of total revenue*	22.8 %	24.1 %			24.1 %	20.6 %		

NM - Percentage change not considered meaningful.
* - Total revenue includes net interest income and noninterest income before gains or losses on sales of securities available for sale and premises and equipment.

Total noninterest income decreased $0.2 million, or 1.3%, in 2011 from 2010, and increased $2.4 million, or 19.1%, in 2010 from 2009. The decrease in 2011 was largely due to the decrease in mortgage origination and servicing fees of $0.8 million, as such amount declined to $2.7 million in 2011 compared to $3.5 million in 2010. The decrease in mortgage origination fees was attributable to lower refinancing volume of mainly single family residential real estate loans that were sold on the secondary market.

Service charges and fees on deposit accounts declined to $3.7 million in 2011, down $0.3 million, or 8.4%, from $4.0 million in 2010. This decrease was primarily attributable to a decline in non-sufficient funds (NSF) item fee income, and was partially offset by lower losses from the sale of premises and equipment, and increased income from bank-owned life insurance. Net losses on the sale of premises and equipment totaled $0.2 million for 2011 compared to $0.7 million in 2010, which saw the closing of three bank branch locations. Bank-owned life insurance income increased $0.3 million, primarily due to the investment of an additional $8.0 million in insurance policies purchased late in 2010. Management's strategic goal is for noninterest income to constitute 30% of total revenues (net interest income plus noninterest income before gains or losses on sales of securities available for sale and premises and equipment) over time. In 2011, noninterest income comprised 22.8% of total revenues, compared with 24.1% for 2010 and 20.6% for 2009. We expect that increased management focus on growing our insurance agency revenues and increasing the rate of growth in our Trust and Investment Services revenues will reverse this decline going forward. We have entered into an agreement to sell our Home Mortgage Center property to the University Of Iowa. This sale, expected to be finalized in the third quarter of 2012, will result in the relocation of our mortgage operation to a site approximately two blocks away from the current location of the facility. We expect to realize a gain on sale from the transaction.

The increase in noninterest income for 2010 compared to 2009 was primarily due to the decrease in other-than-temporary impairment charges on investment securities of $2.2 million, as such amount declined to $0.2 million in 2010 compared to $2.4 million in 2009, and the $0.7 million increase in mortgage origination and servicing fees to $3.5 million in 2010 compared to $2.8 million in 2009. These improvements were partially offset by lower gains from the sale of investment securities and losses on the sale of premises and equipment. Net gains on the sale of investment securities of $0.5 million in 2010 was a decrease of $0.3 million from the $0.8 million of gains recognized in 2009. Losses on the sale of premises and equipment totaled $0.7 million for 2010 compared to a small net gain in 2009. The increased losses were related to the sale of certain bank branch buildings no longer utilized.

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Noninterest Expense

	For the Year Ended December 31,							
	2011	2010	$ Change	% Change	2010	2009	$ Change	% Change
(dollars in thousands)								
Salaries and employee benefits	$23,194	$23,170	24	0.1 %	$23,170	$23,152	18	0.1 %
Net occupancy and equipment expense	6,537	6,566	(29)	(0.4)	6,566	6,961	(395)	(5.7)
Professional fees	2,825	2,734	91	3.3	2,734	3,635	(901)	(24.8)
Data processing expense	1,670	1,702	(32)	(1.9)	1,702	1,844	(142)	(7.7)
FDIC insurance expense	1,612	2,850	(1,238)	(43.4)	2,850	3,244	(394)	(12.1)
Amortization of intangible assets	896	1,029	(133)	(12.9)	1,029	1,252	(223)	(17.8)
Other operating expense	5,501	5,238	263	5.0	5,238	5,491	(253)	(4.6)
Total noninterest expense	$42,235	$43,289	$(1,054)	(2.4)%	$43,289	$45,579	$(2,290)	(5.0)%

In 2011 noninterest expense declined $1.1 million, or 2.4%, primarily due to a decrease in FDIC insurance expense of $1.2 million. The drop was due primarily to lower assessment rates by the FDIC. Our share of an industry-wide FDIC assessment prepayment covering the years 2010 through 2012 collected in December 2009 was $9.2 million. The remaining prepaid expense balance of $5.1 million is reflected on our consolidated balance sheet under other assets. This decrease was partially offset by a $0.3 million increase in other operating expenses. All noninterest expense categories experienced decreases for 2010 compared with 2009, except that salaries and employee benefits showed a nominal increase. Overall, noninterest expense declined $2.3 million, or 5.0%, in 2010 from 2009 as the result of efforts by management to control costs and increase operational efficiency and the closing of three bank branches. Customers formerly served by the closed locations were transitioned to other nearby branches for service.

Salary and employee benefit expense was virtually unchanged for 2011 from 2010 and 2009. Full-time equivalent employee levels were 383, 383 and 406 at December 31, 2011, 2010 and 2009, respectively.

Net occupancy and equipment expense was virtually unchanged for 2011 compared to 2010, and declined $0.4 million, or 5.7%, in 2010 from 2009 due to the closing of three bank branches in 2010.

Professional fees increased $0.1 million for 2011 due to generally higher costs associated with outside professional services we utilize. The decrease in these fees for 2010 compared to 2009 was due to lower costs associated with Sarbanes-Oxley compliance efforts.

Income Tax Expense

Our effective tax rate, or income taxes divided by income (loss) before taxes, was 25.7% for 2011 compared with 25.1% for 2010. The higher effective rate in 2011 was primarily due to increased taxable income and the relative amount of income from our investment in tax-favored securities and bank owned life insurance. Income tax expense increased by $1.2 million to $4.6 million in 2011 compared to tax expense of $3.4 million for 2010.

Income taxes increased by $3.5 million for 2010 compared with 2009 due to increased income and adjustments for benefits from our increased investment in tax-favored securities. Our consolidated income tax rate varies from the statutory rate mainly due to the amount of tax-exempt income. The effective income tax rate as a percentage of income before tax was 25.1% for 2010, compared with (1.8)% for 2009.

Financial Condition - December 31, 2011 and 2010

Summary

Our total assets increased $114.0 million, or 7.2%, to $1.70 billion as of December 31, 2011 from $1.58 billion as of December 31, 2010. This growth resulted primarily from increased investment in securities of $70.1 million, and an increase in bank portfolio loans of $48.1 million. Increased funding from deposits and Federal Home Loan Bank (FHLB) borrowings combined with the reduction of loan pool participations provided additional liquidity. Loan pool participations, net, were $50.1 million at December 31, 2011 compared to $65.9 million at December 31, 2010, a decrease of $15.8 million, or 24.0%, due to loan charge-offs and normal loan repayments. As previously discussed, we intend to exit this line of business as current balances pay down and concentrate on our our core community banking business. Our loan-to-deposit ratio, including loan pool participations,

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decreased to 79.5% at year-end 2011 compared to 82.5% at year-end 2010, with our target range being between 80% and 90%. Our continuing focus of achieving loan growth at a greater rate than our increase in deposit balances is expected to return us to the target range in the near future.

Total liabilities increased by $116.0 million. Our deposits increased $87.3 million, or 7.2%, to $1.31 billion as of December 31, 2011 from $1.22 billion at December 31, 2010. The increase in deposits was primarily due to organic growth in commercial, consumer, and public fund deposits, primarily in both interest-bearing and non-interest-bearing checking products. Brokered CDs obtained through participation in the Certificate of Deposit Account Registry Service (CDARS) program decreased by $4.2 million in 2011 to $28.8 million, while brokered business money market accounts obtained through participation in the Insured Cash Sweeps (ICS) program increased by $15.0 million to $20.0 million. We have an internal policy limit on brokered deposits of not more than 10% of our total liabilities. At December 31, 2011 brokered deposits were 3.2% of our total liabilities. FHLB borrowings were $140.0 million at December 31, 2011 compared to $127.2 million at December 31, 2010, an increase of $12.8 million, or 10.1%. Other liabilities increased $9.2 million or 183.7%, due primarily to $3.7 million in unsettled purchases of investment securities and a $2.9 million increase in accrued pension liability.

As disclosed in our Quarterly Report on Form 10-Q for the period ended September 30, 2011, during recent efforts to fully terminate the Bank's noncontributory defined benefit pension plan and with recent volatility in the financial markets, we have noted a widened funding gap between the plan's accumulated benefit obligation and the fair value of plan assets. Current estimates have placed the pre-tax termination expense as high as $5.0 million. We expect to complete the termination process in the second quarter of 2012, at which time the actual expense will be recorded, in accordance with generally accepted accounting principles.

Shareholders' equity decreased by $2.0 million, primarily due to our redemption of the 16,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, issued to the U.S. Department of the Treasury under the Capital Purchase Program for an aggregate price of $16.1 million, including accrued interest. The decline was partially offset by 2011 net income of $13.3 million.

(dollars in thousands)	December 31, 2011	December 31, 2010	$ Change	% Change
Assets				
Investment securities available for sale	$534,080	$461,954	$72,126	15.6 %
Net loans	970,497	922,868	47,629	5.2
Loan pool participations, net	50,052	65,871	(15,819)	(24.0)
Total Assets	$1,695,244	$1,581,259	$113,985	7.2 %
Liabilities				
Deposits:				
Noninterest bearing	$161,287	$129,978	$31,309	24.1 %
Interest bearing	1,145,355	1,089,350	56,005	5.1
Total deposits	1,306,642	1,219,328	87,314	7.2
Federal Home Loan Bank borrowings	140,014	127,200	12,814	10.1
Total liabilities	$1,538,750	$1,422,793	$115,957	8.1 %
Shareholders' equity	$156,494	$158,466	$(1,972)	(1.2)%

Investment Securities

Our investment securities portfolio is managed to provide both a source of liquidity and earnings. Our portfolio totaled $536.1 million at December 31, 2011 compared to $466.0 million at December 31, 2010. The increase was due primarily to the investment of increased liquidity generated by both deposit growth and reduced loan pool participation balances during 2011. Our loan activity is discussed more fully in the Loans section and loan pool participation activity is discussed in the Loan Pool Participations section, while our deposit growth is discussed more fully in the Deposits section.

Securities available for sale are carried at fair value. As of December 31, 2011, the fair value of our securities available for sale was $534.1 million and the amortized cost was $517.4 million. There were $18.0 million of gross unrealized gains and $1.2 million of gross unrealized losses in our investment securities available for sale portfolio for a net unrealized gain of $16.8 million. The after-tax effect of this unrealized gain has been included in shareholders' equity. The increase in the fair value as a percentage of amortized cost was due to a decline in overall interest rates during 2011, which increased the value of our debt-related securities.

U.S. Treasury securities and U.S. government and agency securities as a percentage of total securities decreased to 10.6% at December 31, 2011, from 17.2% at December 31, 2010, while obligations of state and political subdivisions (primarily tax-exempt obligations) as a percentage of total securities decreased slightly to 41.1% at December 31, 2011, from 41.5% at December 31, 2010. Investments in mortgage-backed securities showed the largest growth, increasing to 45.7% of total securities at December 31, 2011, as compared to 38.6% of total securities at December 31, 2010. The receipt of principal, at par, and interest on mortgage-backed securities is guaranteed by the respective government-sponsored agency guarantor, such that the Company believes that its mortgage-backed securities do not expose the Company to credit-related losses. The Company's mortgage-backed securities portfolio consisted of securities predominantly underwritten to the standards of and guaranteed by the government-sponsored agencies of FHLMC, FNMA and GNMA. We consider many factors in determining the composition of our investment portfolio including tax-equivalent yield, credit quality, duration, expected cash flows, prepayment risk, as well as the liquidity position and the interest rate risk profile of the Bank. Two factors, yield (spread to Treasury securities) and duration were central to our decision to increase our investment in mortgage-backed securities, and maintain our relative investment in obligations of state and political subdivisions.

Our investment portfolio includes an investment in collateralized debt obligations that are backed by trust preferred securities issued by banks, thrifts and insurance companies. These six securities had an original cost of $9.75 million, but due to several impairment charges recognized during 2010, 2009 and 2008, the book value of these securities at December 31, 2011, had been reduced to $1.8 million. Two of the securities have been written down to a value of zero, with the remaining four having an average book value of 18.2% of their original face value. The market for these securities at December 31, 2011 was not active and markets for similar securities are also not active. The valuation of these securities involves an assessment of the financial strength of the individual institutions that comprise the collateral for the bonds. Future default probabilities are assigned based on these measurements of financial strength. Other factors in the valuation include contractual terms of the cash flow waterfall (for both interest and principal), collateralization testing and events of default/liquidation. We recognized other-than-temporary impairment charges on these investments of $0.2 million in 2010, $1.6 million in 2009, and an initial other-than-temporary impairment charge of $6.2 million was recognized in 2008. Based on our cash flow analysis, we have determined that not all contractual cash flows will be received; however, no additional other-than-temporary impairment charges were recorded during 2011. Any future decline in the collateral performance of our pooled trust preferred debt obligations could result in additional other-than-temporary impairment charges.

The composition of securities available for sale was as follows:

	December 31, 2011	2010	2009
(dollars in thousands)			
Securities available for sale			
U.S. Treasury	$—	$—	$—
U.S. Government agency securities and corporations	56,981	80,334	81,191
States and political subdivisions	219,261	190,088	155,224
Mortgage-backed and collateralized mortgage obligations	244,802	179,784	108,576
Other securities	13,036	11,748	17,912
Fair value of securities available for sale	$534,080	$461,954	$362,903
Amortized cost	$517,358	$456,560	$355,303
Fair value as a percentage of amortized cost	103.23 %	101.18 %	102.14 %

Securities held to maturity are carried at amortized cost. As of December 31, 2011, the amortized cost of these securities was $2.0 million and the fair value was $2.0 million, with virtually no gross unrealized gains or gross unrealized losses present.

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The composition of securities held to maturity was as follows:

	December 31, 2011	2010	2009
(dollars in thousands)			
Securities held to maturity			
U.S. Treasury	$—	$—	$—
U.S. Government agency securities and corporations	—	—	—
States and political subdivisions	1,119	3,115	7,074
Mortgage-backed and collateralized mortgage obligations	46	50	71
Other securities	871	867	864
Amortized cost	$2,036	$4,032	$8,009
Fair value of securities held to maturity	$2,042	$4,086	$8,118
Fair value as a percentage of amortized cost	100.29 %	101.34 %	101.36 %

See Note 2. "Investment Securities," and Note 17. "Estimated Fair Value of Financial Instruments and Fair Value Measurements" for additional information related to the investment portfolio.

The maturities, fair values and weighted average yields of debt securities available for sale as of December 31, 2011 were:

	Maturity Within One Year Amount	Yield	After One but Within Five Years Amount	Yield	After Five but Within Ten Years Amount	Yield	After Ten Years Amount	Yield
(dollars in thousands)								
Securities available for sale: (1)								
U.S. Government agency securities and corporations	$2,970	4.58 %	$33,623	1.83 %	$17,827	2.41 %	$2,561	2.90 %
Obligations of states and political subdivisions (2)	23,758	3.66	59,017	4.95	75,900	4.95	60,586	5.15
Mortgage-backed and collateralized mortgage obligations	2,268	1.28	698	4.56	76,568	2.61	165,268	2.84
Other securities	1,037	3.71	9,762	3.46	—	—	806	1.79
Total debt securities available for sale	$30,033	3.57 %	$103,100	3.79 %	$170,295	3.63 %	$229,221	3.45 %
Securities held to maturity:								
U.S. Government agency securities and corporations	$—	— %	$—	— %	$—	— %	$—	— %
Obligations of states and political subdivisions (2)	250	4.58	869	5.28	—	—	—	—
Mortgage-backed and collateralized mortgage obligations	—	—	—	—	—	—	46	6.00
Other securities	—	—	—	—	—	—	871	2.49
Total debt securities held to maturity	$250	4.58 %	$869	5.28 %	$—	— %	$917	2.67 %
	$30,283	3.58 %	$103,969	3.80 %	$170,295	3.63 %	$230,138	3.44 %

Total debt investment securities

[1] Excludes equity securities.

[2] Yield is on a tax-equivalent basis, assuming a federal income tax rate of 34% (the effective federal income tax rate as of December 31, 2011)

As of December 31, 2011, no non-agency issuer's securities exceeded 10% of the Company's total shareholders' equity.

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Loans (Excluding Loan Pool Participations)

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

	12/31/2011		12/31/2010		12/31/2009		12/31/2008		12/31/2007	
(dollars in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Agricultural	$89,298	9.1 %	$84,590	9.0 %	$92,727	9.6 %	$87,682	8.6 %	$16,594	4.1 %
Commercial and industrial	239,990	24.3	211,334	22.5	218,344	22.6	214,715	21.2	86,485	21.5
Credit cards	934	0.1	655	0.1	628	—	533	—	416	—
Overdrafts	885	0.1	491	0.1	643	—	1,002	0.1	608	0.2
Commercial real estate:										
Construction & development	73,258	7.4	73,315	7.8	79,437	8.2	99,617	9.8	28,775	7.2
Farmland	74,454	7.6	76,345	8.1	88,747	9.2	94,012	9.3	16,391	4.1
Multifamily	34,719	3.5	33,451	3.6	32,455	3.4	32,122	3.2	12,305	3.1
Commercial real estate-other	213,608	21.7	210,131	22.4	196,025	20.3	195,393	19.3	100,535	25.1
Total commercial real estate	396,039	40.2	393,242	41.9	396,664	41.1	421,144	41.6	158,006	39.5
Residential real estate:										
One- to four-family first liens	175,429	17.8	156,882	16.7	161,065	16.7	186,688	18.4	81,032	20.2
One- to four-family junior liens	63,419	6.4	69,112	7.4	73,665	7.6	77,377	7.6	49,934	12.4
Total residential real estate	238,848	24.2	225,994	24.1	234,730	24.3	264,065	26.0	130,966	32.6
Consumer	20,179	2.0	21,729	2.3	23,262	2.4	25,673	2.5	8,479	2.1
Total loans	$986,173	100.0%	$938,035	100.0%	$966,998	100.0%	$1,014,814	100.0%	$401,554	100.0%
Total assets	$1,695,244		$1,581,259		$1,534,783		$1,508,962		$701,983	
Loans to total assets		58.2 %		59.3 %		63.0 %		67.3 %		57.2 %

Our loan portfolio, before allowance for loan losses, increased 5.1% to $986.2 million as of December 31, 2011 from $938.0 million at December 31, 2010. A significant portion of the overall loan increase occurred in commercial and industrial loans, which increased $28.7 million, or 13.6%, to $240.0 million as of December 31, 2011, from $211.3 million at December 31, 2010. This growth was primarily due to the refinancing of a series of existing obligations in the healthcare industry, from other financial institutions. We see this business sector as an area of opportunity for growing our loan portfolio in the future. Residential real estate mortgage first liens (not held for sale), also showed a significant increase of $18.5 million, or 11.8%, to $175.4 million as of December 31, 2011, from $156.9 million at December 31, 2010, due to our strategic decision to retain up to $20.0 million of fixed rate loans originated with a maturity of 15 years or less in our own portfolio. The majority of loan growth during 2011 occurred in the fourth quarter of the year, as the general economy began to show signs of recovery. Commitments under standby letters of credit, unused lines of credit and other conditionally approved credit lines, totaled approximately $204.7 million and $196.0 million as of December 31, 2011 and 2010, respectively.

Even with the blend of significant agricultural, manufacturing, academia and healthcare industries prevalent in our markets, we experienced sporadic demand for new non-real-estate debt. This trend, which we understand to be widespread in the United States, appears to be driven by depressed consumer confidence leading to a generally lower demand for debt financed purchases. Although we have maintained prudent underwriting standards in 2011, when we are presented with opportunities to fund quality loans, we readily act to assist our communities. These things taken together have resulted in reducing our loan to deposit ratio to 79.5% at year end 2011 from 82.5% at the end of the prior year. While slightly below target, this is generally consistent with our “in the 80s” goal, which we believe balances the desire to generate attractive returns with liquidity risk.

The loan portfolio includes a concentration of loans for commercial real estate, which are included in the table above, amounting to approximately $396.0 million and $393.2 million as of December 31, 2011 and 2010, respectively. Of this amount, $74.5 million, or 7.6%, was secured by farmland at December 31, 2011, compared to $76.3 million, or 8.1%, at December 31, 2010. Generally, these loans are collateralized by assets of the borrowers and are expected to be repaid from cash flows or from proceeds from the sale of selected assets of the borrowers.

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The following table sets forth remaining maturities and rate types of selected loans at December 31, 2011:

	Due Within One Year	Due in One to Five Years	Due After Five Years	Total	Total for Loans Due Within One Year Having Fixed Rates	Total for Loans Due Within One Year Having Variable Rates	Total for Loans Due After One Year Having Fixed Rates	Total for Loans Due After One Year Having Variable Rates
(in thousands)								
Agricultural	$67,222	$15,966	$6,110	$89,298	$9,095	$58,127	$15,461	$6,615
Commercial and industrial	113,861	82,455	43,674	239,990	45,787	68,074	100,875	25,254
Credit cards	934	—	—	934	—	934	—	—
Overdrafts	885	—	—	885	885	—	—	—
Commercial real estate:								
Construction & development	62,014	10,676	568	73,258	35,588	26,426	3,690	7,554
Farmland	12,252	33,125	29,077	74,454	12,058	194	31,085	31,117
Multifamily	8,406	25,534	779	34,719	4,840	3,566	25,430	883
Commercial real estate-other	41,252	146,582	25,774	213,608	39,690	1,562	146,823	25,533
Total commercial real estate	123,924	215,917	56,198	396,039	92,176	31,748	207,028	65,087
Residential real estate:								
One- to four- family first liens	17,390	48,096	109,943	175,429	15,938	1,452	67,996	90,043
One- to four- family junior liens	5,197	13,082	45,140	63,419	3,148	2,049	24,341	33,881
Total residential real estate	22,587	61,178	155,083	238,848	19,086	3,501	92,337	123,924
Consumer	8,498	10,354	1,327	20,179	7,727	771	10,884	797
Total loans	$337,911	$385,870	$262,392	$986,173	$174,756	$163,155	$426,585	$221,677

Of the $384.8 million of variable rate loans, approximately $242.4 million, or 63.0%, are subject to interest rate floors, with a weighted average floor rate of 4.92%.

Nonperforming Assets

It is management's policy to place loans on nonaccrual status when interest or principal is 90 days or more past due. Such loans may continue on accrual status only if they are both well-secured and in the process of collection. The following table sets forth information concerning nonperforming assets at December 31 for each of the years indicated:

	December 31, 2011		2010		2009		2008		2007	
(dollars in thousands)										
90 days or more past due and still accruing interest	$1,054		$1,579		$1,439		$3,024		$514	
Restructured	6,135		5,797		2,555		424		—	
Nonaccrual	10,917		12,405		9,885		11,785		782	
Total nonperforming loans	18,106		19,781		13,879		15,233		1,296	
Other real estate owned	4,033		3,850		3,635		996		—	
Total nonperforming loans and nonperforming other assets	$22,139		$23,631		$17,514		$16,229		$1,296	
	1.84	%	2.11	%	1.44	%	1.50	%	0.32	%

Nonperforming loans to loans, before allowance for loan losses					
Nonperforming loans and nonperforming other assets to loans, before allowance for loan losses	2.24 %	2.52 %	1.81 %	1.60 %	0.32 %

We experienced a decrease in total nonperforming assets during 2011 as compared to 2010. Total nonperforming assets were $22.1 million at December 31, 2011, compared to $23.6 million at December 31, 2010, a $1.5 million, or 6.3%, decrease. Nonperforming loans decreased $1.7 million during 2011, with a $0.2 million increase in nonperforming other assets (other real estate owned). The largest category of nonperforming loans was commercial real estate loans, with a balance of $8.1 million at December 31, 2011. The remaining nonperforming loans consisted of $4.8 million in agricultural, $3.1 million in residential real estate, and $2.1 million in commercial and industrial loans. The increase in other real estate owned (OREO) was primarily attributable to increases in commercial real estate properties to $3.6 million at December 31, 2011 compared to $3.4 million at December 31, 2010, while single family residential OREO increased to $0.4 million from $0.3 million for the same respective periods.

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The following table sets forth information concerning nonperforming loans by portfolio class at December 31, 2011 and December 31, 2010:

(in thousands)	90 Days or More Past Due and Still Accruing Interest	Restructured	Nonaccrual	Total
2011				
Agricultural	$—	$3,323	$1,453	$4,776
Commercial and industrial	537	48	1,494	2,079
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Commercial real estate:				
Construction & development	—	79	1,159	1,238
Farmland	—	—	2,927	2,927
Multifamily	—	—	259	259
Commercial real estate-other	49	2,081	1,507	3,637
Total commercial real estate	49	2,160	5,852	8,061
Residential real estate:				
One- to four- family first liens	262	579	1,959	2,800
One- to four- family junior liens	206	—	125	331
Total residential real estate	468	579	2,084	3,131
Consumer	—	25	34	59
Total	$1,054	$6,135	$10,917	$18,106
2010				
Agricultural	$12	$3,323	$1,805	$5,140
Commercial and industrial	56	597	1,553	2,206
Credit cards	—	—	—	—
Overdrafts	—	—	—	—
Commercial real estate:				
Construction & development	710	—	765	1,475
Farmland	—	348	3,008	3,356
Multifamily	—	—	—	—
Commercial real estate-other	—	1,092	2,773	3,865
Total commercial real estate	710	1,440	6,546	8,696
Residential real estate:				
One- to four- family first liens	696	387	2,361	3,444
One- to four- family junior liens	82	50	27	159
Total residential real estate	778	437	2,388	3,603
Consumer	23	—	113	136
Total	$1,579	$5,797	$12,405	$19,781

A loan is considered to be impaired when, based on current information and events, it is probable that we will not be able to collect all amounts due. The accrual of interest income on impaired loans is discontinued when there is reasonable doubt as to the borrower's ability to meet contractual payments of interest or principal. Interest income on these loans is recognized to the extent interest payments are received and the principal is considered fully collectible. The gross interest income that would have been recorded in the years ended December 31, 2011, 2010 and 2009 if the nonaccrual loans had been current in accordance with their original terms was $1.1 million, $1.7 million, and $1.7 million, respectively. The amount of interest collected on those loans that was included in interest income was $0.2

million, $0.4 million, and $0.2 million for the years ended December 31, 2011, 2010 and 2009, respectively.
In addition to the non-performing and past due loans mentioned above, the Company also has identified loans for which management has concerns about the ability of the borrowers to meet existing repayment terms. The loans are generally secured by either real estate or other borrower assets, reducing the potential for loss should they become non-performing. Although these loans are generally identified as potential problem loans, it is possible that they never become non-performing. Such loans totaled $1.4 million at December 31, 2011.

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

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

When a loan officer originates a new loan, based upon proper loan authorization, he or she documents the credit file with an offering sheet summary, supplemental underwriting analysis, relevant financial information and collateral evaluations. All of this information is used in the determination of the initial loan risk rating. Our loan review department undertakes independent credit reviews of relationships based on either criteria established by Loan Policy, risk-focused sampling, or random sampling. Loan Policy requires the top 50 lending relationships by total exposure be reviewed no less than annually as well as those credits of $250,000 or greater rated Watch, and those credits of $100,000 or greater rated Substandard or below. The individual loan reviews analyze such items as: loan type; nature, type and estimated value of collateral; borrower and/or guarantor estimated financial strength; most recently available financial information; related loans and total borrower exposure; and current/anticipated performance of the loan. The results of such reviews are presented to our executive management team.

Through the review of delinquency reports, updated financial statements or other relevant information, the lending officer and/or loan review personnel may determine that a loan relationship has weakened to the point that a criticized (loan grade 5) or classified (loan grade 6 through 8) status is warranted. When a loan relationship with total related exposure of $1.0 million or greater is adversely graded (5 or above), or is classified as a Troubled Debt Restructure (regardless of size), the lending officer is then charged with preparing a loan strategy summary worksheet that outlines the background of the credit problem, current repayment status of the loans, current collateral evaluation and a workout plan of action. This plan may include goals to improve the credit rating, assisting the borrower in moving the loans to another institution and/or collateral liquidation. All such reports are first presented to the regional loan manager and then to the Bank's Board of Directors by the Executive Vice President of Lending (or a designee).

Depending upon the individual facts and circumstances, as well as the result of the Classified/Watch review process, loan officers and/or loan review personnel may categorize the loan relationship as impaired. In addition, all loans classified as Troubled Debt Restructures ("TRDs") are considered impaired. Once that determination has occurred, the loan officer, in conjunction with the regional loan manager, will complete an evaluation of the collateral (for collateral-dependent loans) based upon appraisals on file, adjusting for current market conditions and other local factors that may affect collateral value. Loan Review personnel may also complete an independent impairment analysis when deemed necessary. These judgmental evaluations may produce an initial specific allowance for placement in the allowance for loan and lease losses calculation. As soon as practical, updated appraisals on the collateral backing that impaired loan relationship are ordered. When the updated appraisals are received, regional loan management, with assistance from the loan review department, reviews the appraisal and updates the specific allowance analysis for each loan relationship accordingly. The Bank's Board of Directors reviews the Classified/Watch reports on a quarterly basis, including changes in credit grades of 5 or higher as well as all impaired loans, the related allowances and other real estate owned.

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

The review process also provides for the upgrade of loans that show improvement since the last review.

Restructured Loans

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

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

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- The borrower receives a reduction of the accrued interest.

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

During the year ended December 31, 2011 nine loans were classified as new troubled debt restructures (TDR). One commercial and industrial loan was added to the TDR loan classification due to a partial charge-off of its outstanding principal and an adjustment to its terms granting a below market interest rate. Likewise, a construction and development loan was also added due to a partial balance charge-off and interest rate concession. Four commercial real estate loans to the same borrower were classified as new TDRs during 2011 due to the extension of a forbearance agreement and the granting of a below market interest rate. These four credits also experienced a payment default during 2011. One commercial real estate loan that was a new TDR during 2011 due to a below market interest rate was on non-accrual at year-end. One- to four- family first lien restructures increased by one loan due to an interest rate concession. A commercial real estate loan TDR that was on non-accrual at December 31, 2010, was rewritten with a rate concession and had additional funds advanced in 2011, and is being reported as a new TDR. During 2011, one restructured consumer loan that had been on non-accrual at year-end 2010 returned to accrual status. In addition, a commercial and industrial loan moved from being a performing TDR at December 31, 2010 to non-accruing at year-end 2011.

During the year ended December 31, 2010 seven loans were classified as new TDRs. Two agricultural loans had been added to the restructured classification due to the modification of loan guarantees, a charge-off of $500,000, and both notes being at below market interest rates with interest-only payments being required. One farmland loan related to the agricultural credits was also classified as a TDR due to having the interest rate modified to a below market rate. Two residential real estate loans were classified as TDRs in 2010, with both considered workout situations by management. Finally, one home equity loan was designated a TDR due to a partial charge-off of the principal balance.

We consider all TDRs, regardless of whether they are performing in accordance with the modified terms, to be impaired loans when determining our allowance for loan losses. A summary of restructured loans as of December 31, 2011 and December 31, 2010 is as follows:

	December 31,	
	2011	2010
(in thousands)		
Restructured Loans (TDRs):		
In compliance with modified terms	$6,135	$5,797
Not in compliance with modified terms - on nonaccrual status	1,035	1,771
Total restructured loans	$7,170	$7,568

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Allowance for Loan Losses

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

	Year ended December 31,				
	2011	2010	2009	2008	2007
(dollars in thousands)					
Amount of loans outstanding at end of period (net of unearned interest) (1)	$986,173	$938,035	$966,998	$1,014,814	$401,554
Average amount of loans outstanding for the period (net of unearned interest)	$953,392	$955,562	$990,540	$893,451	$390,862
Allowance for loan losses at beginning of period (1)	$15,167	$13,957	$10,977	$5,466	$5,298
Charge-offs:					
Agricultural	$425	$1,347	$227	$416	$2
Commercial and industrial	1,434	1,483	2,276	1,176	354
Credit cards	6	17	10	24	—
Overdrafts	78	59	105	150	—
Commercial real estate:					
Construction & development	488	611	496	780	—
Farmland	—	—	35	15	25
Multifamily	58	—	74	45	—
Commercial real estate-other	734	870	131	965	11
Total commercial real estate	1,280	1,481	736	1,805	36
Residential real estate:					
One- to four- family first liens	447	338	1,124	900	—
One- to four- family junior liens	56	103	405	319	42
Total residential real estate	503	441	1,529	1,219	42
Consumer	75	261	127	113	46
Total charge-offs	$3,801	$5,089	$5,010	$4,903	$480
Recoveries:					
Agricultural	$67	$5	$19	$2	$24
Commercial and industrial	571	93	101	463	100
Credit cards	2	3	4	—	—
Overdrafts	19	15	13	6	—
Commercial real estate:					
Construction & development	113	8	—	3	—
Farmland	2	1	1	39	—
Multifamily	—	—	15	—	—
Commercial real estate-other	29	141	20	1	—
Total commercial real estate	144	150	36	43	—
Residential real estate:					
One- to four- family first liens	22	2	33	2	—
One- to four- family junior liens	11	56	42	33	5
Total residential real estate	33	58	75	35	5
Consumer	124	25	17	21	19
Total recoveries	$960	$349	$265	$570	$148
Net loans charged off	$2,841	$4,740	$4,745	$4,333	$332
Provision for loan losses	3,350	5,950	7,725	4,366	500
Allowance from acquired bank	—	—	—	5,478	—
Allowance for loan losses at end of period	$15,676	$15,167	$13,957	$10,977	$5,466
Net loans charged off to average loans	0.30 %	0.50 %	0.48 %	0.48 %	0.08 %

Allowance for loan losses to total loans at end of period	1.59 %	1.62 %	1.44 %	1.08 %	1.36 %

(1) Loans do not include, and the allowance for loan losses does not include, loan pool participations.

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The following table sets forth the allowance for loan losses by loan portfolio segments as of December 31 for each of the years indicated:

	December 31,														
	2011			2010			2009			2008			2007		
	Allowance Amount	Percent of Loans to Total Loans		Allowance Amount	Percent of Loans to Total Loans		Allowance Amount	Percent of Loans to Total Loans		Allowance Amount	Percent of Loans to Total Loans		Allowance Amount	Percent of Loans to Total Loans	
(dollars in thousands)															
Agricultural	$1,209	7.7	%	$827	5.5	%	$1,099	7.9	%	$843	7.7	%	$302	5.5	%
Commercial and industrial	5,380	34.3		4,540	29.9		3,468	24.8		2,746	25.0		1,678	30.7	
Commercial real estate	5,171	33.0		5,255	34.7		6,407	45.9		4,601	41.9		1,536	28.1	
Residential real estate	3,501	22.3		2,776	18.3		2,412	17.3		2,603	23.7		473	8.7	
Consumer	167	1.1		323	2.1										