County Bancorp, Inc.
Form 10-Q
August 08, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

OR

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: 001-36808

COUNTY BANCORP, INC.

(Exact Name of Registrant as Specified in its Charter)

Wisconsin (State or other jurisdiction of incorporation or organization)	39-1850431 (I.R.S. Employer Identification No.)
860 North Rapids Road	
Manitowoc, WI	54221

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (920) 686-9998

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. Yes 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
Emerging Growth Company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 8, 2017, the registrant had 6,641,159 shares of common stock, $0.01 par value per share, outstanding.

Table of Contents

		Page
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	1
	Consolidated Balance Sheets	1
	Consolidated Statements of Operations	2
	Consolidated Statements of Comprehensive Income	3
	Consolidated Statements of Shareholders' Equity	4
	Consolidated Statements of Cash Flows	5
	Notes to Unaudited Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	39
Item 4.	Controls and Procedures	39
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	40
Item 1A.	Risk Factors	40
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	40
Item 3.	Defaults Upon Senior Securities	40
Item 4.	Mine Safety Disclosures	40
Item 5.	Other Information	40
Item 6.	Exhibits	41
Signatures		42
Exhibit Index		43

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

COUNTY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2017 and December 31, 2016

(Unaudited)

	June 30, 2017	December 31, 2016
	(dollars in thousands)	
ASSETS		
Cash and cash equivalents	$35,939	$ 42,679
Securities available-for-sale, at fair value	115,148	123,437
FHLB Stock, at cost	4,534	5,688
Loans held for sale	8,036	1,162
Loans, net of allowance for loan losses of $13,503 as of June 30, 2017; $12,645 as of December 31, 2016	1,062,165	1,017,841
Premises and equipment, net	9,342	9,819
Loan servicing rights	8,893	9,264
Other real estate owned, net	6,917	3,161
Cash surrender value of bank owned life insurance	17,159	11,448
Deferred tax asset, net	5,870	5,486
Goodwill	5,038	5,038
Core deposit intangible, net of accumulated amortization of $636 as of June 30, 2017; $360 as of December 31, 2016	1,165	1,441
Accrued interest receivable and other assets	6,428	6,206
Total assets	$1,286,634	$ 1,242,670
LIABILITIES		
Deposits:		
Noninterest-bearing	$102,569	$ 118,657
Interest-bearing	891,094	858,861
Total deposits	993,663	977,518
Other borrowings	1,443	2,152
Advances from FHLB	133,300	107,895
Subordinated debentures	15,487	15,451
Accrued interest payable and other liabilities	6,487	8,366
Total liabilities	1,150,380	1,111,382
SHAREHOLDERS' EQUITY		
Preferred stock-variable rate, non-cumulative, nonparticipating, $1,000 stated	8,000	8,000

value; 15,000 shares authorized; 8,000 shares issued at June 30, 2017 and December 31, 2016		
Common stock - $0.01 par value; 50,000,000 authorized; 7,074,020 shares issued and 6,641,159 shares outstanding at June 30, 2017; 7,018,248 shares issued and 6,586,335 shares outstanding at December 31, 2016	27	26
Surplus	51,436	50,553
Retained earnings	81,636	77,907
Treasury stock, at cost; 432,861 shares at June 30, 2017; 431,913 shares at December 31, 2016	(4,828)	(4,828)
Accumulated other comprehensive loss	(17)	(370)
Total shareholders' equity	136,254	131,288
Total liabilities and shareholders' equity	$ 1,286,634	$ 1,242,670

See accompanying notes to unaudited consolidated financial statements.

1

COUNTY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Six Months Ended June 30, 2017 and 2016

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(dollars in thousands except per share data)			
INTEREST AND DIVIDEND INCOME				
Loans, including fees	$12,328	$10,205	$23,882	$18,935
Taxable securities	460	355	885	595
Tax-exempt securities	83	90	180	199
Federal funds sold and other	81	50	141	89
Total interest and dividend income	12,952	10,700	25,088	19,818
INTEREST EXPENSE				
Deposits	2,806	1,995	5,243	3,807
FHLB advances and other borrowed funds	464	332	845	635
Subordinated debentures	125	69	245	135
Total interest expense	3,395	2,396	6,333	4,577
Net interest income	9,557	8,304	18,755	15,241
Provision for loan losses	1,524	470	2,285	1,282
Net interest income after provision for loan losses	8,033	7,834	16,470	13,959
NON-INTEREST INCOME				
Services charges	399	411	724	688
Gain on sale of loans, net	24	61	49	161
Loan servicing fees	1,270	2,132	2,475	3,579
Other	163	154	324	267
Total non-interest income	1,856	2,758	3,572	4,695
NON-INTEREST EXPENSE				
Employee compensation and benefits	3,833	3,092	7,890	6,093
Occupancy	180	114	357	207
Information processing	397	1,477	759	1,757
Write-down of other real estate owned	78	—	78	84
Other	2,153	2,770	3,452	3,903
Total non-interest expense	6,641	7,453	12,536	12,044
Income before income taxes	3,248	3,139	7,506	6,610
Income tax expense	1,190	1,194	2,816	2,489
NET INCOME	$2,058	$1,945	$4,690	$4,121
NET INCOME PER SHARE:				

Basic	$0.30	$0.31	$0.68	$0.67
Diluted	$0.29	$0.30	$0.68	$0.65
Dividends paid per share	$0.06	$0.05	$0.12	$0.10

See accompanying notes to unaudited consolidated financial statements.

COUNTY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Six Months Ended June 30, 2017 and 2016

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(dollars in thousands)			
Net income	$2,058	$1,945	$4,690	$4,121
Other comprehensive income:				
Unrealized gains on securities available-for-sale	246	843	579	1,512
Income tax expense	(96)	(329)	(226)	(590)
Total other comprehensive income	150	514	353	922
Comprehensive income	$2,208	$2,459	$5,043	$5,043

See accompanying notes to unaudited consolidated financial statements.

COUNTY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Three and Six Months Ended June 30, 2017 and 2016

(Unaudited)

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	(dollars in thousands)						
Balance at December 31, 2015	$8,000	$ 19	$34,717	$68,825	$(4,758)	$ 221	$ 107,024
Net income	—	—	—	4,121	—	—	4,121
Other comprehensive income	—	—	—	—	—	922	922
Stock compensation expense, net of tax	—	—	236	—	—	—	236
Purchase of treasury stock (3,500 shares)	—	—	—	—	(70)	—	(70)
Cash dividends declared on common stock	—	—	—	(614)	—	—	(614)
Cash dividends declared on preferred stock	—	—	—	(161)	—	—	(161)
Cash dividends declared on SBLF preferred stock	—	—	—	(21)	—	—	(21)
Shares issued in the acquistion of Fox River Valley Bancorp, Inc. (712,830 shares)	—	7	14,249	—	—	—	14,256
Proceeds from exercise of common stock options (6,943 shares)	—	—	96	—	—	—	96
Balance at June 30, 2016	$8,000	$ 26	$49,298	$72,150	$(4,828)	$ 1,143	$ 125,789
Balance at December 31, 2016	$8,000	$ 26	$50,553	$77,907	$(4,828)	$ (370)	$ 131,288
Net income	—	—	—	4,690	—	—	4,690
Other comprehensive income	—	—	—	—	—	353	353
	—	—	239	—	—	—	239

Stock compensation expense, net of tax							
Cash dividends declared on common stock	—	—	—	(795)	—	—	(795)
Cash dividends declared on preferred stock	—	—	—	(166)	—	—	(166)
Proceeds from exercise of common stock options (48,584 shares)	—	1	644	—	—	—	645
Balance at June 30, 2017	$8,000	$ 27	$51,436	$81,636	$(4,828)	$ (17)	$ 136,254

See accompanying notes to unaudited consolidated financial statements.

4

COUNTY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2017 and 2016

(Unaudited)

	June 30, 2017	June 30, 2016
	(dollars in thousands)	
Cash flows from operating activities		
Net income	$4,690	$4,121
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization of premises and equipment	485	395
Amortization of core deposit intangible	276	54
Amortization of subordinated debentures	36	—
Provision for loan losses	2,285	1,282
Realized gain on sales of other real estate owned	(402)	(89)
Write-down of other real estate owned	78	84
Realized gain (loss) on sales of premises and equipment	290	(8)
Increase in cash surrender value of bank owned life insurance	(211)	(146)
Deferred income tax expense (benefit)	(613)	958
Stock compensation expense, net	239	236
Net amortization of securities	473	340
Net change in:		
Accrued interest receivable and other assets	(222)	1,475
Loans held for sale	(6,874)	4,369
Loan servicing rights	371	(966)
Accrued interest payable and other liabilities	(1,879)	(1,833)
Net cash provided by (used in) operating activities	(978)	10,272
Cash flows from investing activities		
Proceeds from maturities, principal repayments, and call of securities available for sale	18,034	9,959
Purchases of securities available for sale	(9,636)	(5,310)
Redemption (purchases) of FHLB stock	1,154	(2,147)
Purchases of bank owned life insurance	(5,500)	—
Loan originations and principal collections, net	(51,121)	(71,600)
Proceeds from sales of premises and equipment	1,615	13
Purchases of premises and equipment	(1,911)	(1,383)
Proceeds from sales of other real estate owned	1,079	2,198
Net cash provided by business combination	—	12,320
Net cash used in investing activities	(46,286)	(55,950)
Cash flows from financing activities		
Net decrease in demand and savings deposits	(59,849)	(55,444)
Net increase in certificates of deposits	75,993	72,802
Net change in other borrowings	(709)	(1,443)
Proceeds from FHLB advances	157,660	240,200
Repayment of FHLB advances	(132,255)	(188,350)
Payments to acquire treasury stock	—	(70)

Proceeds from issuance of common stock	645	96
Redemption of SBLF preferred stock	—	(15,000)
Dividends paid on SBLF preferred stock	—	(21)
Dividends paid on preferred stock	(166)	(161)
Dividends paid on common stock	(795)	(614)
Net cash provided by financing activities	40,524	51,995
Net change in cash and cash equivalents	(6,740)	6,317
Cash and cash equivalents, beginning of period	42,679	14,907
Cash and cash equivalents, end of period	$35,939	$21,224
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$6,143	$4,442
Income taxes	$4,775	3,720
Noncash investing activities:		
Transfer from loans to other real estate owned	$4,512	$159
Loans charged off	$1,492	$905

See accompanying notes to unaudited consolidated financial statements.

County Bancorp, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

NOTE 1 – BASIS OF PRESENTATION

The unaudited consolidated financial statements of County Bancorp, Inc. ("we," "us," "our," or the "Company") and its subsidiaries, including Investors Community Bank (the "Bank"), have been prepared, in the opinion of management, to reflect all adjustments necessary for a fair presentation of the financial position, results of operations, and cash flows as of and for the six months ended June 30, 2017 for the interim period. The results of operations for the three and six months ended June 30, 2017 may not necessarily be indicative of the results to be expected for the year ending December 31, 2017, or for any other period.

Management of the Company is required to make estimates and assumptions which affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of income and expenses during the reported periods. Actual results could differ significantly from those estimates.

These unaudited interim financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP"). Certain information in footnote disclosure normally included in financial statements prepared in accordance with GAAP has been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

The Company qualifies as an "emerging growth company" under the Jumpstart Our Business Startups Act (the "JOBS Act"). Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended (the "Securities Act"), for complying with new or revised accounting standards. As an emerging growth company, the Company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. The Company elected to take advantage of the benefits of this extended transition period.

New Accounting Pronouncements

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation to simplify several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. The amendments in this update became effective beginning January 1, 2017 and did not have a significant impact the Company's financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses, to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendment replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This amendment is effective for fiscal years beginning after December 15, 2019, including interim periods within those

fiscal years with early adoption permitted for the fiscal year beginning after December 15, 2018, including interim periods within those fiscal years. Entities should apply this amendment a modified-retrospective approach, through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company has developed a steering committee to implement this ASU, and is currently in the process of evaluating which methodology we will apply to its loan portfolio. At this time, the effect this ASU will have on its consolidated financial statements is unknown.

In March 2017, the FASB issued updated guidance codified within ASU-2017-08, Receivables – Nonrefundable Fees and Other Costs, which is intended to enhance the accounting for the amortization of premiums for purchased callable debt securities. The amendment is effective for fiscal years beginning after December 15, 2018, with early adoption permitted including adoption in an interim period. The Company is currently evaluating the effects this ASU will have on its consolidated financial statements.

In May 2017, the FASB issued updated guidance codified within ASU-2017-09, Compensation – Stock Compensation to provide clarity and reduce the diversity in practice and cost and complexity of applying the guidance when there is a change of terms condition of share-based awards. The amendment is effective for fiscal years beginning after December 15, 2017, with early adoption permitted including adoption in an interim period. The adoption of this ASU is not expected to have a significant impact on the Company’s consolidated financial because modification to share-based awards are rarely made.

NOTE 2 – EARNINGS PER SHARE

Earnings per common share is computed using the two-class method. Basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the applicable period. Diluted earnings per share is computed using the weighted-average number of shares determined for the basic earnings per common share plus the dilutive effect of share-based compensation using the treasury stock method.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(dollars in thousands)			
Net income from continuing operations	$2,058	$1,945	$4,690	$4,121
Less: preferred stock dividends	85	80	166	182
Income available to common shareholders for basic earnings per common share	$1,973	$1,865	$4,524	$3,939
Average number of common shares issued	7,328,282	6,878,374	7,323,885	6,768,899
Less: weighted average treasury shares	432,861	422,762	432,484	421,608
Less: weighted average nonvested equity incentive plan shares	266,186	384,585	278,810	372,235
Weighted average number of common shares outstanding	6,629,235	6,071,027	6,612,591	5,975,056
Effect of dilutive options	84,958	114,331	88,987	110,660
Weighted average number of common shares outstanding used to calculate diluted earnings per common share	6,714,193	6,185,358	6,701,578	6,085,716

NOTE 3 – SECURITIES AVAILABLE-FOR-SALE

The amortized cost and fair value of securities available-for-sale as of June 30, 2017 and December 31, 2016 were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(dollars in thousands)			
June 30, 2017				
Municipal securities	$38,553	$ 171	$ (81)	$38,643
Mortgage-backed securities	73,130	359	(451)	73,038
Asset-backed securities	3,493	4	(30)	3,467
	$115,176	$ 534	$ (562)	$115,148
December 31, 2016				
U.S. government and agency securities	$1,000	$ —	$ —	$1,000

Municipal securities	45,638	57	(239)	45,456
Mortgage-backed securities	73,648	292	(632)	73,308
Asset-backed securities	3,761	3	(91)	3,673
	$124,047	$ 352	$ (962)	$123,437

7

The amortized cost and fair value of securities at June 30, 2017 and December 31, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(dollars in thousands)	
June 30, 2017		
Due in one year or less	$13,660	$13,632
Due from one to five years	19,470	19,512
Due from five to ten years	8,916	8,966
Due after ten years	—	—
Mortgage-backed securities	73,130	73,038
	$115,176	$115,148
December 31, 2016		
Due in one year or less	$17,396	$17,311
Due from one to five years	25,960	25,912
Due from five to ten years	7,043	6,906
Due after ten years	—	—
Mortgage-backed securities	73,648	73,308
	$124,047	$123,437

There were no security sales for the six months ended June 30, 2017 and 2016.

At June 30, 2017 and December 31, 2016, no securities were pledged to secure the FHLB advances besides FHLB stock of $4.5 million and $5.7 million, respectively. At June 30, 2017 and December 31, 2016, the carrying amount of securities pledged to secure the Federal Reserve Bank Line of Credit was $10.6 million and $11.2 million, respectively.

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temorarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2017 and December 31, 2016:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
June 30, 2017						
Municipal securities	$17,338	$ (71)	$1,010	$ (10)	$18,348	$ (81)
Mortgage-backed securities	30,034	(316)	6,439	(135)	36,473	(451)
Asset-backed securities	—	—	2,669	(30)	2,669	(30)
	$47,372	$ (387)	$10,118	$ (175)	$57,490	$ (562)
December 31, 2016						
U.S. government and agency securities	$—	$ —	$—	$ —	$—	$ —

Municipal securities	24,924	(236)	604	(3)	25,528	(239)
Mortgage-backed securities	48,719	(632)	—	—	48,719	(632)
Asset-backed securities	2,745	(91)	—	—	2,745	(91)
	$76,388	$ (959)	$604	$ (3)	$76,992	$ (962)

The unrealized loss on the investments at June 30, 2017 and December 31, 2016 was due to normal fluctuations and pricing inefficiencies. The contractual terms of the investments do not permit the issuers to settle the securities at a price less than the amortized cost basis of the investment. Because the Company does not intend to sell the investments and it is not more-likely-than-not that the Company will be required to sell the investments before recovery of the amortized cost basis, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2017 and December 31, 2016.

NOTE 4 – LOANS

The components of loans were as follows:

	June 30, 2017	December 31, 2016
	(dollars in thousands)	
Agricultural loans	$643,978	$ 624,632
Commercial real estate loans	283,035	270,475
Commercial loans	97,571	89,944
Residential real estate loans	50,939	45,276
Installment and consumer other	145	159
Total gross loans	1,075,668	1,030,486
Allowance for loan losses	(13,503)	(12,645)
Loans, net	$1,062,165	$ 1,017,841

Changes in the allowance for loan losses by portfolio segment for the six months ended June 30, 2017 and 2016 were as follows:

June 30, 2017	Agricultural	Commercial Real Estate	Commercial	Residential Real Estate	Installment and Consumer Other	Total
	(dollars in thousands)					
Balance, beginning of year	$8,173	$ 2,762	$ 1,239	$ 470	$ 1	$12,645
Provision for loan losses	1,029	473	1,028	(246)	1	2,285
Loans charged off	—	(575)	(917)	—	—	(1,492)
Recoveries	1	36	28	—	—	65
Balance, end of period	$9,203	$ 2,696	$ 1,378	$ 224	$ 2	$13,503

June 30, 2016	Agricultural	Commercial Real Estate	Commercial	Residential Real Estate	Installment and Consumer Other	Total
	(dollars in thousands)					
Balance, beginning of year	$6,355	$ 2,237	$ 1,268	$ 533	$ 12	$10,405
Provision for loan losses	1,277	12	141	(143)	(5)	1,282
Loans charged off	(896)	—	—	(5)	(4)	(905)
Recoveries	2	1	6	—	—	9
Balance, end of period	$6,738	$ 2,250	$ 1,415	$ 385	$ 3	$10,791

The following tables present the balances in the allowance for loan losses and the recorded balance in loans by portfolio segment and based on impairment method as of June 30, 2017 and December 31, 2016:

	June 30, 2017		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
	(dollars in thousands)		
Allowance for loan losses:			
Agricultural loans	$657	$8,546	$9,203
Commercial real estate loans	18	2,678	2,696
Commercial loans	47	1,331	1,378
Residential real estate loans	—	224	224
Installment and consumer other	—	2	2
Total ending allowance for loan losses	722	12,781	13,503
Loans:			
Agricultural loans	8,576	635,402	643,978
Commercial real estate loans	3,832	279,203	283,035
Commercial loans	1,131	96,440	97,571
Residential real estate loans	—	50,939	50,939
Installment and consumer other	—	145	145
Total loans	13,539	1,062,129	1,075,668
Net loans	$12,817	$1,049,348	$1,062,165

	December 31, 2016		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
	(dollars in thousands)		
Allowance for loan losses:			
Agricultural loans	$546	$7,627	$8,173
Commercial real estate loans	377	2,385	2,762
Commercial loans	413	826	1,239
Residential real estate loans	—	470	470
Installment and consumer other	—	1	1
Total ending allowance for loan losses	1,336	11,309	12,645
Loans:			
Agricultural loans	13,044	611,588	624,632
Commercial real estate loans	4,952	265,523	270,475
Commercial loans	3,376	86,568	89,944
Residential real estate loans	68	45,208	45,276
Installment and consumer other	—	159	159
Total loans	21,440	1,009,046	1,030,486

Net loans	$20,104	$997,737	$1,017,841

10

The following table presents the aging of the recorded investment in past due loans at June 30, 2017 and December 31, 2016:

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Loans Not Past Due
	(dollars in thousands)				
June 30, 2017					
Agricultural loans	$43	$—	$5,690	$5,733	$638,245
Commercial real estate loans	3,010	—	518	3,528	279,507
Commercial loans	—	—	1,131	1,131	96,440
Residential real estate loans	116	—	—	116	50,823
Installment and consumer other	—	—	—	—	145
Total	$3,169	$—	$7,339	$10,508	$1,065,160
December 31, 2016					
Agricultural loans	$12	$—	$9,680	$9,692	$614,940
Commercial real estate loans	—	287	2,710	2,997	267,478
Commercial loans	371	—	2,695	3,066	86,878
Residential real estate loans	—	—	—	—	45,276
Installment and consumer other	—	—	—	—	159
Total	$383	$287	$15,085	$15,755	$1,014,731

The following table lists information on nonaccrual, restructured, and certain past due loans at June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
	(dollars in thousands)	
Nonaccrual loans, 90 days or more past due	$7,339	$ 15,085
Nonaccrual loans 30-89 days past due	3,053	371
Nonaccrual loans, less than 30 days past due	2,020	4,651
Restructured loans not on nonaccrual status	4,523	4,300
90 days or more past due and still accruing	—	—
Total	16,935	24,407

The following table presents the recorded investment in nonaccrual loans and loans past due 90 days or more at June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
	(dollars in thousands)	
Agricultural loans	$7,736	$ 12,323
Commercial real estate loans	3,545	4,340
Commercial loans	1,131	3,376
Residential real estate loans	—	68
Total	$12,412	$ 20,107

The average recorded investment in total impaired loans for the six months ended June 30, 2017 and for the year ended December 31, 2016 amounted to approximately $17.5 million and $25.9 million, respectively. Impaired loans include nonaccrual loans, restructured loans, and loans that are 90 days or more past due and still accruing. Interest income recognized on total impaired loans for the six months ended June 30, 2017 and for the year ended December 31, 2016 amounted to approximately $0.2 million and $0.4 million, respectively. For nonaccrual loans included in impaired loans, the interest income that would have been recognized had those loans been performing in accordance with their original terms would have been approximately $0.5 million and $1.5 million for the six months ended June 30, 2017 and for the year ended December 31, 2016, respectively.

Troubled Debt Restructurings

The Company has allocated approximately $0.6 million and $0.5 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings ("TDR") at June 30, 2017 and December 31, 2016, respectively. The Company

had no additional lending commitments at June 30, 2017 or December 31, 2016 to customers with outstanding loans that are classified as TDRs.

A TDR on nonaccrual status is classified as a nonaccrual loan until evaluation supports reasonable assurance of repayment and there has been a satisfactory period of performance according to the modified terms of the loan. Once this assurance is reached, the TDR is classified as a restructured loan. There were no unfunded commitments on these loans at June 30, 2017 and December 31, 2016. The following table presents the TDRs by loan class at June 30, 2017 and December 31, 2016:

	Non-Accrual	Restructured and Accruing	Total
	(dollars in thousands)		
June 30, 2017			
Agricultural loans	$3,841	$ 4,158	$7,999
Commercial real estate loans	636	320	956
Commercial loans	—	45	45
Total	$4,477	$ 4,523	$9,000
December 31, 2016			
Agricultural loans	$7,947	$ 3,925	$11,872
Commercial real estate loans	1,400	325	1,725
Commercial loans	371	50	421
Total	$9,718	$ 4,300	$14,018

The following table provides the number of loans modified in a troubled debt restructuring investment by class for the six months ended June 30, 2017 and 2016:

	For the Six Months Ended June 30, 2017		For the Six Months Ended June 30, 2016	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(dollars in thousands)			
Troubled debt restructurings:				
Agricultural loans	3	$ 546	3	$ 5,515
Commercial real estate loans	—	—	2	559
Commercial loans	—	—	2	1,671
Total	3	$ 546	7	$ 7,745

The following table provides the troubled debt restructurings for the six months ended June 30, 2017 and 2016 grouped by type of concession:

	For the Six Months Ended June 30, 2017		For the Six Months Ended June 30, 2016	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(dollars in thousands)			

Agricultural loans				
Payment concessions	2	$ 221	—	$ —
Combination of extension of term and interest rate concessions	1	325	3	5,515
Commercial real estate loans				
Extension of interest-only payments	—	—	2	559
Commercial loans				
Extension of interest-only payments	—	—	2	1,671
Total	3	$ 546	7	$ 7,745

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of the borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. Beginning in the third quarter of 2016, the substandard category was separated in to performing

12

and impaired subcategories to provide more detailed analysis of this category of loans. The Company analyzes agricultural, commercial, and commercial real estate loans individually by classifying the credits as to credit risk. The process of analyzing loans for changes in risk rating is ongoing through routine monitoring of the portfolio and annual internal credit reviews for credits with total exposure in excess of $300,000. The Company uses the following definitions for credit risk ratings:

Sound. Credits classified as sound show very good probability of ongoing ability to meet and/or exceed obligations.

Acceptable. Credits classified as acceptable show a good probability of ongoing ability to meet and/or exceed obligations.

Satisfactory. Credits classified as satisfactory show fair probability of ongoing ability to meet and/or exceed obligations.

Low Satisfactory. Credits classified as low satisfactory show fair probability of ongoing ability to meet and/or exceed obligations. Low satisfactory credits may be newer or have a less established track record of financial performance, inconsistent earnings, or may be going through an expansion.

Watch. Credits classified as watch show some questionable probability of ongoing ability to meet and/or exceed obligations.

Special Mention. Credits classified as special mention show potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loans or of the institution’s credit position at some future date.

Substandard – Performing. Credits classified as substandard – performing generally have well-defined weaknesses. Collateral coverage is adequate and the loans are not considered impaired. Payments are being made and the loans are on accrual status.

Substandard - Impaired. Credits classified as substandard generally have well-defined weaknesses that jeopardize the repayment of the debt. They have a distinct possibility that a loss will be sustained if the deficiencies are not corrected. Loans are considered impaired. Loans are either exhibiting signs of delinquency, are on non-accrual or are identified as a TDR.

Doubtful. Credits classified as doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable.

The Company categorizes residential real estate, installment and consumer other loans as satisfactory at the time of origination based on information obtained as to the ability of the borrower(s) to service their debt, such as current financial information, employment status and history, historical payment experience, credit scores and type and amount of collateral among other factors. The Company updates relevant information on these types of loans at the time of refinance, troubled debt restructuring or other indications of financial difficulty, downgrading as needed using the same category descriptions as for agricultural, commercial, and commercial real estate loans. In addition, the Company further considers current payment status as an indicator of which risk category to assign the borrower.

The greater the level of deteriorated risk as indicated by a loan’s assigned risk category, the greater the likelihood a loss will occur in the future. If the loan is substandard - impaired, then the loan loss reserves for the loan are recorded at the loss level of impairment. If the loan is not impaired, then its loan loss reserves are determined by the application

of a loss rate that increases with risk in accordance with the allowance for loan loss analysis.

Based on the most recent analysis performed by management, the risk category of loans by class of loans was as follows as of June 30, 2017 and December 31, 2016:

	As of June 30, 2017					
	Sound/ Acceptable/ Satisfactory/ Low Satisfactory	Watch	Special Mention	Substandard Performing	Substandard Impaired	Total Loans
	(dollars in thousands)					
Agricultural loans	$469,488	$131,371	$9,351	$ 25,192	8,576	$643,978
Commercial real estate loans	228,088	33,907	7,235	9,973	3,832	283,035
Commercial loans	84,945	4,512	2,290	4,693	1,131	97,571
Residential real estate loans	47,034	3,905	—	—	—	50,939
Installment and consumer other	145	—	—	—	—	145
Total	$829,700	$173,695	$18,876	$ 39,858	$ 13,539	$1,075,668

	As of December 31, 2016					
	Sound/ Acceptable/ Satisfactory/ Low Satisfactory	Watch	Special Mention	Substandard Performing	Substandard Impaired	Total Loans
	(dollars in thousands)					
Agricultural loans	$502,084	$84,801	$12,657	$ 12,046	$ 13,044	$624,632
Commercial real estate loans	225,038	27,368	378	12,739	4,952	270,475
Commercial loans	74,221	6,624	1,632	4,091	3,376	89,944
Residential real estate loans	40,556	4,151	501	—	68	45,276
Installment and consumer other	159	—	—	—	—	159
Total	$842,058	$122,944	$15,168	$ 28,876	$ 21,440	$1,030,486

NOTE 5 – LOAN SERVICING RIGHTS

Loans serviced for others are not included in the accompanying consolidated balance sheets. The risks inherent in servicing assets relate primarily to changes in prepayments that result from shifts in interest rates. The unpaid principal balances of mortgage and other loans serviced for others were approximately $589.0 million and $577.0 million at June 30, 2017 and December 31, 2016, respectively. The fair value of these rights were approximately $12.2 million at both June 30, 2017 and December 31, 2016. The fair value of servicing rights was determined using an assumed discount rate of 10 percent and prepayment speeds primarily ranging from 4 percent to 9 percent, depending upon the stratification of the specific right, and nominal credit losses.

The following summarizes servicing rights capitalized and amortized, along with the aggregate activity in related valuation allowances:

	June 30, 2017	December 31, 2016
	(dollars in thousands)	
Loan servicing rights:		
Balance, beginning of period	$9,264	$ 8,145
Additions	1,003	4,794
Disposals	(278)	(1,552)
Amortization	(1,096)	(2,123)
Balance, end of period	$8,893	$ 9,264

NOTE 6 – GOODWILL AND CORE DEPOSIT INTANGIBLE

The excess of the purchase price in an acquisition over the fair value of net assets acquired consists primarily of goodwill and the core deposit intangible. Goodwill is not amortized but is instead subject to impairment tests on at least an annual basis. Core deposit intangible, which arose from value ascribed to the deposit base of a bank acquired, has an estimated finite life and is amortized on an accelerated basis to expense over a 66-month period.

Management will periodically review the carrying value of its long-lived and intangible assets to determine if any impairment has occurred, in which case an impairment charge would be recorded as an expense in the period of impairment, or whether changes in

circumstances have occurred that would require a revision to the remaining useful life which would impact expense prospectively. In making such determination, management evaluates whether there are any adverse qualitative factors indicating that an impairment may exist, as well as the performance, on an undiscounted basis, of the underlying operations or assets which give rise to the intangible.

Goodwill: Goodwill resulted from the acquisition of Fox River Valley Bancorp, Inc. (“Fox River Valley”) on May 13, 2016. The carrying amount of goodwill was $5.0 million at June 30, 2017 and December 31, 2016.

Core deposit intangible: Core deposit intangible, primarily related to acquired customer relationships, is amortized over their estimated finite lives. The core deposit intangible related to the Fox River Valley acquisition had a gross carrying amount of $1.8 million. Amortization on core deposit intangible was $636 thousand at June 30, 2017 and $360 thousand at December 31, 2016.

	June 30, 2017	December 31, 2016
	(dollars in thousands)	
Core deposit intangible:		
Gross carrying amount	$1,801	$ 1,801
Accumulated amortization	(636)	(360)
Net book value	$1,165	$ 1,441
Additions during the period	$—	$ 1,801

NOTE 7 – DEPOSITS

Deposits are summarized as follows at June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
	(dollars in thousands)	
Demand deposits	$102,569	$118,657
Savings	218,536	262,296
Certificates of deposit	672,558	596,565
Total deposits	$993,663	$977,518

At June 30, 2017 and December 31, 2016, brokered deposits amounted to $235.8 million and $193.6 million, respectively, and are included in savings and certificates of deposit categories.

15

NOTE 8—ADVANCES FROM FHLB AND OTHER BORROWINGS

The Bank had advances outstanding from the FHLB in the amount of $133.3 million and $107.9 million on June 30, 2017 and December 31, 2016, respectively. These advances, rates, and maturities were as follows:

	Maturity	Rate	June 30, 2017	December 31, 2016
			(dollars in thousands)	
Fixed rate, fixed term	01/03/2017	0.94%	$—	$595
Fixed rate, fixed term	02/27/2017	0.76%	—	5,000
Fixed rate, fixed term	03/15/2017	1.46%	—	2,000
Fixed rate, fixed term	06/16/2017	0.80%	—	10,000
Fixed rate, fixed term	08/11/2017	0.83%	5,000	5,000
Fixed rate, fixed term	11/15/2017	0.95%	3,800	3,800
Fixed rate, fixed term	12/29/2017	1.27%	3,000	3,000
Fixed rate, fixed term	01/02/2018	1.23%	1,000	1,000
Fixed rate, fixed term	01/12/2018	0.85%	8,000	8,000
Fixed rate, fixed term	02/12/2018	0.91%	5,000	5,000
Fixed rate, fixed term	04/23/2018	1.07%	2,300	2,300
Fixed rate, fixed term	06/18/2018	0.93%	10,000	10,000
Fixed rate, fixed term	07/09/2018	1.41%	15,000	—
Fixed rate, fixed term	07/16/2018	1.21%	762	762
Fixed rate, fixed term	07/16/2018	1.21%	1,038	1,038
Fixed rate, fixed term	08/20/2018	1.15%	1,000	1,000
Fixed rate, fixed term	08/20/2018	1.15%	800	800
Fixed rate, fixed term	08/20/2018	1.27%	2,200	2,200
Fixed rate, fixed term	11/09/2018	1.47%	10,000	—
Fixed rate, fixed term	12/31/2018	1.65%	3,000	3,000
Fixed rate, fixed term	02/27/2019	1.47%	5,000	5,000
Fixed rate, fixed term	03/08/2019	1.54%	10,000	—
Fixed rate, fixed term	07/15/2019	1.11%	8,000	8,000
Fixed rate, fixed term	08/14/2019	1.77%	2,000	2,000
Fixed rate, fixed term	02/20/2020	1.71%	5,000	5,000
Fixed rate, fixed term	07/16/2020	1.85%	800	800
Fixed rate, fixed term	08/25/2020	1.84%	3,000	3,000
Fixed rate, fixed term	08/27/2020	1.88%	5,000	5,000
Fixed rate, fixed term	12/30/2020	2.09%	4,000	4,000
Fixed rate, fixed term	12/31/2020	1.94%	600	600
Fixed rate, fixed term	04/12/2021	1.92%	8,000	—
Fixed rate, fixed term	06/15/2021	1.39%	5,000	5,000
Fixed rate, fixed term	08/16/2021	2.29%	3,000	3,000
Fixed rate, fixed term	12/30/2021	2.29%	2,000	2,000
			$133,300	$107,895

The terms of security agreements with the FHLB require the Bank to pledge collateral for its borrowings. The collateral consists of qualifying first mortgage loans, certain securities available for sale, and stock of the FHLB.

The Bank had no irrevocable letters of credit with the FHLB as of June 30, 2017 and December 31, 2016.

Future maturities of borrowings were as follows:

	June 30, 2017	December 31, 2016
	(dollars in thousands)	
1 year or less	$ 38,100	$ 29,395
1 to 2 years	48,800	35,100
2 to 3 years	15,000	15,000
3 to 4 years	26,400	18,400
Over 4 years	5,000	10,000
	$ 133,300	$ 107,895

As of June 30, 2017 and December 31, 2016, the Bank also had a $50.0 million line-of-credit available with the Federal Reserve Bank of Chicago. Borrowings under this line of credit are limited by the amount of securities pledged by the Bank as collateral, which totaled $10.6 million and $11.3 million at June 30, 2017 and December 31, 2016, respectively. There were no outstanding advances included in other borrowings at June 30, 2017 and December 31, 2016, respectively.

Other borrowings are borrowings as a result of sold loans that do not qualify for sale accounting. These agreements are recorded as financing transactions as the Bank maintains effective control over the transferred loans. The dollar amount of the loans underlying the sale agreements continues to be carried in the Bank's loan portfolio, and the transfer is reported as a secured borrowing with pledge of collateral. At June 30, 2017 and December 31, 2016, the amounts of these borrowings were $1.3 million and $2.0 million, respectively.

Also included in other borrowings is the capital lease for our full service banking location in Appleton, Wisconsin that was assumed in connection with our merger of Fox River Valley. Under the terms of the current triple-net lease the Company is obligated to pay monthly rent of $15 thousand, and the lease term expires in April, 2018. As of June 30, 2017, liability remaining under the capital lease was $118 thousand, and the amortization related to the lease was $71 thousand for the six months ended June 30, 2017. As of December 31, 2016, liability remaining under the capital lease was $189 thousand, and the amortization related to the lease was $85 thousand for the year ended December 31, 2016.

The following table sets forth information concerning balances and interest rates on other borrowings as of and for the periods indicated:

	June 30, 2017	December 31, 2016
	(dollars in thousands)	
Balance outstanding at end of period	$ 1,443	$ 2,152
Average amount outstanding during the period	1,734	3,047
Maximum amount outstanding at any month end	1,825	3,930
Weighted average interest rate during the period	5.88 %	5.30 %
Weighted average interest rate at end of period	5.97 %	5.32 %

NOTE 9 – EQUITY INCENTIVE PLAN

Under the Company's 2016 Long Term Incentive Plan (the "Plan"), the Company may grant options to purchase shares of common stock and issue restricted stock to its directors, officers, and employees. Both qualified and non-qualified stock options and restricted stock may be granted and issued, respectively, under the Plan. As of June 30, 2017, 23,254 options or shares of restricted stock have been granted under the Plan.

The exercise price of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is ten years. Vesting periods range from one to five years from the date of grant. The restricted stock vesting periods range from one to five years from the date of issuance.

The status of the Plan as of June 30, 2017 and changes in the Plan during the six months ended June 30, 2017 were as follows:

	June 30, 2017		
	Number of Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value [1]
	(dollars in thousands except option and per share data)		
Outstanding, beginning of year	291,059	$ 15.18	
Granted	17,673	26.74	
Exercised	(48,584)	12.68	
Forfeited/expired	(4,868)	21.69	
Outstanding, end of period	255,280	$ 16.34	$ 1,955
Options exercisable at period-end	163,698	$ 14.54	$ 1,549
Weighted-average fair value of options granted during the period [2]		$ 9.77	

(1) The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on June 30, 2017. This amount changes based on changes in the market value of the Company’s stock.

(2) The fair value (present value of the estimated future benefit to the option holder) of each option grant is estimated on the date of grant using the Black-Scholes option pricing model.

Activity in restricted stock awards (“RSA”) and restricted stock units (“RSU”) for the six months ended June 30, 2017 was as follows:

	June 30, 2017	
	RSAs	Weighted Average Grant Price
Outstanding, beginning of year	38,593	$ 17.27
Granted	5,988	27.31
Vested	(2,416)	19.77
Forfeited/expired	(948)	27.31
Outstanding, end of period	41,217	$ 18.35

June 30, 2017	
RSUs	Weighted

		Average Grant Price
Outstanding, beginning of year	—	$ —
Granted	8,691	25.53
Vested	—	—
Forfeited/expired	—	—
Outstanding, end of period	8,691	$ 25.53

For the six months ended June 30, 2017 and 2016, share-based compensation expense, including options and restricted stock awards, applicable to the Plan was $239 thousand and $236 thousand, respectively.

As of June 30, 2017, unrecognized share-based compensation expense related to nonvested options and restricted stock awards amounted to $0.8 million and is expected to be recognized over a weighted average period of 1.98 years.

NOTE 10 – REGULATORY MATTERS

The Company (on a consolidated basis) and the Bank are each subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and

the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier 1 and Tier 1 Common Equity capital to risk-weighted assets, and of Tier 1 capital to average assets, as such terms are defined in the regulations. Management believed, as of June 30, 2017 and December 31, 2016, that the Company and the Bank met all capital adequacy requirements to which they were subject.

As of June 30, 2017, the Bank's capital ratios met those required to be considered as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, Tier 1 Common Equity risk-based, and Tier 1 leverage ratios as set forth in the following tables.

The Company's and the Bank's actual capital amounts and ratios are presented in the following table:

	Actual		Minimum For Capital Adequacy Purposes [a]:		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)					
June 30, 2017						
Total Capital (to risk weighted assets):						
Consolidated	$159,881	13.32%	$111,003	9.25 %	Not applicable	
Bank	155,037	12.93%	110,945	9.25 %	$119,940	10.00%
Tier 1 Capital (to risk weighted assets):						
Consolidated	145,771	12.15%	87,002	7.25 %	Not applicable	
Bank	140,927	11.75%	86,957	7.25 %	95,952	8.00 %
Tier 1 Capital (to average assets):						
Consolidated	145,771	11.62%	50,167	4.00 %	Not applicable	
Bank	140,927	11.25%	50,129	4.00 %	62,661	5.00 %
Tier 1 Common Equity Ratio (to risk weighted assets):						
Consolidated	122,301	10.19%	69,002	5.75 %	Not applicable	
Bank	140,927	11.75%	68,966	5.75 %	77,961	6.50 %
December 31, 2016						
Total Capital (to risk weighted assets):						
Consolidated	$154,335	13.59%	$97,949	8.625%	Not applicable	

Bank	149,278	13.23%	97,295	8.625%	$112,805	10.00%
Tier 1 Capital (to risk weighted assets):						
Consolidated	141,206	12.43%	75,236	6.625%	Not applicable	
Bank	136,148	12.07%	74,734	6.625%	90,244	8.00 %
Tier 1 Capital (to average assets):						
Consolidated	141,206	11.48%	49,183	4.00 %	Not applicable	
Bank	136,148	11.08%	49,144	4.00 %	61,430	5.00 %
Tier 1 Common Equity Ratio (to risk weighted assets):						
Consolidated	117,755	10.37%	58,201	5.125%	Not applicable	
Bank	136,148	12.07%	57,813	5.125%	73,323	6.50 %

(a) The ratios for June 30, 2017 and December 31, 2016 include a capital conservation buffer of 1.25% and 0.625%, respectively.

The rules of the Basel III regulatory capital framework implemented a capital conservation buffer that is added to the minimum requirements for capital adequacy purposes. The capital conservation buffer is subject to a three year phase-in period that began on January 1, 2016 and will be fully phased in on January 1, 2019 at 2.5%. The required phase-in capital conservation buffer during

2017 is 1.25%. At the present time, the ratios for the Company and the Bank are sufficient to meet the fully phased-in conservation buffer.

NOTE 11 – FAIR VALUE MEASUREMENTS

ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability is not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are independent, knowledgeable, and both able and willing to transact.

ASC 820-10 requires the use of valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, ASC 820-10 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1—Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2—Valuation is based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3—Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used by the Company in estimating the fair value disclosures for financial instruments:

Cash and Cash Equivalents and Interest-Bearing Deposits in Banks

The carrying amounts of cash and short-term instruments approximate fair values based on the short-term nature of the assets.

Fair values of other interest-bearing deposits in banks are estimated using discounted cash flow analyses based on current rates for similar types of deposits.

Securities Available for Sale

Where quoted prices are available in an active market, the Company classifies the securities within Level 1 of the valuation hierarchy. Securities are defined as both long and short positions. Level 1 securities include highly liquid government bonds and exchange-traded equities.

If quoted market prices are not available, the Company estimates fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes and credit spreads.

Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include U.S. government and agency securities, corporate bonds and other securities. Mortgage-backed securities are included in Level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, the Company classifies those securities in Level 3.

Loans

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (e.g., one-to-four family residential), credit card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for other loans (e.g., commercial and agricultural loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Loans Held for Sale

The carrying value of loans held for sale generally approximates fair value based on the short-term nature of the assets. If management identifies a loan held for sale that will ultimately sell at a value less than its carrying value, it is recorded at the estimated value.

Loan Servicing Rights

Fair value is based on market prices for comparable loan servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income.

Other Real Estate Owned

Loans on which the underlying collateral has been repossessed are adjusted to fair value upon transfer to other real estate owned. Subsequently, other real estate owned is carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral, or management’s estimation of the value of the collateral. Due to the significance of the unobservable inputs, all other real estate owned is classified as Level 3.

Deposits

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, statement savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Other Borrowings

The carrying amounts of federal funds purchased, other borrowings, and other short-term borrowings maturing within 90 days approximate their fair values.

Advances from the Federal Home Loan Bank

Current market rates for debt with similar terms and remaining maturities are used to estimate fair value of advances from the Federal Home Loan Bank (the "FHLB"). Fair values are estimated using discounted cash flow analyses based on current market rates for similar types of borrowing arrangements.

Subordinated Debentures

The fair values of these debt instruments utilize a discounted cash flow analysis based on an estimate of current interest rates being offered by instruments with similar terms and credit quality. Since the market for these instruments is limited, the internal evaluation represents a Level 3 measurement and approximates fair value.

Accrued Interest

The carrying amounts approximate fair value.

Commitments to Extend Credit and Standby Letters of Credit

As of June 30, 2017 and December 31, 2016, the carrying and fair values of the commitments to extend credit and standby letters of credit are not considered significant.

Assets measured at fair value on a recurring basis are summarized below:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(dollars in thousands)			
June 30, 2017				
Securities available for sale:				
Municipal securities	$—	$38,643	$ —	$38,643
Mortgage-backed securities	—	73,038	—	73,038
Asset-backed securities	—	3,467	—	3,467
Total assets at fair value	$—	$115,148	$ —	$115,148
December 31, 2016				
Securities available for sale:				
U.S. government and agency securities	$—	$1,000	$ —	$1,000
Municipal securities	—	45,456	—	45,456
Mortgage-backed securities	—	73,308	—	73,308
Asset-backed securities	—	3,673	—	3,673
Total assets at fair value	$—	$123,437	$ —	$123,437

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, they are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy for which a nonrecurring change in fair value has been recorded:

Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Impairment Losses

	(dollars in thousands)			
June 30, 2017				
Impaired loans	$—	$ —	$12,817	$ 722
Other real estate owned	—	—	6,917	78
Total assets at fair value	$—	$ —	$19,734	$ 800
December 31, 2016				
Impaired loans	$—	$ —	$20,104	$ 1,336
Other real estate owned	—	—	3,161	480
Total assets at fair value	$—	$ —	$23,265	$ 1,816

The significant inputs used in the fair value measurements for Level 3 assets measured at fair value on a nonrecurring basis are as follows:

June 30, 2017	Valuation Techniques	Unobservable Inputs	Range (Average)
Impaired loans	Evaluation of collateral	Estimation of value	NM*
Other real estate owned	Appraisal	Appraisal adjustment	10%-41% (24%)

December 31, 2016	Valuation Techniques	Unobservable Inputs	Range (Average)
Impaired loans	Evaluation of collateral	Estimation of value	NM*
Other real estate owned	Appraisal	Appraisal adjustment	7%-39% (21%)

* Not Meaningful. Evaluations of the underlying assets are completed for each impaired loan with a specific reserve. The types of collateral vary widely and could include accounts receivable, inventory, a variety of equipment, and real estate. Collateral evaluations are reviewed and discounted as appropriate based on knowledge of the specific type of collateral. In the case of real estate, an independent appraisal may be obtained. Types of discounts considered include aging of receivables, condition of the collateral, potential market for the collateral, and estimated disposal costs. These discounts will vary from loan to loan, thus providing a range would not be meaningful.

The estimated fair values, and related carrying or notional amounts, of the Company’s financial instruments are as follows:

	June 30, 2017		December 31, 2016		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Input Level
	(dollars in thousands)				
Financial assets:					
Cash and cash equivalents	$35,939	$35,939	$42,679	$42,679	1
Securities available for sale	115,148	115,148	123,437	123,437	2
FHLB Stock	4,534	4,534	5,688	5,688	2
Loans, net of allowance for loan losses	1,062,165	1,067,742	1,017,841	1,022,391	3
Loans held for sale	8,036	8,036	1,162	1,162	3
Accrued interest receivable	3,654	3,654	3,151	3,151	2
Loan servicing rights	8,893	12,192	9,264	12,194	3
Financial liabilities:					
Deposits:					
Time	672,558	677,996	596,565	600,153	3
Other deposits	321,105	320,883	380,953	377,980	1
Other borrowings	1,443	1,443	2,152	2,152	3
Advances from FHLB	133,300	134,265	107,895	108,517	3
Subordinated debentures	15,487	15,487	15,451	15,451	3
Accrued interest payable	2,069	2,069	1,879	1,879	2

NOTE 12 – OTHER REAL ESTATE OWNED

Changes in other real estate owned were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(dollars in thousands)			
Balance, beginning of period	$6,995	$2,947	$3,161	$2,872
Assets foreclosed	—	—	4,511	159
Assets acquired	—	1,951	—	1,951
Write-down of other real estate owned	(78)	—	(78)	(84)
Net gain on sales of other real estate owned	27	89	402	89
Proceeds from sale of other real estate owned	(27)	(2,198)	(1,079)	(2,198)
Balance, end of period	$6,917	$2,789	$6,917	$2,789

Expenses (income) applicable to other real estate owned included in non-interest expense include the following:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(dollars in thousands)			
Net gain on sales of other real estate owned	$(27)	$(89)	$(402)	$(89)
Write-down of other real estate owned	78	—	78	84
Operating expenses, net of rental income	25	48	69	79
	$76	$(41)	$(255)	$74

NOTE 13 – COMMITMENTS AND CONTINGENCIES

During the first quarter of 2017, the Company purchased and began renovating a building in Green Bay, Wisconsin in which to relocate its existing Green Bay branch. The project was completed and the renovated branch opened on July 31, 2017. The total project cost approximately $1.7 million, of which $1.5 had been incurred at June 30, 2017.

NOTE 14 – SUBSEQUENT EVENTS

Management evaluated subsequent events through the date the financial statements were issued. There were no significant events or transactions occurring after June 30, 2017, but prior to August 8, 2017, that provided additional evidence about conditions that existed at June 30, 2017.

On July 24, 2017, the Company received approval from the Federal Deposit Insurance Corporation to dissolve the ICB Investment Corp. subsidiary. Upon the dissolution, which is expected to be completed by December 31, 2017, the assets of the subsidiary will be transferred to the Bank.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this Form 10-Q. This report contains statements that constitute forward-looking statements within the meaning of the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the use of words such as “estimate,” “project,” “predict,” “believe,” “intend,” “anticipate,” “assume,” “plan,” “seek,” “expect,” “may,” “r “indicate,” “will,” “would,” “could,” “contemplate,” “continue,” “intend,” “target” and words of similar meaning. These forward-looking statements are not historical facts and include statements of our goals, intentions, expectations, business plans, and operating strategies.

Forward-looking statements are subject to significant risks and uncertainties, and our actual results may differ materially from the results discussed in such forward-looking statements. The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- adverse changes in economic conditions in our market area and to the agriculture market generally, dairy in particular;

- adverse changes in the financial services industry and national and local real estate markets (including real estate values);

- competition among depository and other financial institutions;

- risks related to a high concentration of dairy-related collateral located in our market area;

- credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and in our allowance for loan losses and provision for loan losses;

- changes in U.S. monetary policy, the level and volatility of interest rates, the capital markets and other market conditions that may affect, among other things, our liquidity, our net interest margin, our funding sources and the value of our assets and liabilities;

- our success in introducing new financial products;

- our ability to attract and maintain deposits;

- fluctuations in the demand for loans, which may be affected by numerous factors, including commercial conditions in our market areas and by declines in the value of real estate in our market areas;

- changes in consumer spending, borrowing and saving habits that may affect deposit levels;

- costs or difficulties related to the integration of the business of acquired entities and the risk that the anticipated benefits, cost savings and any other savings from such transactions may not be fully realized or may take longer than expected to realize;

- our ability to enter new markets successfully and capitalize on growth opportunities;

- any negative perception of our reputation or financial strength;

- our ability to raise additional capital on acceptable terms when needed;
- changes in laws or government regulations or policies affecting financial institutions, including increased costs of compliance with such laws and regulations;
- changes in accounting policies and practices;
- our ability to retain key members of our senior management team;
- the failure or security breaches of computer systems on which we depend;
- the ability of key third-party service providers to perform their obligations to us;
- the impact of any claims or legal actions, including any effect on our reputation;
- each of the factors and risks identified in the “Risk Factors” section included under Item 1A. of Part I of our most recent Annual Report on Form 10-K.

These statements are only current predictions and are subject to known and unknown risks, uncertainties and other factors that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from those anticipated by the forward-looking statements. You should not rely upon forward-looking statements as predictions of future events.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Forward-looking statements are made only as of the date of this report,

and County undertakes no obligation to update any forward-looking statements contained in this report to reflect new information or events or conditions after the date hereof.

Overview

County Bancorp, Inc. is a Wisconsin corporation founded in May 1996 and is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended. Our primary activities consist of operating through our wholly-owned subsidiary bank, Investors Community Bank, headquartered in Manitowoc, Wisconsin, and providing a wide range of banking and related business services through the Bank and our other subsidiaries.

On May 13, 2016, the Company acquired Fox River Valley and its wholly owned banking subsidiary, The Business Bank. The Company paid aggregate merger consideration of approximately $14.45 million in cash and 712,830 shares of the Company’s common stock.

In addition to the Bank, we have three wholly-owned subsidiaries, County Bancorp Statutory Trust II, County Bancorp Statutory Trust III, and Fox River Valley Capital Trust I, which are Delaware statutory trusts. The Bank is the sole shareholder of ICB Investment Corp., a Nevada corporation, and is the sole member of Investors Insurance Services, LLC and ABS 1, LLC, which are both Wisconsin limited liability companies.

Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans, and the interest we pay on interest-bearing liabilities, such as deposits. We generate most of our revenue from interest on loans and investments and loan- and deposit-related fees. Our loan portfolio consists of a mix of agricultural, commercial real estate, commercial, and residential real estate loans. Our primary source of funding is deposits. Our largest expenses are interest on these deposits and salaries and related employee benefits. We measure our performance through various metrics, including our pre-tax net income, net interest margin, net overhead ratio, return on average assets, earnings per share, and ratio of non-performing assets to total assets; we utilize non-GAAP metrics such as efficiency ratio, return on average common shareholders’ equity, income before provision for loan losses and income tax expense. We are also required to maintain appropriate regulatory leverage and risk-based capital ratios.

Operational Overview

- Net income for the three months ended June 30, 2017 was $2.1 million compared to $1.9 million for the three months ended June 30, 2016, and $4.7 million for the six months ended June 30, 2017 compared to $4.1 million for the six months ended June 30, 2016.
- Net interest income increased by $3.5 million from $15.2 million for the six months ended June 30, 2016, to $18.8 million for the six months ended June 30, 2017.
- Income before provision for loan losses and income tax expense was $4.8 million for the three months ended June 30, 2017, compared to $3.6 million for the three months ended June 30, 2016, and $9.8 million for the six months ended June 30, 2017, compared to $7.9 million for the six months ended June 30, 2016, an increase of 32.2% and 24.1%, respectively.
- Total loans were $1.1 billion at June 30, 2017 compared to $1.0 billion at December 31, 2016, and $960.3 million at June 30, 2016, an increase of 4.4% and 12.0%, respectively.
- Non-performing assets have decreased $3.9 million since December 31, 2016 to $18.9 million at June 30, 2017, a decrease of 17.2%, and have decreased $7.8 million, or 29.2%, since June 30, 2016.

Selected Financial Data

	Three Months Ended June 30, 2017 (unaudited)	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017 (unaudited)	Six Months Ended June 30, 2016	Year Ended December 31, 2016
	(Dollars in thousands, except per share data)				
Selected Income Statement Data:					
Interest income	$12,952	$10,700	$25,088	$19,818	$45,581
Interest expense	3,395	2,396	6,333	4,577	10,014
Net interest income	9,557	8,304	18,755	15,241	35,567
Provision for loan losses	1,524	470	2,285	1,282	2,959
Net interest income after provision for loan losses	8,033	7,834	16,470	13,959	32,608
Non-interest income	1,856	2,758	3,572	4,695	8,715
Non-interest expense	6,641	7,453	12,536	12,044	24,146
Income tax expense	1,190	1,194	2,816	2,489	6,483
Net income	$2,058	$1,945	$4,690	$4,121	$10,694
Per Common Share Data:					
Basic earnings per common share	$0.30	$0.31	$0.68	$0.67	$1.65
Diluted earnings per common share	$0.29	$0.30	$0.68	$0.65	$1.61
Cash dividends per common share	$0.06	$0.05	$0.12	$0.10	$0.20
Book value per share, end of period	$19.31	$18.15	$19.31	$18.15	$18.72
Tangible book value per share, end of period [(1)]	$18.38	$17.07	$18.38	$17.07	$17.74
Weighted average common shares - basic	6,629,235	6,071,027	6,612,591	5,975,716	6,260,040
Weighted average common shares - diluted	6,714,193	6,185,358	6,701,578	6,085,716	6,415,204
Common shares outstanding, end of period	6,641,159	6,501,031	6,641,159	6,501,031	6,586,335
Selected Balance Sheet Data (at period end):					
Total assets			$1,286,634	$1,160,589	$1,242,670
Securities available-for-sale			115,148	129,036	123,437
Total loans			1,075,668	960,310	1,030,486
Allowance for loan losses			(13,503)	(10,791)	(12,645)
Total deposits			993,663	892,535	977,518
Other borrowings and FHLB advances			134,743	120,797	110,047
Subordinated debentures			15,487	15,407	15,451
Total shareholders' equity			136,254	125,789	131,288
Performance Ratios:					
Return on average assets	0.65 %	0.75 %	0.75 %	0.85 %	0.98 %
Return on average common shareholders' equity [(1)]	6.15 %	6.72 %	7.13 %	7.76 %	9.51 %
Equity to assets ratio	10.59 %	10.84 %	10.59 %	10.84 %	10.56 %
Net interest margin	3.13 %	3.32 %	3.10 %	3.26 %	3.35 %

Interest rate spread	2.92	%	3.11	%	2.90	%	3.05	%	3.16	%
Non-interest income to average assets	0.59	%	1.06	%	0.57	%	0.97	%	0.80	%
Non-interest expense to average assets	2.11	%	2.86	%	2.01	%	2.48	%	2.21	%
Net overhead ratio (2)	1.52	%	1.80	%	1.43	%	1.51	%	1.41	%
Efficiency ratio (1)	57.74	%	68.18	%	57.60	%	60.44	%	53.72	%
Dividend payout ratio	20.69	%	16.67	%	17.65	%	15.38	%	12.42	%
Asset Quality Ratios:										
Non-performing loans to total loans	1.15	%	2.49	%	1.15	%	2.49	%	1.95	%
Allowance for loan losses to:										
Total loans	1.26	%	1.12	%	1.26	%	1.12	%	1.23	%
Non-performing loans	108.79	%	45.07	%	108.79	%	45.07	%	62.89	%
Net charge-offs to average loans	0.14	%	0.10	%	0.14	%	0.11	%	0.08	%
Non-performing assets to total assets (3)	1.47	%	2.30	%	1.47	%	2.30	%	1.84	%

	Three Months Ended		Six Months Ended		Year Ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
	(unaudited)		(unaudited)		
Capital Ratios:					
Shareholders' common equity to assets	9.97 %	10.15 %	9.97 %	10.15 %	9.92 %
Tier 1 risk-based capital (Bank)	11.75 %	12.33 %	11.75 %	12.33 %	12.07 %
Total risk-based capital (Bank)	12.93 %	13.41 %	12.93 %	13.41 %	13.23 %
Tier 1 Common Equity ratio (Bank)	11.75 %	12.33 %	11.75 %	12.33 %	12.07 %
Leverage ratio (Bank)	11.25 %	11.34 %	11.25 %	11.34 %	11.08 %

(1) Tangible book value per share, return on average common shareholders' equity, and the efficiency ratio are not recognized under GAAP and are therefore considered to be non-GAAP financial measures. See below for reconciliations of these financial measures to their most comparable GAAP measures.
(2) Net overhead ratio represents the difference between noninterest expense and noninterest income, divided by average assets.
(3) Non-performing assets consist of nonaccrual loans and other real estate owned.

Non-GAAP Financial Measures

"Efficiency ratio" is defined as non-interest expenses, excluding gains and losses on sales and write-downs of other real estate owned, divided by operating revenue, which is equal to net interest income plus non-interest income excluding gains and losses on sales of securities. In our judgment, the adjustments made to non-interest expense allow investors to better assess our operating expenses in relation to our core operating revenue by removing the volatility that is associated with certain one-time items and other discrete items that are unrelated to our core business.

	Three Months Ended		Six Months Ended		Year Ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
	(dollars in thousands)				
Efficiency Ratio GAAP to Non-GAAP reconciliation:					
Non-interest expense	$6,641	$7,453	$12,536	$12,044	$ 24,146
Less: net gain (loss) on sales and write-downs of OREO	(51)	89	324	5	(358)
Adjusted non-interest expense (non-GAAP)	$6,590	$7,542	$12,860	$12,049	$ 23,788
Net interest income	$9,557	$8,304	$18,755	$15,241	$ 35,567
Non-interest income	1,856	2,758	3,572	4,695	8,715
Operating revenue	$11,413	$11,062	$22,327	$19,936	$ 44,282
Efficiency ratio	57.74 %	68.18 %	57.60 %	60.44 %	53.72 %

Return on average common shareholders' equity is a non-GAAP based financial measure calculated using non-GAAP based amounts. The most directly comparable GAAP based measure is return on average shareholders' equity. We calculate return on average common shareholders' equity by excluding the average preferred shareholders' equity and

the related dividends. Management uses the return on average common shareholders’ equity in order to review our core operating results and our performance.

	Three Months Ended		Six Months Ended		Year Ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
Return on Average Common Shareholders' Equity					
GAAP to Non-GAAP reconciliation:					
Return on average shareholders' equity	6.04%	6.53%	6.94%	7.23%	8.99%
Effect of excluding average preferred shareholders' equity	0.11%	0.19%	0.19%	0.53%	0.52%
Return on average common shareholders' equity	6.15%	6.72%	7.13%	7.76%	9.51%

Tangible net book value per share is a non-GAAP financial measure based on GAAP amounts. In our judgment, the adjustments made to net book value allow investors to better assess our capital adequacy and net worth by removing the effect of intangible assets that are unrelated to our core business.

	Three Months Ended		Six Months Ended		Year Ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 31, 2016
	(dollars in thousands, except per share data)				
Tangible book value per share reconciliation:					
Common equity	$ 128,254	$ 117,789	$ 128,254	$ 117,789	$ 123,288
Less: Goodwill	5,038	5,038	5,038	5,038	5,038
Less: Core deposit intangible, net of amortization	1,165	1,747	1,165	1,747	1,441
Tangible common equity	$ 122,051	$ 111,004	$ 122,051	$ 111,004	$ 116,809
Common shares outstanding	6,641,159	6,501,031	6,641,159	6,501,031	6,586,335
Tangible book value per share	$ 18.38	$ 17.07	$ 18.38	$ 17.07	$ 17.74

Results of Operations

Our operating revenue is comprised of interest income and non-interest income. Net interest income increased by 15.1% to $9.6 million for the three months ended June 30, 2017 compared to the three months ended June 30, 2016, primarily attributable to loan growth of 12.0% between the same periods. Interest income increased to $13.0 million for the second quarter of 2017 compared to $10.7 million for the second quarter of 2016. Interest income from loans increased $2.1 million between the two periods despite a decrease in yield from 4.66% for the second quarter of 2016 to 4.63% for the second quarter of 2017. The increase was partially offset by an increase in interest expense from $2.4 million for the second quarter of 2016 to $3.4 million for the second quarter of 2017, which was the result of both an increase in the volume of deposits and borrowings and an increase in the rates paid between the two periods. The rates paid on deposits increased from 1.13% for the second quarter of 2016 to 1.28% for the second quarter of 2017. Non-interest income for the three months ended June 30, 2017 decreased 32.7% to $1.9 million from $2.8 million for the three months ended June 30, 2016, primarily as a result of a decrease in loan servicing fees due to a fewer sales of secondary market loans resulting from procedural changes by the Farm Service Agency. Non-interest expense also decreased 10.9% to $6.6 million for the three months ended June 30, 2017 compared to $7.5 million for the same period in 2016. The decrease in non-interest expense is primarily due to the elimination of one-time merger related expenses that occurred during the second quarter of 2016 in connection with our acquisition of Fox River Valley Bancorp, Inc. (“Fox River Valley”) in May 2016, offset by $0.7 million increase in employee compensation and benefits and a $0.3 million loss on the sale of our Green Bay, Wisconsin branch.

For the six months ended June 30, 2017, net interest income was $18.8 million, an increase of $3.5 million, or 23.1% from the six months ended June 30, 2016. Non-interest income decreased to $3.6 million for the first two quarters of 2017 which represents a 23.9% decrease from the six month ended June 30, 2016, primarily from the previously discussed decrease in secondary market loan sales. Non-interest expense increased to $12.5 million for the six months ended June 30, 2017, which is a slight increase from $12.0 million for the six months ended June 30, 2016, which is directly related to the approximately 35% increase in employees since the acquisition of Fox River Valley, and the related operating costs of the two Fox River Valley branches that were acquired in May 2016.

Analysis of Net Interest Income

Net interest income is the largest component of our income and is dependent on the amounts of and yields on interest-earning assets as compared to the amounts of and rates paid on interest-bearing liabilities. The following table reflects the components of net interest income for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended					
	June 30, 2017			June 30, 2016		
	Average Balance [1]	Income/ Expense	Yields/ Rates	Average Balance [1]	Income/ Expense	Yields/ Rates
	(dollars in thousands)					
Assets						
Investment securities	$113,453	$544	1.92 %	$103,809	$445	1.71 %
Loans [2]	1,064,808	12,328	4.63 %	876,331	10,205	4.66 %
Interest bearing deposits due from other banks	44,218	80	0.72 %	21,651	50	0.92 %
Total interest-earning assets	$1,222,479	$12,952	4.24 %	$1,001,791	$10,700	4.27 %
Allowance for loan losses	(14,162)			(11,276)		
Other assets	52,639			53,636		
Total assets	$1,260,956			$1,044,151		
Liabilities						
Savings, NOW, money market, interest checking	$235,196	$370	0.63 %	$175,672	$232	0.53 %
Time deposits	643,236	2,436	1.51 %	528,228	1,763	1.34 %
Total interest-bearing deposits	$878,432	$2,806	1.28 %	$703,900	$1,995	1.13 %
Other borrowings	1,605	23	5.73 %	3,024	45	5.95 %
FHLB advances	131,102	441	1.35 %	105,658	287	1.09 %
Junior subordinated debentures	15,470	125	3.23 %	13,973	69	1.98 %
Total interest-bearing liabilities	$1,026,609	$3,395	1.32 %	$826,555	$2,396	1.16 %
Non-interest bearing deposits	89,930			90,328		
Other liabilities	8,162			8,121		
Total liabilities	$1,124,701			$925,004		
SBLF preferred stock [3]	-			-		
Shareholders' equity	136,255			119,147		
Total liabilities and equity	$1,260,956			$1,044,151		
Net interest income		$9,557			$8,304	
Interest rate spread [4]			2.92 %			3.11 %
Net interest margin [5]			3.13 %			3.32 %
Ratio of interest-earning assets to interest-bearing liabilities	1.19			1.21		

30

	Six Months Ended June 30, 2017				June 30, 2016			
	Average Balance [1]	Income/ Expense	Yields/ Rates		Average Balance [1]	Income/ Expense	Yields/ Rates	
	(dollars in thousands)							
Assets								
Investment securities	$116,139	$1,065	1.83	%	$92,871	$794	1.71	%
Loans [2]	1,054,131	23,882	4.53	%	822,629	18,935	4.60	%
Interest bearing deposits due from other banks	40,607	141	0.69	%	20,382	89	0.87	%
Total interest-earning assets	$1,210,877	$25,088	4.14	%	$935,882	$19,818	4.24	%
Allowance for loan losses	(13,604)				(11,056)			
Other assets	52,766				47,361			
Total assets	$1,250,039				$972,187			
Liabilities								
Savings, NOW, money market, interest checking	246,638	725	0.59	%	175,141	441	0.50	%
Time deposits	627,046	4,518	1.44	%	484,228	3,366	1.39	%
Total interest-bearing deposits	$873,684	$5,243	1.20	%	$659,369	$3,807	1.15	%
Other borrowings	1,734	51	5.88	%	3,498	93	5.33	%
FHLB advances	123,860	794	1.28	%	94,400	542	1.15	%
Junior subordinated debentures	15,470	245	3.17	%	13,172	135	2.05	%
Total interest-bearing liabilities	$1,014,748	$6,333	1.24	%	$770,439	$4,577	1.19	%
Non-interest bearing deposits	91,626				75,340			
Other liabilities	8,500				7,973			
Total liabilities	1,114,874				853,752			
SBLF preferred stock [3]	-				4,368			
Shareholders' equity	135,165				114,067			
Total liabilities and equity	$1,250,039				$972,187			
Net interest income		$18,755				$15,241		
Interest rate spread [4]			2.90	%			3.05	%
Net interest margin [5]			3.10	%			3.26	%
Ratio of interest-earning assets to interest -bearing liabilities	1.19				1.21			

(1) Average balances are calculated on amortized cost.

(2) Includes loan fee income, nonaccruing loan balances, and interest received on such loans.

(3) The SBLF preferred stock refers to the 15,000 shares of our Series C noncumulative perpetual preferred stock issued to the U.S. Treasury through the U.S. Treasury's Small Business Lending Fund Program, which were redeemed on February 23, 2016.

(4) Interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(5) Net interest margin represents net interest income divided by average total interest-earning assets.

Rate/Volume Analysis

The following tables present the effects of changing rates and volumes on our net interest income between the periods indicated. The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The net column represents the sum of the volume and rate columns. For purposes of this table, changes attributable to both rate and volume which cannot be segregated have been allocated proportionately based on the changes due to rate and the changes due to volume.

	Three Months Ended June 30, 2017 v. 2016 Increase (Decrease)		
	Due to Change in Average		
	Volume	Rate	Net
	(dollars in thousands)		
Interest Income:			
Investment securities	$44	$55	$99
Loans	2,182	(59)	2,123
Federal funds sold and interest-bearing deposits with banks	38	(8)	30
Total interest income	2,264	(12)	2,252
Interest Expense:			
Savings, NOW, money market and interest checking	88	50	138
Time deposits	416	257	673
Other borrowings	(20)	(2)	(22)
FHLB advances	78	76	154
Junior subordinated debentures	8	48	56
Total interest expense	570	429	999
Net interest income	$1,694	$(441)	$1,253

	Six Months Ended June 30, 2017 v. 2016 Increase (Decrease)		
	Due to Change in Average		
	Volume	Rate	Net
	(dollars in thousands)		
Interest Income:			
Investment securities	$210	$61	$271
Loans	5,240	(293)	4,947
Federal funds sold and interest-bearing deposits with	65	(13)	52

banks			
Total interest income	5,515	(245)	5,270
Interest Expense:			
Savings, NOW, money market and interest checking	201	83	284
Time deposits	1,025	127	1,152
Other borrowings	(53)	11	(42)
FHLB advances	183	69	252
Junior subordinated debentures	27	83	110
Total interest expense	1,383	373	1,756
Net interest income	$4,132	$(618)	$3,514

Provision for Loan Losses

Based on our analysis of the components of the allowance for loan losses, management recorded a provision for loan losses of $1.5 million for the three months ended June 30, 2017 compared to a provision of $0.5 million for the three months ended June 30, 2016. The increase in the provision between these two periods is primarily the result of a $1.5 million charge-off from one commercial customer relationship.

For the six months ended June 30, 2017, the provision for loan losses was $2.3 million compared to $1.3 million for the six months ended June 30, 2016. Despite the increase in the provision, overall credit quality remains strong year-over-year. The specific reserve related to impaired loans decreased 59.9% from $1.8 million at June 30, 2016 to $0.7 million at June 30, 2017. In addition

non-performing assets have decreased $7.8 million since June 30, 2016 to $18.9 million at June 30, 2017, and improvement of 29.2%. As a percentage of total loans, non-performing assets has improved to 1.76% at June 30, 2017 from 2.78% at June 30, 2016, which is the lowest level since December, 2013.

There have been no substantive changes to our methodology for estimating the appropriate level of allowance for loan losses from what was previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016. Based upon this methodology, which includes actively monitoring the asset quality and inherent risks within the loan and lease portfolio, management concluded that an allowance for loan losses of $13.5 million, or 1.26% of total loans, was appropriate as of June 30, 2017. This is compared to an allowance for loan losses of $10.8 million, or 1.12% of total loans, at June 30, 2016, and $12.6 million, or 1.23% of total loans, at December 31, 2016.

Non-Interest Income

Non-interest income for the three months ended June 30, 2017 decreased by 32.7% from the three months ended June 30, 2016 from $2.8 million to $1.9 million. The decrease was the result of a decrease in loan servicing rights of $1.0 million which was due to a Farm Service Agency procedural change that has delayed our secondary market sale activity and a slowdown in farm expansions.

For the six months ended June 30, 2017, non-interest income decreased by 23.9% from $4.7 million to $3.6 million. As noted above, the decrease was the result of a decrease in loan servicing rights.

Loan servicing rights are included in loan servicing fees in our consolidated statement of operations. The following table reflects the components of non-interest income for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(dollars in thousands)			
Service charges	$399	$411	$724	$688
Gain on sale of loans, net	24	61	49	161
Loan servicing fees	1,437	1,316	2,847	2,613
Loan servicing rights	(167)	816	(372)	966
Income on other real estate owned	20	9	38	14
Other	143	145	286	253
Total non-interest income	$1,856	$2,758	$3,572	$4,695

Non-Interest Expense

Non-interest expense decreased 10.9% to $6.6 million for the three months ended June 30, 2017 compared to $7.5 million for the three months ended June 30, 2016. The decrease is due merger related to information processing and other costs associated with the acquisition of Fox River Valley Bancorp, Inc. in 2016 of $1.5 million, which were partially offset by increased operating costs associated with the two additional branches acquired through the merger, including an increase of $141 thousand in amortization of core deposit intangible, and a 24.0% increase in employee compensation and benefits from the three months ended June 30, 2016 to the three months ended June 30, 2017. Additionally, during the three months ended June 30, 2017 a loss of $0.3 million was recorded on the sale of a branch

building.

For the six months ended June 30, 2017, non-interest expense increased by 4.1% to $12.5 million from $12.0 million for the six months ended June 30, 2016. As noted above, the increase is primarily the result of increased operating costs associated with two additional branches acquired through the merger, including an increase of $282 thousand in amortization of core deposit intangible and a 29.5% increase in employee compensation and benefits from the six months ended June 30, 2016. In addition, during the first quarter of 2017, a $0.2 million severance package was paid to a former senior vice president.

The following table reflects the components of our non-interest expense for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(dollars in thousands)			
Employee compensation and benefits	$3,833	$3,092	$7,890	$6,093
Occupancy	180	114	357	207
Information processing	397	1,477	759	1,757
Professional fees	423	725	837	1,034
Business development	286	145	456	285
FDIC assessment	96	124	188	261
Other real estate owned expenses	44	57	107	93
Write-down of other real estate owned	78	—	78	84
Net loss (gain) on other real estate owned	(27)	(89)	(402)	(89)
Depreciation and amortization	323	187	666	282
Other	1,008	1,621	1,600	2,037
Total non-interest expense	$6,641	$7,453	$12,536	$12,044

Income taxes

The Company accounts for income taxes in accordance with income tax accounting guidance, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term “more likely than not” means a likelihood of more than 50%; the terms “examined” and “upon examination” also include resolution of the related appeals or litigation processes, if any. A tax position that meets the “more likely than not” recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the “more likely than not” recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management’s judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The Company files income tax returns in the U.S. federal jurisdiction and in the state of Wisconsin. The Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2013.

The Company recognizes interest and penalties on income taxes as a component of other non-interest expense.

Income tax expense for the six months ended June 30, 2017 and 2016 was $2.8 million and $2.5 million, which represents an effective tax rate of 37.5% and 37.7%, respectively.

Financial Condition

Total assets increased $44.0 million, or 3.5%, from $1.2 billion at December 31, 2016 to $1.3 billion at June 30, 2017. Total loan growth amounted to $45.2 million, a 4.4% increase, in the first half of 2017. Other significant changes from December 31, 2016 to June 30, 2017 include a decrease in securities available-for-sale of $8.3 million and an increase in bank owned life insurance of $5.7 million.

Total liabilities increased $39.0 million, or 3.5%, from $1.1 billion at December 31, 2016 to $1.2 million at June 30, 2017. This increase is primarily attributed to increased deposits and borrowings associated with our increased loan demand.

Shareholders' equity increased $5.0 million, or 3.8%, to $136.3 million at June 30, 2017 from $131.3 million at December 31, 2016. This increase was due primarily to net income for the six months ended June 30, 2017 of $4.7 million, and the exercise of 48,584 shares of stock options during the first half of 2017, which were partially offset by the payment of $0.8 million of dividends on common stock during the first half of 2017.

Net Loans

Total net loans increased by $44.4 million, or 4.4%, from $1.0 billion at December 31, 2016 to $1.1 billion at June 30, 2017. This increase was driven primarily by commercial real estate loans growing $12.6 million or 4.6% and agricultural loans growing $19.3 million or 3.1% during the first six months of 2017.

The following table sets forth the composition of our loan portfolio at the dates indicated:

	June 30, 2017		December 31, 2016	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Agriculture loans	$643,978	59.9 %	$624,632	60.6 %
Commercial real estate loans	283,035	26.3 %	270,475	26.3 %
Commercial loans	97,571	9.1 %	89,944	8.7 %
Residential real estate loans	50,939	4.7 %	45,276	4.4 %
Installment and consumer other	145	0.0 %	159	0.0 %
Total gross loans	$1,075,668	100.0 %	$1,030,486	100.0 %
Allowance for loan losses	(13,503)		(12,645)	
Loans, net	$1,062,165		$1,017,841	

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense, which affects our earnings directly. Loans are charged against the allowance for loan losses when management believes that the collectability of all or some of the principal is unlikely. Subsequent recoveries are added to the allowance. The allowance is an amount that reflects management's estimate of the level of probable incurred losses in the loan portfolio. Factors considered by management in determining the adequacy of the allowance include, but are not limited to, detailed reviews of individual loans, historical and current trends in loan charge-offs for the various portfolio segments evaluated, the level of the allowance in relation to total loans and to historical loss levels, levels and trends in non-performing and past due loans, volume and migratory direction of adversely graded loans, external factors including regulation, reputation, and competition, and management's assessment of economic conditions. Our board of directors reviews the recommendations of management regarding the appropriate level for the allowance for loan losses based upon these factors.

The provision for loan losses is the charge to operating earnings necessary to maintain an adequate allowance for loan losses. We have developed policies and procedures for evaluating the overall quality of our loan portfolio and the timely identification of problem credits. Management continuously reviews these policies and procedures and makes

further improvements as needed. The adequacy of our allowance for loan losses and the effectiveness of our internal policies and procedures are also reviewed periodically by our regulators, our auditors, and external loan review personnel. Our regulators may advise us to recognize additions to the allowance based upon their judgments about information available to them at the time of their examination. Such regulatory guidance is taken under consideration by management, and we may recognize additions to the allowance as a result.

We continually refine our methodology for determining the allowance for loan losses by comparing historical loss ratios utilized to actual experience and by classifying loans for analysis based on similar risk characteristics. Cash receipts for accruing loans are applied to principal and interest under the contractual terms of the loan agreements; however, cash receipts on impaired and nonaccrual loans for which the accrual of interest has been discontinued are applied to principal and interest income depending upon the overall risk of principal loss to us.

At June 30, 2017 and December 31, 2016, the allowance for loan losses was $13.5 million and $12.6 million, respectively, which resulted in a ratio of the allowance to total loans of 1.26% and 1.23%, respectively. The overall increase in the allowance for loan losses, was the result of organic loan growth and decline in qualitative economic factor we use to assess our portfolio.

Charge-offs and recoveries by loan category for the three and six months ended June 30, 2017 and 2016 were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(dollars in thousands)			
Balance, beginning of period	$13,428	$11,218	$12,645	$10,405
Loans charged off:				
Agriculture loans	—	896	—	896
Commercial real estate loans	575	5	575	5
Commercial loans	900	—	917	—
Residential real estate loans	—	—	—	—
Installment and consumer other	—	4	—	4
Total loans charged off	$1,475	$905	$1,492	$905
Recoveries:				
Agriculture loans	1	1	1	2
Commercial real estate loans	23	1	36	1
Commercial loans	2	6	28	6
Residential real estate loans	—	—	—	—
Installment and consumer other	—	—	—	—
Total recoveries	26	8	65	9
Net loans charged-off	$1,449	$897	$1,427	$896
Provision for loan losses	1,524	470	2,285	1,282
Allowance for loan losses, end of period	$13,503	$10,791	$13,503	$10,791
Selected loan quality ratios:				
Net charge-offs to average loans	0.14 %	0.10 %	0.14 %	0.11 %
Allowance for loan losses to total loans (end of period)	1.26 %	1.12 %	1.26 %	1.12 %
Allowance for loan losses to non-performing assets and performing troubled debt restructurings (end of period)	57.57 %	35.60 %	57.57 %	35.60 %

Loan Servicing Rights

As part of our growth and risk management strategy, we have actively developed a loan participation and loan sales network. Our ability to sell loan participations and whole loans benefits us by freeing up capital and funding to lend to

new customers as well as to increase non-interest income through the recognition of loan sale and servicing revenue. Because we continue to service these loans, we are able to maintain a relationship with the customer. Additionally, we receive a servicing fee that offsets some of the cost of administering the loan, while maintaining the customer relationship.

Servicing assets are recognized as separate assets when rights are acquired through the sale of financial assets. Servicing rights resulting from the sale or securitization of loans originated by the Company are initially measured at fair value at the date of transfer. The Company subsequently measures each class of servicing asset using the amortization method. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment or increased obligation based on fair value at each reporting date.

Fair value is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. These variables may have an adverse impact on the value of the servicing right and may result in a reduction to non-interest income.

Servicing assets measured using the amortization method are evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of

the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measure of the impairment.

Changes in the valuation allowances are reported with loan servicing fees on the Company's consolidated statements of operations. Fair value in excess of the carrying amount of servicing assets for that stratum is not recognized.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of loan servicing rights is netted against loan servicing fee income.

Information about the loan servicing portfolio is shown below:

	June 30, 2017	December 31, 2016
	(dollars in thousands)	
Total loans	$ 1,075,668	$ 1,030,486
Less: Nonqualified loan sales included below	(1,325)	(1,963)
Loans serviced:		
Agricultural	567,167	562,843
Commercial	18,855	11,038
Commercial real estate	2,943	3,083
Total loans serviced	588,965	576,964
Total loans and loans serviced	$ 1,663,308	$ 1,605,487

Securities

Our securities portfolio is predominately composed of municipal securities, investment grade mortgage-backed securities, U.S. Government and agency securities, and asset-backed securities. We classify substantially all of our securities as available for sale. We do not engage in active securities trading in carrying out our investment strategies.

Securities decreased to $115.1 million at June 30, 2017 from $123.4 million at December 31, 2016. During the six months ended June 30, 2017, we recognized unrealized holding gains of $0.6 million before income taxes through other comprehensive income.

The following table sets forth the amortized cost and fair values of our securities portfolio at June 30, 2017 and December 31, 2016:

	June 30, 2017		December 31, 2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(dollars in thousands)			
Available for sale:				
Municipal securities	$ 38,553	$ 38,643	$ 45,638	$ 45,456
Mortgage-backed securities	73,130	73,038	73,648	73,308
Asset-backed securities	3,493	3,467	3,761	3,673

U.S. Government and agency securities	—	—	1,000	1,000
Total available for sale	$115,176	$115,148	$124,047	$123,437

Deposits

Deposits are the major source of our funds for lending and other investment purposes. Deposits are attracted principally from within our primary market area through the offering of a broad variety of deposit instruments including checking accounts, noninterest-bearing demand accounts, money market accounts, savings accounts, time deposit accounts (including "jumbo" certificates in denominations of $100,000 or more) and retirement savings plans. We also obtain brokered deposits on an as-needed basis.

Deposit growth was 1.7% to $993.7 million at June 30, 2017 from $977.5 million at December 31, 2016. Organic deposit growth has been slow in recent years due to strong competition in a market with compressed interest rates. We anticipate continued

competition as rates are projected to rise. As of June 30, 2017 and December 31, 2016, the distribution by type of deposit account was as follows:

	June 30, 2017		December 31, 2016	
	Amount	% of Deposits	Amount	% of Deposits
	(dollars in thousands)			
Time deposits	$437,710	44.1 %	$404,667	41.4 %
Brokered deposits	235,785	23.7 %	193,613	19.8 %
Money market accounts	164,061	16.5 %	206,435	21.1 %
Demand, noninterest-bearing	102,569	10.3 %	118,657	12.1 %
NOW accounts and interest checking	47,811	4.8 %	48,727	5.0 %
Savings	5,727	0.6 %	5,419	0.6 %
Total deposits	$993,663	100.0 %	$977,518	100.0 %

Liquidity Management and Capital Resources

Liquidity is the ability to meet current and future financial obligations of a short-term and long-term nature including, but not limited to, funding loans and depositor withdrawals. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities and borrowings from the FHLB. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows, calls of investment securities and borrowed funds and prepayments on loans are greatly influenced by general interest rates, economic conditions and competition.

At June 30, 2017, advances from the FHLB were $133.3 million compared to $107.9 million at December 31, 2016. This increase helped fund our loan growth as load demands outpaced deposit growth. Our remaining borrowing capacity from the FHLB was $332.9 million at June 30, 2017.

Management adjusts our investments in liquid assets based upon an assessment of (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest-earning deposits and securities, (4) the objectives of our interest-rate risk and investment policies and (5) the risk tolerance of management and our board of directors.

Our cash flows are composed of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash used in operating activities was $1.0 million for the six months ended June 30, 2017, compared to net cash provided by operating activities of $10.3 million for the six months ended June 30, 2016. Net cash used in investing activities, which consists primarily of purchases of and proceeds from the sale, maturities, calls, and principal repayments of securities available for sale, as well as loan originations, net of repayments, was $46.3 million and $56.0 million for the six months ended June 30, 2017 and 2016, respectively. Net cash provided by financing activities, consisting primarily of the activity in deposit accounts, and FHLB advances was $40.5 million and $52.0 million for the six months ended June 30, 2017 and 2016, respectively.

At June 30, 2017, the Bank exceeded all of its regulatory capital requirements, with Tier 1 leverage capital of $140.9 million, or 11.25% of adjusted average total assets, which is above the minimum level to be well-capitalized of $62.7 million, or 5.0% of adjusted average total assets, and total risk-based capital of $155.0 million, or 12.93% of risk-weighted assets, which is above the minimum level to be well-capitalized of $119.9 million, or 10.0% of risk-weighted assets.

At the holding company level, our primary sources of liquidity are dividends from the Bank, investment income and net proceeds from investment sales, borrowings and capital offerings. The main uses of liquidity are the payment of interest to holders of our junior subordinated debentures and the payment of interest or dividends to common and preferred shareholders. The Bank is subject to certain regulatory limitations regarding its ability to pay dividends to the Company; however, we do not believe that the Company will be adversely affected by these dividend limitations. At June 30, 2017, there were $82.2 million of retained earnings available for the payment of dividends by the Bank to the holding company. Management believes liquidity to be sufficient as of June 30, 2017.

Off-Balance Sheet Arrangements

As of June 30, 2017, there were no significant changes to our contractual obligations and off-balance sheet arrangements disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016. We continue to believe that we have adequate capital and liquidity available from various sources to fund projected obligations and commitments.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not required.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2017. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2017, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

There are inherent limitations in the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and circumvention or overriding of controls. Accordingly, even an effective system of disclosure controls and procedures can provide only reasonable assurance with respect to financial statement preparation. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We and our subsidiaries may be involved from time to time in ordinary routine litigation incidental to our respective businesses. Neither we nor any of our subsidiaries are currently engaged in, nor is any of our property the subject of, any legal proceedings, other than ordinary routine litigation incidental to the business, that are expected to have a material adverse effect on our results of operations or financial position.

Item 1A. Risk Factors.

There are no material changes to the risk factors set forth in "Risk Factors" in Item 1A to Part I of our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The Company did not issue any unregistered equity securities or repurchase any shares of its common stock during the quarter ended June 30, 2017.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

On August 7, 2017, the Company and the Bank entered into revised employment agreements with Timothy J. Schneider, President of the Company and Chief Executive Officer of the Bank, Mark R. Binversie, President of the Bank, and David A. Coggins, Executive Vice President and Chief Banking Officer of the Bank, (the "Named Executive Officers"). The revised employment agreements supersede the Named Executive Officers' previous agreements.

The employment agreements have an initial term through December 31, 2020 for Messrs. Schneider and Binversie and December 31, 2017 for Mr. Coggins. Following the initial term the agreements will automatically renew for successive one year terms unless notice of non-renewal is provided at least 90 days prior to the end of the then existing term. The employment agreements provide for an annual base salary of $371,830, $245,000, and $245,000, for Messrs. Schneider, Binversie and Coggins, respectively, annual incentive award opportunities and an opportunity for the Named Executive Officers to participate in other employee and fringe benefits on the same basis as is generally available for other similarly situated senior executives of the Company.

Per the terms of the employment agreements, each of the Named Executive Officers will be entitled to severance payments in the event of a termination by the Company and the Bank without cause or by the Named Executive Officer for good reason. The Named Executive Officers will be entitled to enhanced and accelerated severance payments if such termination occurs within the 6 months preceding, or 24 months following a change in control. The employment agreements provide for non-compete and non-solicitation restrictive covenants in the event of a termination of employment for any reason.

The foregoing description of the employment agreements for Messrs. Schneider, Binversie and Coggins is qualified in its entirety by the terms and conditions of such documents, which are filed as Exhibits 10.2, 10.3 and 10.4, respectively, to this Quarterly Report on Form 10-Q.

As disclosed in the Company's Form 8-K filed on July 20, 2017, an employment agreement between the Bank and Glen L. Stiteley was signed on July 18, 2017. Effective August 15, 2017, Mr. Stiteley will become Treasurer and Chief Financial Officer of the Company and Executive Vice President, Chief Financial Officer, and Treasurer of the Bank.

The 2017 Annual Meeting of Shareholders (the "2017 Annual Meeting") date has been changed by more than 30 days from the anniversary of the Company' 2016 annual meeting of shareholders, which was held on June 20, 2017. The 2017 Annual Meeting will be held at Silver Lake College Franciscan Center Atrium, 2406 S. Alverno Rd., Manitowoc, WI 54220, on May 15, 2018 at 6:00 p.m., Central Daylight time.

Item 6. Exhibits.

Exhibit Number	Description
10.1	Employment Agreement dated July 18, 2017, by and among County Bancorp, Inc., Investors Community Bank and Glen L. Stiteley (incorporated by reference to Exhibit 10.1 to County Bancorp, Inc.'s current report on Form 8-K (File no. 001-36808) filed on July 20, 2017)
10.2	Employment Agreement dated August 7, 2017, by and among County Bancorp, Inc., Investors Community Bank and Timothy J. Schneider.
10.3	Employment Agreement dated August 7, 2017, by and among County Bancorp, Inc., Investors Community Bank and Mark R. Binversie.
10.4	Employment Agreement dated August 7, 2017, by and among County Bancorp, Inc., Investors Community Bank and David A. Coggins.
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

County Bancorp, Inc.

Date: August 8, 2017 By: /s/ Timothy J. Schneider
Timothy J. Schneider
President

(principal executive officer)

Date: August 8, 2017 By: /s/ David D. Kohlmeyer
David D. Kohlmeyer
Interim Chief Financial Officer

(principal financial and accounting officer)

Exhibit Index

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43