

ISB Financial Corp.
Form S-4/A
January 22, 2008
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As filed with the Securities and Exchange Commission on January 22, 2008

Registration No. 333-147628

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Amendment No. 2

to

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

ISB FINANCIAL CORP.

(Exact Name of Registrant as Specified in its Charter)

Iowa
(State or other jurisdiction of
incorporation or organization)

6022
(Primary Standard Industrial
Classification Code Number)
102 South Clinton St.

Iowa City, Iowa 52240

42-1206172
(I.R.S. Employer
Identification Number)

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(319) 356-5800

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Charles N. Funk

President

ISB Financial Corp.

102 South Clinton St.

Iowa City, Iowa 52240

(319) 356-5800

(name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective and all other conditions to the proposed merger described herein have been satisfied or waived.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. "

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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Subject to completion, dated January 22, 2008

The information contained herein is not complete and may change. A registration statement relating to the securities to be issued by ISB Financial Corp. has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted before the registration statement becomes effective. This document shall not constitute an offer to sell or the solicitation of any offer to buy these securities in any jurisdiction in which such offer, solicitation or sale is not permitted.

**Proxy Statement for the Special Meeting of Shareholders of ISB
Financial Corp.**

**Proxy Statement for the Special Meeting of
Shareholders of MidWestOne Financial Group, Inc.
Prospectus of ISB Financial Corp.**

MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

The Boards of Directors of ISB Financial Corp. and MidWestOne Financial Group, Inc. have approved a merger agreement that would result in a tax-free merger of MidWestOne with and into ISB Financial Corp., or ISBF, with the combined entity operating under the name MidWestOne Financial Group, Inc.

If the merger is completed, MidWestOne shareholders will receive 0.95 share of ISBF common stock for each share of MidWestOne common stock they own. As a result of the fixed exchange ratio, the value of the stock consideration that MidWestOne shareholders will receive in the merger will fluctuate as the trading price of ISBF common stock changes. ISBF common stock does not trade on any national securities exchange but currently is quoted on the Pink Sheets under the symbol ISBO.PK. The last reported trading price of ISBF common stock prior to the date of this joint proxy statement-prospectus was \$17.40 on January 18, 2008. ISBF's common stock is thinly traded, and because of the absence of generally accessible business and financial information about ISBF, you should not place undue reliance on Pink Sheets quotations of ISBF common stock. If the merger is approved and completed, the stock of the combined company will be listed on the Nasdaq Global Market under the symbol MOFG.

To complete this merger we must obtain the necessary government approvals and the approval of the shareholders of each of our companies who own a majority of the common stock of each company. Each company will hold a special meeting of its shareholders to vote on this merger proposal as described in greater detail in this joint proxy statement-prospectus. ISBF shareholders also will consider and vote upon a proposed equity incentive plan. **Your vote is very important. Even if you plan to attend your shareholder meeting, please take the time to vote by completing and mailing the enclosed proxy card or by following the telephone or Internet voting procedures described on the proxy card.** If you do not vote or if you do not instruct your broker how to vote any shares held for you in your broker's name, the effect will be a vote against this merger.

The dates, times and places of the meetings are as follows:

For ISBF shareholders:

Sheraton Iowa City Hotel
210 S. Dubuque Street
Iowa City, Iowa

For MidWestOne shareholders:

The Peppertree
2274 Highway 63 North
Oskaloosa, Iowa

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March 7, 2008, 1:00 p.m., central standard time

March 7, 2008, 10:00 a.m., central standard time

This joint proxy statement-prospectus gives you detailed information about the merger we are proposing, and it includes our merger agreement as an appendix. You can obtain additional information about MidWestOne from publicly available documents it has filed with the Securities and Exchange Commission. We encourage you to read this entire document carefully. **For a discussion of certain risks that you should consider in evaluating the merger and related matters described in this document, see Risk Factors beginning on page 35.**

W. Richard Summerwill

Chairman of the Board and Chief Executive Officer

ISB Financial Corp.

Charles S. Howard

Chairman, President and Chief Executive Officer

MidWestOne Financial Group, Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under this joint proxy statement-prospectus or determined if this joint proxy statement-prospectus is truthful or complete. Any representation to the contrary is a criminal offense. The securities being offered through this document are not savings or deposit accounts or other obligations of any bank or non-bank subsidiary of either ISBF or MidWestOne, and they are not insured by the Federal Deposit Insurance Corporation, the Deposit Insurance Fund or any other federal or state governmental agency.

This joint proxy statement-prospectus is dated January 22, 2008, and is first being mailed to shareholders on or about January 22, 2008.

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ISB Financial Corp.

102 South Clinton St.

Iowa City, Iowa 52240

Notice of Special Meeting of Shareholders

To Be Held On March 7, 2008

A special meeting of the shareholders of ISB Financial Corp., an Iowa corporation (ISBF) will be held at the Sheraton Iowa City Hotel, located at 210 S. Dubuque Street, Iowa City, Iowa, on Friday, March 7, 2008 at 1:00 p.m., central standard time, for the following purposes:

1. to consider and approve the Agreement and Plan of Merger, dated September 11, 2007, between ISBF and MidWestOne Financial Group, Inc., an Iowa corporation (MidWestOne), pursuant to which MidWestOne will merge with and into ISBF, and approve the transactions it contemplates, including the issuance of shares of ISBF common stock as consideration in the proposed merger.
2. as a condition to consummating the proposed merger, to consider, approve and adopt amended and restated articles of incorporation of ISBF to, among other things, change ISBF's corporate name to MidWestOne Financial Group, Inc. and provide for a classified board of directors.
3. to consider and approve the 2008 Equity Incentive Plan, which, if approved, will be in effect for the combined company following the merger;
4. to approve any adjournment of the special meeting if necessary to solicit additional proxies in order to approve the merger agreement; and
5. to transact such other business as may properly be brought before the special meeting, or any adjournments or postponements of the special meeting, including whether or not to adjourn the special meeting.

The close of business on January 15, 2008, has been fixed as the record date for determining those shareholders entitled to vote at the special meeting and any adjournments or postponements of the special meeting. Accordingly, only shareholders of record on that date are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements of the special meeting.

Whether or not you plan to attend the special meeting in person, please take the time to vote by completing and mailing the enclosed proxy card or by following the telephone or Internet voting procedures described on the proxy card. If you attend the special meeting, you still may vote in person if you wish, even if you have previously returned your proxy card. Because the affirmative vote of the holders of a majority of the outstanding shares of common stock entitled to vote at the special meeting is required to approve proposals 1, 2 and 3 above, the failure to vote by proxy or in person will have the same effect as a vote against such proposals. Abstentions and broker non-votes will have the same affect as a vote against these proposals.

Your board of directors unanimously recommends that you vote FOR the approval of the merger agreement and the transactions it contemplates, including the issuance of shares of ISBF common stock as consideration in the proposed merger; FOR the approval and adoption of amended and restated articles of incorporation; FOR the approval of the 2008 Equity Incentive Plan; and FOR any adjournment of the special meeting to solicit additional proxies, if necessary.

January 22, 2008

By Order of the Board of Directors

W. Richard Summerwill
Chairman of the Board

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MidWestOne Financial Group, Inc.

222 First Avenue East

Oskaloosa, Iowa 52577

Notice of Special Meeting of Shareholders

To Be Held On March 7, 2008

A special meeting of the shareholders of MidWestOne Financial Group, Inc., an Iowa corporation (*MidWestOne*), will be held at The Peppertree, located at 2274 Highway 63 North, Oskaloosa, Iowa, on March 7, 2008, at 10:00 a.m., central standard time, for the following purposes:

1. to consider and approve the Agreement and Plan of Merger, dated September 11, 2007, between ISB Financial Corp, an Iowa corporation (*ISBF*), and MidWestOne and the transactions it contemplates, including the merger of MidWestOne with and into ISBF;
2. to approve any adjournment of the special meeting if necessary to solicit additional proxies in order to approve the merger agreement; and
3. to transact such other business as may properly be brought before the special meeting, or any adjournments or postponements of the special meeting, including whether or not to adjourn the special meeting.

The close of business on January 18, 2008, has been fixed as the record date for determining those shareholders entitled to vote at the special meeting and any adjournments or postponements of the special meeting. Accordingly, only shareholders of record on that date are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements of the special meeting.

Whether or not you plan to attend the special meeting in person, please take the time to vote by completing and mailing the enclosed proxy card or by following the telephone or Internet voting procedures described on the proxy card. If you attend the special meeting, you may still vote in person if you wish, even if you have previously returned your proxy card. Because the affirmative vote of the holders of a majority of the outstanding shares of common stock entitled to vote at the special meeting is required to approve the merger proposal, the failure to vote by proxy or in person will have the same effect as a vote against the merger proposal. Abstentions and broker non-votes will have the same affect as a vote against the merger proposal.

Your board of directors unanimously recommends that you vote FOR the approval of the merger agreement and the transactions it contemplates and FOR any adjournment of the special meeting to solicit additional proxies, if necessary.

January 22, 2008

By Order of the Board of Directors

Charles S. Howard
Chairman of the Board

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ADDITIONAL INFORMATION

This joint proxy statement-prospectus refers to important business and financial information about ISB Financial Corp. and MidWestOne Financial Group, Inc. that is not included in or delivered with this joint proxy statement-prospectus. This information is described under Where You Can Find More Information. You can obtain free copies of documents related to ISB Financial Corp. and MidWestOne Financial Group, Inc. that contain this information through the Securities and Exchange Commission's website at <http://www.sec.gov> or by writing or calling:

ISB Financial Corp.

102 South Clinton Street

Iowa City, Iowa 52240

Attention: Kenneth R. Urmie

Telephone: (319) 356-5925

MidWestOne Financial Group, Inc.

222 First Avenue East

Oskaloosa, Iowa 52577

Attention: Karen K. Binns

Telephone: (641) 673-8448

To obtain timely delivery of the documents, you must request the information by February 29, 2008 in order to receive them before the special meeting.

You also may obtain additional proxy cards and other information related to the proxy solicitation by contacting the appropriate contact listed above. You will not be charged for any of these documents that you request.

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**QUESTIONS AND ANSWERS ABOUT THE MERGER
AND THE SPECIAL MEETINGS**

Q: What am I being asked to vote on?

A: ISBF shareholders and MidWestOne shareholders are being asked to approve a merger agreement, pursuant to which MidWestOne will merge with and into ISBF, and to approve the transactions it contemplates, including the merger. By approving the merger agreement, ISBF shareholders also will be approving the issuance of ISBF common stock as consideration in the proposed merger.

As provided in the merger agreement, as a condition to consummating the proposed merger, ISBF shareholders must adopt and approve amended and restated articles of incorporation of ISBF that will amend ISBF's existing articles of incorporation to, among other things change ISBF's corporate name to MidWestOne Financial Group, Inc. and provide for a classified board of directors. Approval of the amended and restated articles of incorporation by ISBF shareholders is a condition to closing the proposed merger. **Therefore, ISBF shareholders must approve both proposal 1, the merger agreement with MidWestOne, and proposal 2, the amended and restated articles of incorporation of ISBF, in order to approve the proposed merger with MidWestOne.** The merger can not proceed unless each of these proposals is approved by the required number of affirmative votes.

Additionally, ISBF shareholders are being asked to approve the 2008 Equity Incentive Plan, which, if approved, will govern equity awards that may be made from time to time by the board of directors (or compensation committee of the board of directors) of the combined company.

Q: Why do ISBF and MidWestOne want to merge?

A: ISBF and MidWestOne believe that the proposed merger will create a strong, independent financial services institution, headquartered in Iowa, that will have the resources of a combined institution and the potential to achieve greater earnings and balance sheet growth. As a larger company, ISBF and MidWestOne believe their customers will appreciate the expanded geographic presence of the combined company, and their shareholders will benefit from owning stock in a company with greater capital and resources than either company standing alone. The merger is expected to create a platform for expanding the combined company's branch network and, if opportunities arise, considering future strategic partnering and acquisition opportunities.

Q: What will happen to MidWestOne and ISBF as a result of the merger?

A: If the merger is completed, MidWestOne will merge with and into ISBF, with ISBF being the surviving entity in the merger. However, the new, combined entity will operate under the name MidWestOne Financial Group, Inc. as it is more representative of the larger geographic area that will be served by the combined institution. As a merger of equals, each company will contribute an equal number of directors to the combined company's board of directors. Additionally, certain executives from both companies will comprise the executive team of the combined company, as more fully described in this joint proxy statement-prospectus.

Q: Will MidWestOne Bank, Iowa State Bank & Trust Company and First State Bank merge as well?

A: Yes. The merger of equals transaction between ISBF and MidWestOne is the first step in a process that calls for the eventual merger and consolidation of Iowa State Bank & Trust Company, First State Bank, and MidWestOne Bank, which we expect to occur in the third quarter of 2008. The resulting combined bank is expected to operate under the name MidWestOne Bank.

Q: Where will the combined company be located?

A: Following the merger, the headquarters of the combined company will be in Iowa City, Iowa. All Oskaloosa, Iowa locations are expected to remain open.

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Q: What will I receive for my shares of MidWestOne?

A: Shareholders of MidWestOne will be entitled to receive 0.95 share of ISBF common stock for each share of MidWestOne common stock that they own at the effective time of the merger. Fractional shares will not be issued in the merger. Instead of fractional shares, MidWestOne shareholders will receive cash in an amount determined as described in this joint proxy statement-prospectus. *Current MidWestOne shareholders should not send in their stock certificates at this time.*

Q: What will happen to my shares of ISBF?

A: All shares of ISBF will remain outstanding following consummation of the merger and current ISBF shareholders will not need to do anything in connection with the closing of the merger. Because ISBF will be changing its name, current ISBF shareholders will be given the opportunity following the consummation of the merger to exchange their stock certificates for new certificates, which will reflect the new corporate name of MidWestOne Financial Group, Inc. This exchange, however, is not required as current ISBF certificates will continue to represent ownership of common stock of the combined company. Information will be sent to current ISBF shareholders after the consummation of the merger regarding the process for exchanging their current certificates for new certificates, if they elect to do so. *Current ISBF shareholders should not send in their stock certificates for exchange at this time.*

Q: Will the shares of the new, combined company be listed on a stock exchange?

A: Yes. Currently MidWestOne shares are listed on the Nasdaq Global Market and ISBF shares are quoted on the Pink Sheets. As a condition to consummating the merger, shares of the combined company will be listed on the Nasdaq Global Market under the symbol MOFG.

Q: Will the value of the merger consideration fluctuate?

A: Yes. Because the exchange ratio is fixed at 0.95 share of ISBF common stock per share of MidWestOne common stock, the value of the stock consideration payable to MidWestOne shareholders will fluctuate as the value of ISBF common stock changes. The market for ISBF common stock, like many Pink Sheets securities, is relatively illiquid, or thinly traded, which tends to increase price volatility. Illiquid securities are often difficult for investors to buy or sell without dramatically affecting the quoted price. Current, publicly available information regarding issuers of Pink Sheet securities, such as ISBF, and their prospects, the risks associated with their business, or an investment in their securities may not be available to the general public. As a result, it can be difficult to properly value an investment in a Pink Sheets security. The MidWestOne board of directors considered these aspects of ISBF's trading price as quoted on the Pink Sheets in making its determination to approve the merger with ISBF and looked to other business and financial measures available to them concerning ISBF. You should keep these factors in mind when obtaining current market price quotations for ISBF common stock.

As noted above, the shares of common stock of the combined company will be listed on the Nasdaq Global Market. The Nasdaq Global Market is a more liquid market than the over-the-counter market in which shares quoted exclusively on the Pink Sheets trade, although there is no guarantee that there will be a liquid market for the shares of the combined company's stock following the merger. Additionally, unlike ISBF currently, access to the business and financial information of the combined company will be available as a result of the combined company's reporting obligations under U.S. securities laws. These and other factors will affect the market price of the combined company after the merger. As a result, you should not place undue reliance on volume data and current price quotations of ISBF common stock in determining the current or prospective value of the stock consideration to be paid in the merger.

Q: Is the merger expected to be taxable to me?

A:

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In general, the exchange of your *MidWestOne* common stock solely for ISBF common stock will not cause you to recognize any taxable gain or loss for federal income tax purposes. However, *MidWestOne*

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shareholders will have to recognize taxable income, gain or loss in connection with cash received in lieu of any fractional shares of common stock of the combined company.

Because ISBF shareholders are not receiving any cash or stock in the merger, the merger will have no U.S. federal income tax consequences to them.

Each of ISBF's and MidWestOne's respective obligations to complete the merger is conditioned upon receipt of an opinion about the U.S. federal income tax treatment of the merger. The opinion will not bind the Internal Revenue Service, which could take a different view. You should consult your own tax advisor for a full understanding of the tax consequences to you of the merger.

Q: Why is ISBF proposing to amend its articles of incorporation as part of the merger?

A: In the merger agreement, each of ISBF and MidWestOne agreed to amend the articles of incorporation of ISBF to change ISBF's corporate name to MidWestOne Financial Group, Inc., to provide for a classified board of directors and, as a technical matter, to change the combined company's registered agent, subject to approval by ISBF shareholders. Although ISBF shareholders would be assenting to these amendments by approving the merger agreement, we are required to permit ISBF shareholders to vote on these amendments as a separate proposal.

Both ISBF and MidWestOne believe that operating the combined company under MidWestOne's corporate name will be more representative of the larger geographic area that will be served by the combined institution. In addition, both companies' boards of directors believe that a classified board structure for the combined company will ensure each of ISBF and MidWestOne has substantially equal representation on the combined company's board of directors after the completion of the proposed merger, consistent with a merger-of-equals transaction. The classified board may provide certain other advantages, including continuity and stability in the combined company board's leadership and policies, and in the management of the combined company's business and affairs.

ISBF shareholders who vote FOR approval of the merger agreement should vote FOR the adoption of ISBF's amended and restated articles of incorporation if they desire to approve the merger with MidWestOne. The proposed merger can not be consummated unless the proposal to adopt the amended and restated articles of incorporation also is approved.

Q: Why is ISBF proposing to put in place a new equity incentive plan?

A: Following the merger, we believe it is important to our long-term financial success to provide a means to attract, retain and reward individuals who can and will contribute to such success and to further align their interests with those of the combined company's shareholders. Subject to certain permitted adjustments, the maximum number of shares that may be issued under the 2008 Equity Incentive Plan will be 750,000 shares of the combined company's common stock, less the number of shares subject to outstanding awards granted under the current plans of MidWestOne and ISBF.

Q: Who must approve the proposals at the special meeting?

A: Holders of a majority of the outstanding shares of common stock of each of MidWestOne and ISBF as of the record dates of their respective special meetings must approve the merger agreement and the transactions it contemplates, and a majority of the outstanding shares of ISBF common stock must approve the amended and restated articles of incorporation and the 2008 Equity Incentive Plan.

Q: When and where will the special meetings take place?

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- A: The ISBF special meeting will be held on Friday, March 7, 2008, at 1:00 p.m. central standard time, at the Sheraton Iowa City Hotel, 210 S. Dubuque Street, Iowa City, Iowa. The MidWest*One* special meeting will be held on Friday, March 7, 2008, at 10:00 a.m. central standard time, at The Peppertree, 2274 Highway 63 North, Oskaloosa, Iowa.

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Q: Who can vote at the special meetings?

A: You can vote at the ISBF special meeting if you owned shares of ISBF common stock at the close of business on January 15, 2008, the record date for the ISBF special meeting. You can vote at the MidWestOne special meeting if you owned shares of MidWestOne common stock at the close of business on January 18, 2008, the record date for the MidWestOne special meeting.

All of MidWestOne's directors, including the MidWestOne executive officers who also serve as directors, have agreed to vote the shares of MidWestOne common stock over which they have voting control in favor of the merger agreement at the special meeting. All of ISBF's directors, including the ISBF executive officers who also serve as directors, have agreed to vote the shares of ISBF common stock over which they have voting control in favor of the merger agreement and the amended and restated articles of incorporation at the special meeting.

Q: What do the ISBF board of directors and the MidWestOne board of directors recommend?

A: Each of the boards of directors of ISBF and MidWestOne recommend that their respective shareholders vote **FOR** approval of the merger agreement and the transactions it contemplates. Additionally, the ISBF board of directors recommends that ISBF shareholders vote **FOR** the approval of the amended and restated articles of incorporation and **FOR** the approval of the 2008 Equity Incentive Plan.

Q: What do I need to do now?

A: After reviewing this document, submit your proxy using any of the proxy delivery or voting methods indicated on the proxy card. By submitting your proxy, you authorize the individuals named in it to represent you and vote your shares at the special meeting in accordance with your instructions. **Your proxy vote is important. Whether or not you plan to attend your respective special meeting, please submit your proxy promptly in the enclosed envelope or vote telephonically or through the Internet by following the instructions on the proxy card.** ISBF and MidWestOne shareholders should not send in their stock certificates at this time. A letter of transmittal regarding MidWestOne stock certificates will be sent to MidWestOne shareholders if the merger is consummated.

Q: How will my shares be voted if I return a blank proxy card?

A: If you sign and date your proxy card but do not indicate how you want to vote, your proxies will be counted as a vote **FOR** the approval of the merger agreement and the transactions it contemplates, **FOR** the proposal to adjourn the special meeting, if necessary, to solicit additional proxies to approve the merger agreement, and in the discretion of the persons named as proxies in any other matters properly presented at the special meeting. With respect to ISBF shareholders, it also will be voted **FOR** the approval of the amended and restated articles of incorporation and **FOR** the approval of the 2008 Equity Incentive Plan.

Q: What will be the effect if I do not vote?

A: Your failure to vote will have the same effect **as if you voted against** approval of the merger agreement and the transactions it contemplates and, with respect to ISBF shareholders, as if you voted against the approval of the amended and restated articles of incorporation and the 2008 Equity Incentive Plan.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

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A: Your broker will vote your shares only if you instruct your broker on how to vote. Your broker will send you directions on how to do this. If you fail to provide your broker with instructions on how to vote your shares it will not be able to vote them at the special meeting.

Q: Can I vote my shares in person?

A: Yes, if your shares are registered in your own name, you may attend the special meeting and vote your shares in person. If your shares are held in street name (for example, if they are held through a broker or

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with a trust company), you will need to obtain a legal proxy from your broker to vote your shares in person at the special meeting. We recommend that you sign, date and promptly mail the enclosed proxy card (or follow the telephone or Internet voting instructions described on the proxy card) even if you intend to attend the special meeting.

Q: Can I change my mind and revoke my proxy?

A: Yes, you may revoke your proxy and change your vote at any time before the polls close at your special meeting by following the instructions in this document.

Q: What if I oppose the merger? Do I have appraisal or dissenters rights?

A: Neither *MidWestOne* shareholders nor ISBF shareholders have appraisal or dissenters rights under Iowa law.

Q: When do you expect the merger to be completed?

A: If approved by the ISBF and *MidWestOne* shareholders, we anticipate closing the merger in the first quarter of 2008. However, it is possible that factors outside our control could require us to complete the merger at a later time or not complete it at all.

Q: How do I exchange my *MidWestOne* stock certificates?

A: If the merger is approved and consummated, after the merger is effective, the exchange agent will send to you a letter of transmittal, which will include instructions on where to surrender your stock certificates for exchange.

Q: Who can answer my questions?

A: You should contact:

For ISBF shareholders: Gary J. Ortale, Treasurer, at (319) 356-5924 or via email at gortale@isbt.com

For *MidWestOne* shareholders: David Meinert, Chief Financial Officer, at (641) 673-1522 or via email at dmeinert@mwofg.com

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SUMMARY

*This brief summary highlights selected information from this joint proxy statement-prospectus and does not contain all of the information that may be important to you. We urge you to carefully read this entire document and the other documents we refer to in this document. These will give you a more complete description of the transaction we are proposing. For more information about our two companies, see *Where You Can Find More Information*. We have included page references in this summary to direct you to other places in this joint proxy statement-prospectus where you can find a more complete description of the topics we have summarized.*

*As used in this joint proxy statement-prospectus, the term *ISBF* refers to ISB Financial Corp. and its consolidated subsidiaries, and *MidWestOne* refers to MidWestOne Financial Group, Inc., and its consolidated subsidiaries, in each case unless the context indicates otherwise. The terms *the combined company* and *the continuing company* as used herein refer to ISBF, the surviving company, following the merger of MidWestOne with and into ISBF and its name change to *MidWestOne Financial Group, Inc.**

General

This joint proxy statement-prospectus relates to the proposed merger between MidWestOne and ISBF. ISBF and MidWestOne believe that the proposed merger will create a strong, independent financial services company that will have the resources of a combined institution and the ability to achieve greater earnings and balance sheet growth. As a larger company, ISBF and MidWestOne believe customers will appreciate the expanded geographic presence, and shareholders will benefit from owning stock in a combined company with greater capital and resources than either company standing alone. The merger is expected to create a platform for expanding the combined company's branch network and, if opportunities arise, future strategic partnering and acquisition opportunities.

The Companies

ISB Financial Corp.

102 South Clinton St.

Iowa City, Iowa 52240

(319) 356-5800

ISBF is the holding company for Iowa State Bank & Trust Company in Iowa City, Iowa, and First State Bank in Conrad, Iowa. ISBF is a traditional community bank provider, offering a full range of business and consumer bank products and services including trust and brokerage services through its subsidiary banks' investment and trust divisions and insurance and real estate brokerage services through divisions of First State Bank. ISBF has a network of ten branches serving the greater Iowa City market in east-central Iowa and the communities of Conrad, Melbourne and Parkersburg in north-central Iowa. At September 30, 2007, ISBF reported, on a consolidated basis, total assets of approximately \$682.1 million, deposits of approximately \$499.2 million and stockholders' equity of approximately \$76.0 million.

MidWestOne Financial Group, Inc.

222 First Avenue East

Oskaloosa, Iowa 52577

(641) 673-8448

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MidWestOne is the holding company for MidWestOne Bank, headquartered in Oskaloosa, Iowa, which operates 19 full-service branches throughout central and eastern Iowa. MidWestOne offers a full range of commercial and retail banking products and services, as well as trust services and investment and insurance products. At September 30, 2007, MidWestOne reported, on a consolidated basis, total assets of approximately \$768.9 million, deposits of approximately \$558.3 million and stockholders' equity of approximately \$64.6 million.

The Special Meetings

ISBF Special Meeting (page 43)

A special meeting of ISBF shareholders will be held on Friday, March 7, 2008, at 1:00 p.m., local time, at the Sheraton Iowa City Hotel, 210 S. Dubuque Street, Iowa City, Iowa. At the special meeting, shareholders will be asked:

to consider and approve the merger agreement entered into with MidWestOne and the transactions it contemplates, including the issuance of ISBF common stock as consideration in the proposed merger.

as a condition to consummating the proposed merger, to consider, approve and adopt amended and restated articles of incorporation of ISBF to, among other things, change ISBF's corporate name to MidWestOne Financial Group, Inc. and provide for a classified board of directors.

to consider and approve the 2008 Equity Incentive Plan; and

to act on other matters that may properly be submitted to a vote at the meeting, including a motion to adjourn the meeting to another time or place, if necessary, for the purpose of soliciting additional proxies in order to approve the merger agreement.

MidWestOne Special Meeting (page 46)

A special meeting of MidWestOne shareholders will be held on Friday, March 7, 2008, at 10:00 a.m., local time, at The Peppertree, 2274 Highway 63 North, Oskaloosa, Iowa. At the special meeting, shareholders will be asked:

to consider and approve the merger agreement entered into with ISBF and the transactions it contemplates; and

to act on other matters that may properly be submitted to a vote at the meeting, including a motion to adjourn the meeting to another time or place, if necessary, for the purpose of soliciting additional proxies in order to approve the merger agreement.

Record Date; Vote Required (pages 43 and 46)

ISBF shareholders. You may vote at the meeting of ISBF's shareholders if you owned ISBF common stock at the close of business on January 15, 2008. You can cast one vote for each share of ISBF common stock that you owned at that time. To approve the merger agreement and the transactions it contemplates, including the issuance of shares of ISBF common stock as consideration in the merger, the holders of a majority of the outstanding voting shares of ISBF as of the record date must vote in favor of doing so. Additionally, the affirmative vote of the holders of a majority of the outstanding shares of ISBF common stock is required in order to approve, in each case, the adoption of the amended and restated articles of incorporation and the 2008 Equity Incentive Plan.

You may vote your shares in person by attending the meeting or by mailing us your proxy if you are unable to or do not wish to attend. You can revoke your proxy at any time before ISBF takes a vote at the meeting by submitting a written notice revoking the proxy or a later-dated proxy to the secretary of ISBF, or by attending the meeting and voting in person.

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MidWestOne shareholders. You may vote at the meeting of *MidWestOne* s shareholders if you owned *MidWestOne* common stock at the close of business on January 18, 2008. You can cast one vote for each share of *MidWestOne* common stock that you owned at that time. To approve the merger agreement and the transactions it contemplates, the holders of a majority of the outstanding voting shares of *MidWestOne* as of the record date must vote in favor of doing so.

You may vote your shares in person by attending the meeting or by mailing us your proxy if you are unable to or do not wish to attend. You can revoke your proxy at any time before *MidWestOne* takes a vote at the meeting by submitting a written notice revoking the proxy or a later-dated proxy to the secretary of *MidWestOne*, or by attending the meeting and voting in person.

Share Ownership of Directors and Executive Officers (pages 170 and 225)

ISBF shareholders. As of *ISBF* s record date, *ISBF* s directors and executive officers beneficially owned approximately 1.67 million shares, or approximately 32.3% of the outstanding shares of *ISBF* common stock. All of *ISBF* s directors, including the *ISBF* executive officers who also serve as directors, have agreed to vote the shares of *ISBF* common stock over which they have voting control to approve the merger agreement and the transactions it contemplates. However, because they have the power to vote only approximately 32.1% of the outstanding shares of *ISBF* common stock entitled to vote at the special meeting, there is no assurance that the proposal will be approved by *ISBF* shareholders.

MidWestOne shareholders. As of *MidWestOne* s record date, *MidWestOne* s directors and executive officers beneficially owned approximately 570,296 shares, or approximately 14.8% of the outstanding shares of *MidWestOne* common stock. All of *MidWestOne* s directors, including the *MidWestOne* executive officers who also serve as directors, have agreed to vote the shares of *MidWestOne* common stock over which they have voting control in favor of the merger agreement at the special meeting. However, because they have the power to vote only approximately 14.0% of the outstanding shares of *MidWestOne* common stock entitled to vote at the special meeting, there is no assurance that the proposal will be approved by *MidWestOne* shareholders.

Recommendation to Shareholders (pages 44 and 48)

ISBF shareholders. *ISBF* s board of directors believes that the merger agreement and the merger are fair to its shareholders and in their best interests, and unanimously recommends that they vote **FOR** the proposal to approve the merger agreement and the transactions it contemplates, including the issuance of shares of *ISBF* common stock as consideration in the proposed merger, **FOR** the adoption of the amended and restated articles of incorporation, and **FOR** the approval of the 2008 Equity Incentive Plan.

MidWestOne shareholders. *MidWestOne* s board of directors believes that the merger agreement and the merger are fair to its shareholders and in their best interests, and unanimously recommends that they vote **FOR** the proposal to approve the merger agreement and the transactions it contemplates.

The Merger and Related Transactions

The Merger (page 49)

Pursuant to the merger agreement, *MidWestOne* will merge with *ISBF* in exchange for shares of *ISBF* common stock. The combined company will continue under the name *MidWestOne* Financial Group, Inc. and its shares will be listed on the Nasdaq Global Market under the symbol MOFG. The combined company s main office will be located in Iowa City, Iowa. We expect to complete the merger in the first quarter of 2008, although delays could occur.

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During the third quarter of 2008, we intend to consolidate Iowa State Bank & Trust, First State Bank and MidWestOne Bank as one bank, although delays could occur. The resulting institution will be an Iowa chartered commercial bank with its home office in Iowa City, Iowa, and will operate under the name MidWestOne Bank.

We have attached a copy of the merger agreement as Appendix A to this document. Please read the merger agreement. It is the legal document that governs the merger.

What You Will Receive in the Merger (pages 49-50)

ISBF shareholders. Each share of ISBF common stock will remain outstanding, and will represent a share of common stock of the combined company.

MidWestOne shareholders. If the merger is completed, each share of MidWestOne common stock will automatically become a right to receive 0.95 share of common stock of the combined company. The total number of shares you will have the right to receive will be equal to the number of shares of MidWestOne common stock you own multiplied by 0.95. For example, if you hold 100 shares of MidWestOne common stock, you will be entitled to receive 95 shares (100 x 0.95) of common stock of the combined company. Based on the last reported trade price of \$17.40 per share of ISBF common stock on January 18, 2008, the value of 0.95 share of ISBF common stock was \$16.53, and the total value of the merger consideration was approximately \$61.2 million. However, because the exchange ratio is fixed, the market value of the shares of ISBF common stock you will receive in the merger will fluctuate from time to time, causing the total value of the merger consideration to fluctuate. Additionally, because of the illiquid trading market for ISBF common stock and the absence of publicly available business and financial information for ISBF, you should not place undue reliance on current price quotations of ISBF common stock in determining the current or prospective value of the stock consideration to be paid in the merger.

ISBF will not issue any fractional shares. Instead, MidWestOne shareholders will receive cash in lieu of any fractional shares of common stock of the combined company owed to them in exchange for their shares of MidWestOne common stock. The amount of cash to be paid for a fractional share will be equal to the product of the average of the closing prices of ISBF common stock for the ten trading days immediately preceding the date of the merger agreement and the fractional share amount.

Market Prices of ISBF and MidWestOne Common Stock (page 16)

Shares of ISBF common stock are quoted on the Pink Sheets under the symbol ISBO.PK. On September 11, 2007, the last trading day before we announced the merger, the last reported trading price of ISBF common stock was \$27.50 per share. The last reported trading price of ISBF common stock before the mailing of the joint proxy statement-prospectus was \$17.40 per share on January 18, 2008. As a condition to the completion of the merger, the shares of common stock of the combined company will be listed on the Nasdaq Global Market. We can make no prediction or guarantee at what price the shares of the combined company will trade after the completion of the merger.

Shares of MidWestOne common stock are traded on the Nasdaq Global Market under the symbol OSKY. On September 11, 2007, the last trading day before we announced the merger, the last reported trading price of MidWestOne common stock was \$16.99 per share. On January 18, 2008, the last trading day before the mailing of the joint proxy statement-prospectus, the last reported trading price of MidWestOne common stock was \$16.31 per share.

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Exchange of Stock Certificates (page 86)

Shortly after the effective date of the merger, MidWestOne shareholders will receive a transmittal letter and instructions from the exchange agent on how to surrender their stock certificates representing MidWestOne common stock in exchange for stock certificates of the combined company. MidWestOne shareholders must carefully review and complete these materials and return them as instructed along with their MidWestOne common stock certificates. **MidWestOne shareholders should not send any stock certificates to ISBF or MidWestOne until they receive these instructions. ISBF shareholders should not exchange their certificates at this time.** If the merger is approved and completed, ISBF shareholders will be afforded the opportunity to exchange their current certificates for new certificates that reflect the new name of the combined company. However, this will not be required and ISBF shareholders will not have to take any action after the merger.

Effect of the Merger on Stock Options and Other Equity Awards (page 50)

In the merger, options to purchase MidWestOne common stock outstanding immediately before completing the merger will become options to purchase ISBF common stock and will continue to be governed by the terms of the original MidWestOne plans under which they were issued. The number of shares of ISBF common stock subject to each of these converted stock options, as well as the exercise price of these stock options, will reflect the exchange ratio applicable in the merger.

The merger agreement provides that ISBF and MidWestOne shall, prior to the effective time of the merger, cause each outstanding unexercised ISBF stock option and MidWestOne stock option, as the case may be, to vest and become exercisable upon consummation of merger. In addition, the merger agreement provides that MidWestOne shall, prior to the effective time of the merger, accelerate the vesting of each share of restricted stock that is then outstanding and unvested, and cause such share to be free of all restrictions.

Ownership After the Merger (page 49)

Based on the exchange ratio contained in the merger agreement and the number of shares of MidWestOne common stock currently outstanding and the number of shares subject to options, upon completion of the merger, ISBF will issue between 3,510,843 and 3,963,115 shares of its common stock to MidWestOne shareholders. Based on the minimum issuance and assuming no exercises of currently outstanding ISBF or MidWestOne options, immediately after the merger existing ISBF shareholders would own approximately 59.5%, and former MidWestOne shareholders would own approximately 40.5%, of the outstanding shares of common stock of the combined company.

Regulatory Approvals (page 86)

As of December 14, 2007, we had received the required prior approval to the merger from both the Board of Governors of the Federal Reserve System and the Iowa Division of Banking, or IDOB. In addition, on December 29, 2007, the statutory waiting period for consummation of the merger required by the Federal Reserve had expired.

In addition, if the merger is completed, First State Bank and MidWestOne Bank will be merged with Iowa State Bank & Trust, with the resulting bank to be named MidWestOne Bank. The merger of MidWestOne Bank with and into Iowa State Bank & Trust is subject to the prior approval of the Federal Deposit Insurance Corporation and the IDOB. It is expected that applications will be filed with the IDOB and the FDIC for approval of the bank merger, which would be expected to occur during the third quarter of 2008.

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Effective Time of the Merger (page 50)

The merger will become effective on the close of business on the day when articles of merger are filed with the Secretary of State of the State of Iowa or such later date or time as we agree and specify in the articles of merger. If our shareholders approve the merger at their special meetings, and if ISBF obtains all required regulatory approvals, we anticipate that the merger will be completed before the end of the first quarter of 2008, although delays could occur.

We cannot assure you that we can obtain the necessary shareholder and regulatory approvals or that the other conditions to completion of the merger can or will be satisfied.

Appraisal Rights (page 110)

MidWestOne and ISBF Shareholders. Under Iowa law, neither MidWestOne shareholders nor ISBF shareholders have the right to dissent from the merger and receive in cash the fair value of their shares.

Material Federal Income Tax Consequences (page 103)

For U.S. federal income tax purposes, the exchange of shares of MidWestOne common stock for shares of ISBF common stock will not cause the holders of MidWestOne common stock to recognize any gain or loss. Holders of MidWestOne common stock, however, will recognize income, gain or loss in connection with any cash received to redeem any fractional share interest. Because ISBF shareholders are not receiving any cash or stock in the merger, the merger will have no U.S. federal income tax consequences to them.

Tax matters can be complicated, and the tax consequences of the merger to you will depend on your particular tax situation. We urge you to consult your tax advisor to determine the tax consequences of the merger to you.

Accounting Treatment (page 102)

The merger will be accounted for as a purchase transaction in accordance with accounting principles generally accepted in the United States.

Reasons for the Merger (pages 56 and 58)

Each of our boards of directors believes the merger will enhance shareholder value by permitting the combined company to expand its market presence in Iowa. We expect the merger to strengthen our position as a competitor in the financial services business as a result of the increased resources and expanded geographic footprint of a combined institution.

You can find a more detailed discussion of the background of the merger and ISBF's and MidWestOne's reasons for the merger in this document under "The Merger Background of the Merger," "ISBF's Reasons for the Merger and Board Recommendation" and "MidWestOne's Reasons for the Merger and Board Recommendation." The discussion of our reasons for the merger includes forward-looking statements about possible or assumed future results of our operations and the performance of the combined company after the merger. For a discussion of factors that could affect these future results, see "Forward-Looking Statements."

Interests of Certain Persons in the Merger (page 90)

Some members of our respective management and boards of directors may be deemed to have interests in the merger that are in addition to their interests as shareholders generally.

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In the case of *MidWestOne*, currently outstanding but unexercisable options to purchase common stock held by directors, officers and other employees of *MidWestOne* will vest and become exercisable upon the effectiveness of the merger. In addition, Charles S. Howard, the Chairman, President and Chief Executive Officer of *MidWestOne*, and David A. Meinert, Executive Vice President and Chief Financial Officer of *MidWestOne*, entered into agreements with ISBF, effective upon the closing of the merger, providing for terms of their employment with, or service as a director of, the combined company following the merger. Executive officers also will receive options to purchase common stock of the combined company as well as restricted stock units if the merger is consummated, and certain executives are entitled to change-in-control payments under their current salary continuation or deferred compensation agreements with *MidWestOne*.

As a result of the merger, Mr. Howard will receive a lump sum change in control payment of \$968,600 pursuant to his existing salary continuation agreement. Additionally, outstanding options to purchase 1,020 shares of *MidWestOne* common stock with an exercise price of \$17.70 per share will vest and the restrictions on 375 shares of restricted stock will lapse as a result of the merger. With respect to Mr. Meinert, John P. Pothoven, President and Chief Executive Officer of *MidWestOne* Bank, and Jerry D. Krause, Regional President for Southern Region of *MidWestOne* Bank, options to purchase 1,020, 850 and 714 shares, respectively, of *MidWestOne* common stock with an exercise price of \$17.70 per share will vest and the restrictions on 375, 375 and 225 shares, respectively, of restricted stock will lapse as a result of the merger. Options to purchase 2,081 shares of common stock held by each non-employee director of *MidWestOne* (with an exercise price of \$17.56 as to 411 shares, \$19.07 as to 670 shares and \$17.15 as to the remaining 1,000 shares (16,648 shares in the aggregate)) also will become vested and exercisable as a result of the merger, and the restrictions on 1,000 shares of restricted stock held by each non-employee director (8,000 shares in the aggregate) will lapse as a result of the merger. In addition to the foregoing, Mr. Meinert will be entitled to receive an initial option grant to purchase 3,000 shares of the combined company's common stock if the merger is completed.

In the case of ISBF, in connection with the execution of the merger agreement, ISBF has executed agreements with certain officers of ISBF, effective upon the closing of the merger, which provide for terms of their employment with, or service as a director of, the combined company following the merger. Certain executive officers also will receive options to purchase common stock of the combined company as well as restricted stock units if the merger is consummated.

As a result of the merger, Charles N. Funk, the President of ISBF and President and Chief Financial Officer of Iowa State Bank & Trust who will become President and Chief Executive Officer of the combined company, and Kent L. Jehle, the Executive Vice President Commercial Banking of Iowa State Bank & Trust who will become the Chief Lending Officer of the combined company, will experience substantial increases in their annual compensation levels. Specifically, Mr. Funk's annual base salary will increase from \$231,000 to \$300,000 and Mr. Jehle's will increase from \$145,950 to \$205,000. Mr. Funk and Mr. Jehle will be entitled to receive an initial option grant to purchase 6,000 and 3,000 shares, respectively, of the combined company's stock if the merger is completed. Neither Mr. Funk nor Mr. Jehle received any equity-based compensation in 2007.

Also a result of the merger, W. Richard Summerwill, the Chairman and Chief Executive Officer of ISBF who will become the non-executive Chairman of the combined company, will receive 500 restricted stock units and will have his annual base salary increased to \$80,000, but he will no longer be entitled to receive director fees in addition to his salary. In 2007, Mr. Summerwill did not receive any equity-based compensation, had an annual base salary of \$60,000 and received director fees (separate from his salary) of \$15,950.

The board of directors of each of ISBF and *MidWestOne* were aware of these interests and considered them, together with the other matters described in this joint proxy statement-prospectus, in approving the merger agreement and the merger.

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Opinions of Financial Advisors (pages 60, 69 and 77)

MidWestOne shareholders. Each of Sandler O'Neill & Partners, L.P. and Howe Barnes Hofer & Arnett, Inc. has delivered a written opinion, dated September 11, 2007, to the MidWestOne board of directors that the exchange ratio of 0.95 share of ISBF common stock for each share of MidWestOne common stock to be exchanged in the merger is fair to the holders of MidWestOne common stock from a financial point of view. We have attached these opinions to this document as Appendix B and Appendix C, respectively. You should read these opinions carefully to understand the procedures followed, matters considered and limitations on the reviews undertaken by Sandler O'Neill and Howe Barnes in providing their respective opinions.

ISBF shareholders. Keefe, Bruyette & Woods, Inc. has delivered a written opinion, dated September 11, 2007, to the ISBF board of directors that the exchange ratio is fair to the holders of ISBF common stock from a financial point of view. We have attached this opinion to this document as Appendix D. You should read this opinion carefully to understand the procedures followed, matters considered and limitations on the reviews undertaken by Keefe Bruyette in providing its opinion.

Conditions to Completion of the Merger (page 94)

The completion of the merger depends on a number of conditions being met. Subject to exceptions described in the merger agreement, these include:

approval of the merger agreement by each company's shareholders;

approval of regulatory authorities and the receipt of all required consents;

accuracy of the respective representations and warranties of ISBF and MidWestOne in the merger agreement;

compliance in all material respects by each of ISBF and MidWestOne with their respective covenants and agreements in the merger agreement;

the absence of any event that had or would be reasonably likely to have a material adverse effect on the other party;

receipt from such company's legal counsel of an opinion that, among other things, for federal income tax purposes MidWestOne shareholders who exchange their shares for shares of common stock of the combined company will not recognize any gain or loss as a result of the merger, except in connection with the payment of cash instead of fractional shares;

the absence of any injunction, legal proceeding or other restraint preventing the consummation of the merger or the merger of MidWestOne Bank and First State Bank with Iowa State Bank & Trust; and

the shares of ISBF common stock having been approved for listing on the Nasdaq Market.

A party to the merger agreement could choose to complete the merger even though a condition to its obligation has not been satisfied by waiving such condition, as long as the law allows it to do so. We cannot be certain when or if the conditions to the merger will be satisfied or waived, or that the merger will be completed.

Termination and Termination Fees (page 99)

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The parties can mutually agree at any time to terminate the merger agreement without completing the merger. Also, either party can decide, without the consent of the other, to terminate the merger agreement if the merger has not been completed by May 31, 2008, unless the failure to complete the merger by that time is due to a violation of the merger agreement by the party seeking to terminate the merger agreement.

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In addition, either ISBF or MidWestOne can terminate the merger agreement if the conditions to its respective obligation to complete the merger have not been satisfied, on the basis of a breach by the other party of certain representations, warranties or covenants that have not been cured, or, under certain circumstances, if the other party takes certain actions with respect to a competing takeover proposal from a third party.

Either ISBF or MidWestOne may be required to pay the other party a termination fee if the merger agreement is terminated due to certain circumstances outlined in the merger agreement, including, among other things, disapproval of the merger by either company's shareholders. Depending on the circumstances, the termination fee payable by either party may range from \$350,000 to \$3,350,000. For a discussion of these conditions and fees, see The Merger Agreement Termination and Termination Fees.

Waiver and Amendment (page 102)

ISBF and MidWestOne may jointly amend the merger agreement before the effective time of the merger; however, if the merger agreement already has been submitted to the shareholders of MidWestOne or ISBF, the merger agreement may be amended only if such amendment would not materially adversely affect the rights of MidWestOne or ISBF shareholders. In addition, either party may waive its right to require the other party to adhere to any term or condition of the merger agreement.

Management and Board of Directors Composition After the Merger (page 87)

The present management groups of both companies will share the responsibility of managing the combined company after the completion of the merger. Charles N. Funk, presently the President of ISBF and the President and Chief Executive Officer of Iowa State Bank & Trust, will serve as President and Chief Executive Officer of the combined company. David A. Meinert, presently the Executive Vice President and Chief Financial Officer of MidWestOne, will serve as Executive Vice President, Chief Financial Officer and Treasurer of the combined company. John P. Pothoven, presently the President of MidWestOne Bank, and Kent L. Jehle, presently the Executive Vice President Commercial Banking of Iowa State Bank & Trust, will serve as Chief Operating Officer and Chief Lending Officer, respectively, of the combined company. Mr. Pothoven is expected to retire early to mid-2008.

The board of directors of the combined company will initially be comprised of 12 members, six designated by ISBF and six designated by MidWestOne, split equally among three classes of directors serving staggered terms. Both ISBF and MidWestOne intend for the board of directors of the combined company to remain evenly split between ISBF designated directors and MidWestOne designated directors until at least the second annual meeting of the shareholders of the combined company.

Dividend Policy After the Merger; Coordination of Dividends (pages 17 and 97-98)

The merger agreement permits MidWestOne to continue to pay regular quarterly cash dividends to its shareholders prior to merger completion. In addition, ISBF is permitted under the merger agreement to pay its annual cash dividend on its common stock in the amount of not more than \$0.33 per share, prior to merger completion. MidWestOne has agreed in the merger agreement to coordinate with ISBF regarding dividend declarations and payment dates so that MidWestOne shareholders will not receive more than one regular quarterly dividend, or fail to receive one regular quarterly dividend, for any single quarter. Accordingly, prior to the merger, MidWestOne may coordinate and alter its dividend record dates in order to effect this policy.

The payment of dividends by the combined company on its common stock in the future is subject to the determination of its board of directors and depends on cash requirements, financial condition and earnings, legal and regulatory considerations and other factors. The parties expect, however, that the combined company after the merger will, in its initial fiscal year, declare and pay to its shareholders quarterly cash dividends of \$0.1525 per share. This expectation is not assured, and any decision as to the amount and timing of dividends is subject to the determination of the combined company's board of directors and may change at any time.

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Differences in the Rights of Shareholders (page 106)

Because each of *MidWestOne* and ISBF is incorporated in and governed by Iowa law, and because the combined company will continue to be governed by Iowa law, the rights of ISBF and *MidWestOne* shareholders as governed by Iowa law will not change. Although there are differences between the provisions contained in *MidWestOne*'s and ISBF's articles of incorporation and bylaws, there are no material differences in the voting rights, dividend rights, liquidation rights or other material rights of shareholders. However, the combined company's articles of incorporation and bylaws will contain provisions providing for a classified board of directors. Although *MidWestOne* currently has a classified board of directors, ISBF does not. Among other things, a classified board of directors makes it more difficult for shareholders to effect significant changes in the composition of the board of directors in any one year. For a comparison of the rights of the shareholders of ISBF and *MidWestOne*, see Description of ISBF Capital Stock and Comparison of Shareholder Rights.

Authority to Adjourn Special Meeting to Solicit Additional Proxies (pages 44 and 47)

Each of ISBF and *MidWestOne* is asking its shareholders to grant full authority for their respective special meetings to be adjourned, if necessary, to permit solicitation of additional proxies to approve the transactions proposed by this joint proxy statement-prospectus.

Amendments to ISBF's Articles of Incorporation and Bylaws (page 107 and 111)

As a condition to consummating the proposed merger, ISBF shareholders will be asked to approve amended and restated articles of incorporation of ISBF which, upon filing with the Iowa Secretary of State, will effect amendments to ISBF's current articles of incorporation to change the name of ISBF to *MidWestOne* Financial Group, Inc. and provide for a classified board of directors consisting of three classes serving staggered three-year terms. In addition, the bylaws of the combined company will be amended to provide for certain board of director supermajority voting provisions for specific matters.

The 2008 Equity Incentive Plan (page 112)

The 2008 Equity Incentive Plan is intended to provide the board of directors of the combined company a means to grant a broad variety of cash-based and equity-based incentive compensation in an effort to promote the long-term financial success of the combined company. Through cash-based and equity-based awards that may be made from time to time under the plan, the combined company will seek to attract, retain and reward persons who can contribute to the success of the combined company and further align the interests of the combined company's directors, officers, employees and other eligible participants with those of the combined company's shareholders. Subject to permitted adjustments for certain corporate transactions, the maximum number of shares that may be awarded to participants, or their beneficiaries, under the 2008 Equity Incentive Plan will be 750,000 shares of the combined company's common stock, less the number of shares subject to outstanding awards granted under the current plans of *MidWestOne* and ISBF as of the effective time of the merger. The effective date of the 2008 Equity Incentive Plan will be the date on which the merger is consummated, subject to approval by shareholders.

Table of Contents**PRICE RANGE OF COMMON STOCK AND DIVIDEND INFORMATION**

ISBF common stock is quoted on the Pink Sheets under the symbol ISBO.PK and MidWestOne common stock is traded on the Nasdaq Global Market under the symbol OSKY. The following table sets forth the last reported trade price of ISBF common stock, the closing price of MidWestOne common stock, and the equivalent per share value of MidWestOne common stock giving effect to the merger, as of September 11, 2007, the date immediately prior to public announcement of the merger. The equivalent per share value of MidWestOne common stock shown below represents the product achieved by multiplying the last reported trade price of ISBF common stock by the exchange ratio of 0.95.

| | Last reported trade price per share of ISBF common stock ⁽¹⁾ | Closing price per share of MidWestOne common stock | MidWestOne equivalent per share value |
|--------------------|--|---|---|
| September 11, 2007 | \$ 27.50 | \$ 16.99 | \$ 26.13 |

(1) The last reported trade of ISBF common stock prior to the announcement of the transaction was on September 11, 2007. The following table sets forth for the periods indicated the high and low reported bid prices per share and the intra-day high and low sales prices per share, respectively, of ISBF and MidWestOne common stock as reported by Pink Sheets and the Nasdaq Global Market, respectively, along with the cash dividends per share declared during such periods. With respect to the high and low bid information of ISBF provided below, the per share prices reflect inter-dealer prices without adjustments for markups, markdowns or commissions and may not necessarily represent actual transactions.

| | ISBF Common Stock | | | MidWestOne Common Stock | | |
|----------------|-------------------|----------|------------------------------|-------------------------|----------|------------------------------|
| | High | Low | Cash Dividend Declared | High | Low | Cash Dividend Declared |
| 2006 | | | | | | |
| First Quarter | \$ 21.33 | \$ 20.17 | \$ 0.32 | \$ 19.80 | \$ 17.50 | \$ 0.17 |
| Second Quarter | 22.33 | 20.17 | | 19.75 | 18.75 | 0.18 |
| Third Quarter | | | | 19.92 | 18.80 | 0.18 |
| Fourth Quarter | 22.50 | 22.00 | | 20.98 | 18.65 | 0.18 |
| 2007 | | | | | | |
| First Quarter | \$ 26.75 | \$ 22.50 | \$ 0.32 | \$ 19.73 | \$ 17.45 | \$ 0.18 |
| Second Quarter | 26.80 | 22.50 | | 17.58 | 16.90 | 0.18 |
| Third Quarter | 26.00 | 20.00 | | 24.00 | 15.64 | 0.18 |
| Fourth Quarter | 24.00 | 18.55 | | 18.50 | 16.00 | 0.18 |

Based on the last reported trade price prior to the date of this joint proxy statement-prospectus of \$17.40 per share of ISBF common stock on January 18, 2008, the value of the aggregate consideration that MidWestOne shareholders will receive in the merger is approximately \$61.2 million based on the number of MidWestOne shares issued and outstanding on January 18, 2008. Because of the illiquid trading market of ISBF common stock and the absence of publicly available business and financial information for ISBF, you should not place undue reliance on current price quotations of ISBF common stock in determining the current or prospective value of the stock consideration to be paid in the merger. See

Risk Factors The lack of a liquid public market for ISBF's common stock may make it difficult to evaluate the fairness of the merger. ISBF will apply to list its common stock, including the common stock to be issued to MidWestOne shareholders in the merger, on the Nasdaq Global Market, and the consummation of the merger is conditioned upon the common stock of the combined company being accepted for listing by Nasdaq. ISBF anticipates that the merger and the listing of its common stock on the Nasdaq Global Market will result in a more active trading market for the combined company's common stock. However, ISBF cannot assure you that a liquid trading market for the combined company's

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common stock will develop or be sustained after the merger. You may not be able to sell your shares quickly or at the market price if trading in the combined company's common stock is not active. As of September 30, 2007, there were approximately 270 holders of record of ISBF common stock.

Dividends. Dividends currently may be paid on ISBF's and MidWestOne's common stock, as and when declared by ISBF's board of directors and MidWestOne's board of directors, respectively, out of any of 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 dividends payable will depend upon the earnings and financial condition of ISBF and MidWestOne and other factors, including applicable governmental regulations and policies. ISBF expects to declare and pay its annual dividend of \$0.33 per share in December 2007. The merger agreement prohibits ISBF from paying any other cash dividends prior to the closing date of the merger. MidWestOne has declared its regular fourth quarter cash dividend and has set the record date to occur prior to December 31, 2007 so that MidWestOne shareholders will receive payment of the fourth quarter dividend prior to the closing of the merger. Under the terms of merger agreement, MidWestOne may declare and pay to its shareholders a cash dividend not to exceed \$0.18 per share per quarter.

MidWestOne historically has paid a higher cash dividend per share than ISBF. It is expected that the combined company will pay dividends closer to MidWestOne's current quarterly dividend rate of \$0.18 per share. However, this expectation is not assured, and the timing and amount of future dividends, if any, paid by the combined company following the merger will be subject to determination by the combined company's board of directors in its discretion and will depend upon earnings, cash requirements and the financial condition of the combined company and its subsidiaries, applicable government regulations and other factors deemed relevant by the combined company's board of directors. Various state and federal laws and other restrictions will limit the ability of the combined company's subsidiary banks to pay dividends to the combined company after the merger. It is currently expected, but not assured, that the combined company will, in its initial fiscal year, declare and pay to its shareholders quarterly cash dividends of \$0.1525 per share, subject to declaration by the combined company's board of directors and the other considerations described above.

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SELECTED HISTORICAL FINANCIAL DATA

The following tables present selected consolidated historical financial data as of September 30, 2007, and 2006, and for the nine-month periods then ended, and as of December 31, 2006, 2005, 2004, 2003 and 2002 and for each of the years then ended, for each of ISBF and *MidWestOne*.

You should read the following tables in conjunction with the consolidated financial statements and notes thereto included in this joint proxy statement-prospectus beginning on page F-1.

Historical results do not necessarily indicate the results that you can expect for any future period. Management of each of ISBF and *MidWestOne* believe that all adjustments (which include only normal recurring adjustments) necessary to arrive at a fair presentation of their respective company's interim results of operations have been included. Results for the interim period ended September 30, 2007, do not necessarily indicate the results that you can expect for the year as a whole.

Table of Contents**ISBF SELECTED HISTORICAL FINANCIAL DATA****(dollars in thousands, except per share data)**

| | Nine Months Ended | | | Years Ended December 31, | | | |
|--------------------------------|--------------------------------------|-----------|-----------|--------------------------|-----------|-----------|-----------|
| | September 30, 2007 (unaudited) | 2006 | 2006 | 2005 | 2004 | 2003 | 2002 |
| Summary of income data: | | | | | | | |
| Total interest income | \$ 28,511 | \$ 26,177 | \$ 35,308 | \$ 30,627 | \$ 28,417 | \$ 28,794 | \$ 31,935 |
| Total interest expense | 14,177 | 12,232 | 16,759 | 11,742 | 9,503 | 10,775 | 13,591 |
| Net interest income | 14,334 | 13,945 | 18,549 | 18,885 | 18,914 | 18,019 | 18,344 |
| Provision for loan losses | 425 | 330 | 550 | 300 | | | |