County Bancorp, Inc.
Form 10-K
March 14, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

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	39-1850431
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2400 S. 44th Street, Manitowoc, WI	54221
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value per share	Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K .

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 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 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

The aggregate market value of the common equity held by non-affiliates computed by reference to the closing price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter – $142,291,600

As of March 14, 2019, 6,709,480 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement of County Bancorp, Inc. for its 2019 annual meeting of shareholders are incorporated by reference into Part III hereof to the extent indicated in such Part. The definitive Proxy Statement will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the Company's 2018 fiscal year.

2018 FORM 10-K

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PART I

ITEM 1. BUSINESS

General

County Bancorp, Inc. (“we,” “us,” “our” or the “Company”) 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 (the “BHCA”). Our primary activities consist of holding the stock of our wholly owned subsidiary bank, Investors Community Bank (the “Bank”), and providing a wide range of banking and related business activities through the Bank and our other subsidiaries. At December 31, 2018, we had total assets of approximately $1.5 billion. For additional financial information, see our consolidated financial statements in Part II, Item 8 of this Form 10-K.

Investors Community Bank

Investors Community Bank is a Wisconsin state bank originally chartered in 1997, and headquartered in Manitowoc, Wisconsin. The Bank is an independent community bank offering a full range of financial services focusing on the needs of agricultural businesses statewide, with a primary focus on dairy-related lending with lending relationships in 59 of Wisconsin’s 72 counties. We also serve business customers throughout Wisconsin but primarily are focused in northeastern and central Wisconsin. Our customers are served from our full-service branches in Manitowoc, Appleton, Green Bay, and Stevens Point, and our loan production offices in Darlington, Eau Claire, Fond du Lac, and Sheboygan.

Subsidiaries

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 which were formed for the purpose of issuing trust preferred securities. The Bank is the sole member of Investors Insurance Services, LLC, which provides crop insurance and milk margin products to the agricultural sector of Wisconsin, and ABS 1, LLC, which holds real estate and personal property for sale that was obtained through repossession, both of which are Wisconsin limited liability companies. During 2017, the Bank dissolved ICB Investment Corp., its former subsidiary, and distributed its assets to the Bank.

Corporate Governance Matters

We maintain a website at www.investorscommunitybank.com. We make available through the Investor Relations link on that website, free of charge, copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file those materials with, or furnish them to, the Securities and Exchange Commission (“SEC”). The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding SEC registrants.

Market

Our agricultural banking business, which is primarily dairy-related, extends throughout Wisconsin. We had lending relationships in 59 of the state’s 72 counties as of December 31, 2018. We also serve business customers throughout Wisconsin with a focus on northeastern and central Wisconsin.

The economy in Wisconsin represents a diverse range of industries, including manufacturing, trade, agriculture, professional and business services, finance and insurance, and government industries. According to the Bureau of Economic Analysis, the broader Wisconsin economy is growing at a pace on par with that of the United States as a whole, and the overall unemployment rate was a sixteen-year low and below the national rate of unemployment for all of 2018.

Dairy-related business lending has proven to be a source of stability and steady growth for both the Bank and the state of Wisconsin. The economic impact of the dairy industry on Wisconsin is significant. According to a 2012 report from the University of Wisconsin-Madison, as part of the overall Wisconsin agricultural economy, the dairy sector contributed $43.4 billion of revenue to the state’s economy. According to a 2015 report from the University of Wisconsin-Madison, total revenue for the agricultural industry in Wisconsin was just over $59 billion in 2007 and had grown to $88.3 billion in 2012, representing approximately a 49% increase. According to the United States Department of Agriculture (“USDA”), Wisconsin milk production topped 30 billion pounds for the first time in 2016, a 28.7% increase since 2006, and leads the nation in cheese production with more than three billion pounds produced.

According to the Wisconsin Milk Marketing Board, since 1990, the average consumption of cheese has increased 43%, and the average consumption of yogurt has increased 277%. According to the USDA, in 2016, Wisconsin was the home of 23% of all U.S. dairy farms. We believe the available customer base, the increasing demand for agricultural products and changing agricultural industry dynamics will continue to drive the need for agricultural banking services. Furthermore, the broader business banking environment in Wisconsin continues to grow. We believe the Bank is well positioned to continue serving the banking needs of agricultural and business banking customers throughout Wisconsin.

Our Products and Services

The Bank provides a wide range of consumer and commercial banking services to individuals, businesses, and industries. The basic services offered by the Bank include: demand interest bearing and noninterest bearing accounts, money market deposit accounts, NOW accounts, time deposits, mobile banking, internet banking, remote merchant deposit capture, cash management services, safe deposit services, credit cards, debit cards, direct deposits, notary services, night depository, cashier's checks, drive-in tellers, banking by mail, and certain consumer loans, both collateralized and uncollateralized. In addition, the Bank makes secured and unsecured commercial loans as well as loans secured by residential and commercial real estate, and issues stand-by letters of credit. The Bank provides access to ATM cards and is a member of the Pulse and Cirrus ATM networks thereby enabling customers to utilize the convenience of ATM access nationwide and internationally.

The revenues of the Bank are primarily derived from interest on loans and fees received in connection with loans, interest and dividends on its investment securities, and non-interest income primarily generated from loan sales and loan servicing rights. The principal sources of funds for the Bank's lending activities are deposits (primarily consumer deposits and brokered deposits), loan repayments, and income on and proceeds from the sale of investment securities. The Bank's principal expenses are interest paid on deposits and operating and general administrative expenses. The Bank also generates non-interest income from Investors Insurance Services, LLC, which is a wholly owned subsidiary of the Bank. Investors Insurance Services, LLC provides crop insurance and milk margin products to the agricultural sector of Wisconsin.

As is the case with financial institutions generally, our operations are materially and significantly influenced by general economic conditions and by related monetary and fiscal policies of financial institution regulatory agencies, including the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the Federal Deposit Insurance Corporation ("FDIC") and the Wisconsin Department of Financial Institutions ("WDFI") Banking Division. Deposit flows and costs of funds are influenced by interest rates on competing investments and general market interest rates. Lending activities are affected by the demand for financing of real estate and other types of loans, which in turn is affected by the interest rates at which such financing may be offered and other factors affecting local demand and availability of funds. The Bank faces strong competition in the attraction of deposits and the origination of loans. For additional information about the competition we face, see the section of this Form 10-K entitled "Item I - Business—Competition."

Lending Activities

Loans

A significant source of our revenues is the interest earned on the Bank's loan portfolio. At December 31, 2018, our total assets were $1.5 billion and our total loans were $1.2 billion, or 79.4% of total assets. At December 31, 2017, our total assets were $1.4 billion and our total loans were $1.1 billion, or 82.2% of total assets. At December 31, 2016, our total assets were $1.2 billion and our total loans were $1.0 billion, or 82.9% of total assets. The increase in total loans from December 31, 2017 to December 31, 2018 was $58.3 million, or 5.1%. The increase in total loans from December 31, 2016 to December 31, 2017 was $118.5 million, or 11.5%. For the periods indicated below, the net change in total loans (excluding the allowance for loan losses) was as follows:

	For the Year Ended December 31,		
	2018	2017	2016
	(dollars in thousands)		
Total loans:			
Balance, beginning of period	$1,148,951	$1,030,486	$748,189
Loan originations, net of repayments	126,319	149,201	244,542
Loans acquired, net of repayments	—	—	121,265
Less: Loans sold, net of repayments	(60,591)	(23,702)	(81,031)
Less: Loans charged-off, net	(1,280)	(1,904)	(1,670)
Less: Transfers to other real estate owned	(6,104)	(5,130)	(809)
Balance, end of period	$1,207,295	$1,148,951	$1,030,486

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For more information about our loan portfolio, see the section of this Form 10-K entitled “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations—Comparison of Financial Condition at December 31, 2018 and 2017 —Net Loans.”

Lending activities are conducted pursuant to a written policy adopted by the Bank. Each loan officer has defined lending authority beyond which loans, depending upon their type, size, and risk classification, must be reviewed and approved by the management loan committee or the board loan committee.

The composition of our loan portfolio was as follows as of the dates indicated:

	As of December 31,					
	2018		2017		2016	
	Amount	Percent	Amount	Percent	Amount	Percent
	(dollars in thousands)					
Agricultural loans	$724,508	60.0 %	$686,430	59.7 %	$624,632	60.6 %
Commercial real estate loans	299,212	24.8 %	292,704	25.5 %	270,475	26.3 %
Commercial loans	116,460	9.7 %	114,332	10.0 %	89,944	8.7 %
Residential real estate loans	66,843	5.5 %	55,138	4.8 %	45,276	4.4 %
Installment and consumer other	272	0.0 %	347	0.0 %	159	0.0 %
Total loans	$1,207,295	100.0 %	$1,148,951	100.0 %	$1,030,486	100.0 %
Less: Allowance for loan losses	(16,505)		(13,247)		(12,645)	
Net loans	$1,190,790		$1,135,704		$1,017,841	

Loan Portfolio Concentrations

Although our loan portfolio is concentrated in agricultural loans, which is heavily dependent on the dairy industry, there are a number of mitigating factors to this concentration risk. First, our farm customers are diversified geographically throughout the state of Wisconsin, which we believe helps mitigate the weather-related risk impacting feed availability and cost. Secondly, the USDA provides government support for a number of insurance-type products that dairy producers can purchase, which we believe substantially mitigate weather and pricing risks for crops and pricing risks for milk. The availability of these types of products in addition to the ability to use the futures markets to hedge both milk price and feed cost brings some additional stability and predictability to the cash flows of farmers.

We originate and maintain large credit relationships with a number of customers in the ordinary course of our business. We have established a formal, internal lending limit on loans to one borrower of $8 million, which is significantly lower than our legal lending limit of approximately $35.7 million as of December 31, 2018. Exceptions to this internal limit may be approved by the Board in the case of particularly strong credits. As of December 31, 2018, 27 relationships exceeded our internal lending limit with total combined credit risk exposure of $298.5 million, or 146% of total risk-based capital; and 15 of these relationships exceeded $10 million, with the largest being $20.8 million.

Loan Underwriting

Management seeks to maintain a high quality of loans through sound underwriting and lending practices. We believe an important measurement for monitoring overall credit quality of our loan portfolio is the ratio of non-performing assets to total assets as nonperforming loans may ultimately progress to other real estate owned ("OREO"). Accordingly, the initial underwriting of loans is vital. Our ratios of non-performing assets to total assets as of December 31, 2018, December 31, 2017, and December 31, 2016 were 1.94%, 1.15%, and 1.84%, respectively. We have customized our loan underwriting to reflect the risks that are specific to each product type as described below.

Agricultural Lending. Our agricultural banking team consists of bankers who all grew up on farms in Wisconsin, which provides a solid understanding of the nuances of the industry. As of the date of this filing, we have eleven agricultural banking officers driving the relationships with our customers, as well as five crop insurance sales representatives. Our philosophy is to bring the Bank to the customer, and most contacts are made on the farm. We believe the deep relationships our team has with our agricultural customers, and the value each team member provides given his or her strong agricultural roots, creates a barrier to entry for our competitors. We believe this regular personal contact with our customers provides a high level of service and allows our bankers to monitor our credits more effectively.

Our relationships with our agricultural customers typically involve their entire primary banking needs. We lend money to our customers for short-term needs, such as planting crops or buying feed. We also provide intermediate-term loans to fund cattle or equipment needs, as well as longer-term real estate loans to provide funds to purchase real estate or improve existing real estate. Collateral for these loans will typically involve cross-collateralization of all of a farm's assets, and the Bank will be in a primary lien position. We apply a consistent credit philosophy when underwriting agricultural loans, which focuses on repayment of credit facilities from current and historical cash flow analysis, both cash and accrual. Other factors considered in granting credit are management capability, collateral quality and adequacy, and balance sheet leverage.

Commercial Lending. Our commercial and industrial loans ("commercial loans") are offered by business bankers who, as a group, have extensive experience in making commercial loans. Our commercial loan portfolio is comprised of conventional term loans, lines of credit and government guaranteed loans, primarily Small Business Administration ("SBA") loans. These loans have either adjustable or fixed rates typically with terms of five years or less, although terms are generally longer with SBA guarantees. Commercial loans are underwritten on the basis of the borrower's ability to make repayment from the cash flow of its business and generally are collateralized by business assets, such as accounts receivable, equipment and inventory, as well as personal guarantees of the principals. The availability of funds for the repayment of commercial loans is substantially dependent on the success of the business itself, which is subject to adverse economic conditions.

Commercial Real Estate Lending. Commercial real estate mortgage loans ("CRE loans") in our portfolio consist of fixed and adjustable interest rate loans that were originated at prevailing market interest rates. Our policy has been to originate CRE loans predominantly in our primary market area. CRE loans consist primarily of multi-family investment properties and investment retail, office, mini-storage and warehouse loans. These loans are generally underwritten to a maximum loan-to-value ratio of 75% of the lower of appraised value or purchase price of the property securing the loan. In making CRE loans, we primarily consider the net operating income generated by the real estate to support the debt service, the financial resources, income level and managerial expertise of the borrower, the marketability of the collateral and our lending experience with the borrower. CRE loans entail significant additional risks compared to residential mortgage loans. The collateral underlying CRE loans may depreciate over time, cannot be appraised with as much precision as residential real estate, and may fluctuate in value based on the success of the tenants.

Consumer Lending. At this time, we do not originate consumer, personal, and residential real estate loans; however, we do continue to service legacy loans. These loans are most often collateralized by primary residences, secondary residences, automobiles and recreational vehicles. Consumer loans are priced at prevailing market rates and are made to the individuals responsible for making the scheduled payments. Consumer and personal loans generally have a term of five years or less, with amortizations that match the useful life of the assets being financed. Consumer loans represented less than 0.1% of our overall loan portfolio as of December 31, 2018.

Concentrations. Loan concentrations are defined as amounts loaned to multiple borrowers engaged in similar activities that could cause them to be similarly impacted by economic or other conditions. We, on a routine basis, monitor these concentrations in order to consider adjustments in our lending practices to reflect economic conditions, loan to deposit ratios, and industry trends. As of December 31, 2018, 2017, and 2016, there was a concentration of agricultural real estate and agricultural production loans, which together comprised approximately 60.0%, 59.7%, and 60.6% of our loan portfolio on such dates, respectively. There was also a concentration of commercial real estate loans at December 31, 2017 and 2016, which comprised approximately 25.5% and 26.3%, respectively, of our loan portfolio on such dates. Other than as previously described, there were no concentrations of loans within any portfolio category to any group of borrowers engaged in similar activities or in a similar business that exceeded 25% of total loans at December 31, 2018, 2017, or 2016.

The credit committee of the board of directors of the Bank concentrates its efforts and resources, and that of its senior management and lending officers, on loan review and underwriting procedures. Internal controls include ongoing reviews of loans made to monitor documentation and the existence and valuations of collateral. In addition, management of the Bank has established a review process with the objective of identifying, evaluating, and initiating necessary corrective action for troubled and stressed loans. The goal of the loan review process is to address classified and non-performing loans as early as possible.

For additional information concerning our risk management, see "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management."

Loan Servicing

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, but because we continue to service these loans, we are able to maintain a relationship with the customer. Additionally, we typically earn a gain on the sale of loans sold and receive a servicing fee that generally exceeds the cost of administering the loan and maintaining the customer relationship.

The following table shows the total portfolio of loans and loans serviced as of the dates indicated below:

	As of December 31,		
	2018	2017	2016
	(dollars in thousands)		
Total loans:	$1,207,295	$1,148,951	$1,030,486
Less: Non-qualified loan sales included below	(827)	(1,258)	(1,963)
Loans serviced:			
Agricultural	623,725	575,328	562,843
Commercial	35,832	22,102	11,038
Commercial real estate	1,700	3,236	3,083
Total loans serviced	661,257	600,666	576,964
Total loans and loans serviced	$1,867,725	$1,748,359	$1,605,487

Classification of Assets

Interest on loans accrues and is credited to income based upon the principal balance outstanding. It is management's policy to discontinue the accrual of interest income and classify a loan as nonaccrual when principal or interest is past due 90 days or more unless, in the opinion of management, the credit is well secured and in the process of collection. Loans may also be placed on nonaccrual status when, in management's opinion, repayment is not likely to be paid in accordance with the terms of the obligation. Consumer installment loans are generally charged-off after 90 days of delinquency unless adequately collateralized and in the process of collection. Loans are not returned to accrual status until principal and interest payments are brought current and future payments appear reasonably certain. Interest accrued and unpaid at the time a loan is placed on nonaccrual status is charged against interest income.

Real estate acquired by us as a result of foreclosure or by deed in lieu of foreclosure is classified as OREO. OREO properties are recorded on the balance sheet at the lower of cost or fair value less estimated selling costs, and the estimated loss, if any, is charged to the allowance for loan losses at the time it is transferred to OREO. Further write-downs in OREO are recorded at the time management believes additional deterioration in value has occurred and are charged to non-interest expense. Our OREO increased during 2018; with the stress of the agricultural economy, we experienced default with four agricultural properties in 2018. At December 31, 2018, December 31, 2017, and December 31, 2016, we had OREO of $6.6 million, $5.0 million, and $3.2 million, respectively.

Loans on nonaccrual status, OREO, and certain other related information was as follows as of the dates indicated:

	As of December 31,					
	2018		2017		2016	
	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans
	(dollars in thousands)					
Total loans on nonaccrual status	$22,983	2.00 %	$11,559	1.01 %	$20,107	1.95 %
Other real estate owned [(1)]	6,568	0.57 %	4,565	0.40 %	2,763	0.27 %
Total non-performing assets	$29,551	2.57 %	$16,124	1.40 %	$22,870	2.22 %

Loans past due 30-89 days	$1,429	0.12 %	$1,540	0.13 %	$670	0.07 %
As a percent of total assets:						
Total non-performing loans		1.64 %		0.83 %		1.62 %
Total non-performing assets		2.11 %		1.15 %		1.84 %
Allowance for loan losses as a percent of:						
Total assets		1.09 %		0.95 %		1.02 %
Non-performing loans		71.81 %		114.60 %		62.89 %

(1) 2017 and 2016 exclude $0.4 million of bank property transferred from premises and equipment which is not considered a non-performing asset.

At December 31, 2018, loans 30 to 89 days delinquent consisted of three customer relationships, which totaled $1.4 million. Management continually evaluates the collectability of its non-performing loans and the adequacy of its allowance for loan losses to absorb the identified and unidentified losses inherent in the loan portfolio. As a result of these evaluations, loans considered uncollectible are charged-off, and adjustments to the reserve considered necessary are provided through a provision charged against earnings. These evaluations consider the current economic environment, the real estate market and its impact on underlying collateral values, trends in the level of non-performing and past-due loans, and changes in the size and composition of the loan portfolio.

Provision for loan losses for the years ended December 31, 2018, 2017, and 2016 totaled $3.2 million, $2.3 million, and $3.0 million, respectively. For the year ended December 31, 2018, net loans recovered totaled $63 thousand. For the years ended December 31, 2017 and 2016, net loans charged off totaled $1.7 million and $719 thousand, respectively. At December 31, 2018, 2017, and 2016, we had non-performing loans (i.e., nonaccrual loans and loans 90 days or more past due) of $23.0 million, $11.6 million, and $20.1 million, respectively. Considering the nature of our loan portfolio, management believed that the allowance for loan losses at December 31, 2018 was adequate.

The activity in our allowance for loan losses was as follows as of the dates and for the periods indicated below:

	For the Year Ended December 31,		
	2018	2017	2016
	(dollars in thousands)		
Allowance for loan losses:			
Balance, beginning of period	$13,247	$12,645	$10,405
Actual charge-offs	(1,280)	(1,904)	(1,670)
Less: Recoveries	1,343	176	951
Net loan (charge-offs) recoveries	63	(1,728)	(719)
Provision for loan losses	3,195	2,330	2,959
Balance, end of period	$16,505	$13,247	$12,645

Deposit Activities

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, money market accounts, savings accounts, term certificate accounts (including “jumbo” certificates in denominations of $100,000 or more), and retirement savings plans. As of December 31, 2018, 2017, and 2016, the distribution by type of deposit accounts was as follows:

	As of December 31, 2018		2017		2016	
	Amount	% of Deposits	Amount	% of Deposits	Amount	% of Deposits
	(dollars in thousands)					
Time deposits	$356,484	29.1 %	$302,004	27.2 %	$263,688	27.0 %
National deposits	160,445	13.1 %	142,391	12.8 %	140,979	14.4 %
Brokered deposits	308,504	25.2 %	282,616	25.5 %	193,613	19.8 %
Money market accounts	218,929	17.9 %	199,118	17.9 %	206,435	21.1 %
Demand, noninterest-bearing	121,436	9.9 %	125,584	11.3 %	118,657	12.1 %
NOW accounts and interest checking	51,779	4.2 %	51,613	4.6 %	48,727	5.0 %

Savings	5,770	0.5	%	6,751	0.6	%	5,419	0.6	%
Total deposits	$1,223,347	100.0	%	$1,110,077	100.0	%	$977,518	100.0	%

Our deposits increased during 2018, from $1.1 billion at December 31, 2017 to $1.2 billion at December 31, 2018, an increase of $113.3 million, or 10.2%, primarily the result of increased time, national, and brokered deposits as well as money market accounts. Our deposits during 2017 increased $132.6 million, or 13.6%, to $1.1 billion at December 31, 2017 from December 312016, primarily as a result of increases in time and brokered deposits.

Maturity terms, service fees and withdrawal penalties are established by us on a periodic basis. The determination of rates and terms is predicated on funds acquisition and liquidity requirements, rates paid by competitors, growth goals and federal regulations.

Brokered and Other Deposits

We use various funding sources including: (i) core deposits consisting of traditional bank deposit products, such as demand deposits, money market accounts and certificates of deposit, and (ii) wholesale funds consisting of brokered deposits, national certificates of deposit and Federal Home Loan Bank of Chicago (the “FHLB”) advances. Wholesale funding is used to supplement normal deposit accumulation by us and to assist in asset liability management. We use brokered deposits to obtain non-putable deposits (except for death and incompetence) with maturities and options that assist in the management of various balance sheet interest rate risks. These deposits may have a higher or lower interest rate than deposits obtained locally. Brokered deposit balances were $308.5 million, $282.6 million, and $193.6 million, at December 31, 2018, 2017, and 2016, respectively.

FDIC regulations limit the ability of certain insured depository institutions under certain conditions to accept, renew, or roll over brokered deposits at rates of interest which are significantly higher than the prevailing rates of interest on deposits offered by other insured depository institutions having the same type of charter in such depository institutions' normal market area. Under these regulations, "well capitalized" depository institutions may accept, renew, or roll over deposits at such rates without restriction, "adequately capitalized" depository institutions may accept, renew or roll over deposits at such rates with a waiver from the FDIC (subject to certain restrictions on payments of rates), and "undercapitalized" depository institutions may not accept, renew or roll over deposits at such rates. The definitions of "well capitalized," "adequately capitalized" and "undercapitalized" are the same as the definitions adopted by the agencies to implement the prompt corrective action provisions of applicable law. As of December 31, 2018, 2017, and 2016, the Bank met the definition of a "well capitalized" depository institution.

Time deposits of $100,000 and over, public fund deposits and other large deposit accounts tend to be short-term in nature and more sensitive to changes in interest rates than other types of deposits and, therefore, may be a less stable source of funds. In the event that existing short-term deposits are not renewed, the resulting loss of the deposited funds could adversely affect our liquidity. In a rising interest rate market, such short-term deposits may prove to be a costly source of funds because their short-term nature facilitates renewal at increasingly higher interest rates, which may adversely affect our earnings. However, the converse is true in a falling interest-rate market where such short-term deposits are more favorable to us.

The following table sets forth the maturity of time deposits, including brokered time deposits, as of December 31, 2018, 2017, and 2016:

	As of December 31,		
	2018	2017	2016
	(dollars in thousands)		
3 months or less	$93,881	$78,061	$88,237
Over 3 through 12 months	285,256	189,496	156,168
Over 1 year through 3 years	361,823	312,782	204,629
Over 3 years	64,214	126,161	147,531
Total	$805,174	$706,500	$596,565

Competition

We encounter strong competition both in making loans and in attracting deposits. The deregulation of the banking industry and the widespread enactment of state laws that permit multi-bank holding companies as well as an increasing level of interstate banking have created a highly competitive environment for commercial banking. In one or more aspects of our business, we compete with other commercial banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking companies and other financial intermediaries. Most of these competitors, some of which are affiliated with bank holding companies, have substantially greater resources and lending limits, and may offer certain services that we do not currently provide.

In addition, many of our non-bank competitors are not subject to the same extensive federal regulations that govern bank holding companies and federally insured banks. Recent federal and state legislation has heightened the competitive environment in which financial institutions must conduct their business, and the potential for competition among financial institutions of all types has increased significantly. There is no assurance that increased competition from other financial institutions will not have an adverse effect on our operations.

To compete, we rely upon specialized services, responsive handling of customer needs, and personal contacts by our officers, directors, and staff. Large multi-branch banking competitors tend to compete primarily by rate and the number and locations of branches while smaller, independent financial institutions tend to compete primarily by rate and personal service. Based on data from the FDIC, as of June 30, 2018 (the most recent data available), the Bank held 42.9% of deposits in Manitowoc County, 10.0% in Portage County, 3.3% in Outagamie County, and 0.8% in Brown County.

Employees

At March 1, 2019, we had 142 full-time employees and 24 part-time employees. Our employees are not represented by a collective bargaining unit. We consider our relations with our employees to be excellent.

Supervision and Regulation

General

FDIC-insured institutions, like the Bank, their holding companies and their affiliates are extensively regulated under federal and state law. As a result, the Company's growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the Company's primary regulator, the Federal Reserve, the Bank's state regulator, the WDFI, and its primary federal regulator, the FDIC, as well as the Consumer Financial Protection Bureau ("CFPB"), as the regulator of consumer financial services and their providers. Furthermore, taxation laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board ("FASB"), securities laws administered by the SEC and state securities authorities, and anti-money laundering laws enforced by the U.S. Department of the Treasury ("Treasury") have an impact on the Company's business. The effect of these statutes, regulations, regulatory policies and accounting rules are significant to the Company's operations and results.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of FDIC-insured institutions, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than shareholders. These laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of the Company's business, the kinds and amounts of investments the Company and the Bank may make, reserve requirements, required capital levels relative to assets, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with the Company's and the Bank's insiders and affiliates and the Company's payment of dividends. In reaction to the global financial crisis and particularly following the passage of the Dodd Frank Act, the Company experienced heightened regulatory requirements and scrutiny. Although the reforms primarily targeted systemically important financial service providers, their influence filtered down in varying degrees to community banks over time and caused the Company's compliance and risk management processes, and the costs thereof, to increase. After the 2016 federal elections, momentum to decrease the regulatory burden on community banks gathered strength. In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the "Regulatory Relief Act") was enacted to modify or remove certain financial reform rules and regulations. While the Regulatory Relief Act maintains most of the regulatory structure established by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), it amends certain aspects of the regulatory framework for small depository institutions with assets of less than $10 billion, like the Company, and for large banks with assets of more than $50 billion that were considered systemically important under the Dodd-Frank Act solely because of size. Many of these changes are intended to result in meaningful regulatory relief for community banks and their holding companies, including new rules that may make the capital requirements less complex. For a discussion of capital requirements, see "—The Role of Capital." It also eliminated questions about the applicability of certain Dodd-Frank Act reforms to community bank systems, including relieving the Bank of any requirement to engage in mandatory stress tests, name a risk committee or comply with the Volcker Rule's complicated prohibitions on proprietary trading and ownership of private funds. The Company believes these reforms are favorable to its operations, but the true impact remains difficult to predict until rulemaking is complete and the reforms are fully implemented.

The supervisory framework for U.S. banking organizations subjects banks and bank holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that are not publicly available and that can impact the conduct and growth of their business. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and the Bank, beginning with a discussion of the continuing regulatory emphasis on the Company's capital levels. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory and regulatory provision.

The Role of Capital

Regulatory capital represents the net assets of a banking organization available to absorb losses. Because of the risks attendant to their business, FDIC-insured institutions are generally required to hold more capital than other businesses, which directly affects their earnings capabilities. While capital has historically been one of the key measures of the financial health of both bank holding companies and banks, its role became fundamentally more important in the wake of the global financial crisis, as the banking regulators recognized that the amount and quality of capital held by banks prior to the crisis was insufficient to absorb losses during periods of severe stress. Certain provisions of the Dodd-Frank Act and Basel III, discussed below, establish capital standards for banks and bank holding companies that are meaningfully more stringent than those in place previously.

Minimum Required Capital Levels. Banks have been required to hold minimum levels of capital based on guidelines established by the bank regulatory agencies since 1983. The minimums have been expressed in terms of ratios of “capital” divided by “total assets”. As discussed below, bank capital measures have become more sophisticated over the years and have focused more on the quality of capital and the risk of assets. Bank holding companies have historically had to comply with less stringent capital standards than their bank subsidiaries and have been able to raise capital with hybrid instruments such as trust preferred securities. The Dodd-Frank Act mandated the Federal Reserve to establish minimum capital levels for holding companies on a consolidated basis as stringent as those required for FDIC-insured institutions. A result of this change is that the proceeds of hybrid instruments, such as trust preferred securities, were excluded from capital over a phase-out period. However, if such securities were issued prior to May 19, 2010 by bank holding companies with less than $15 billion of assets, they may be retained, subject to certain restrictions. Because the Company has assets of less than $15 billion, the Company is able to maintain its trust preferred proceeds as capital but the Company has to comply with new capital mandates in other respects and will not be able to raise capital in the future through the issuance of trust preferred securities.

The Basel International Capital Accords. The risk-based capital guidelines for U.S. banks since 1989 were based upon the 1988 capital accord known as “Basel I” adopted by the international Basel Committee on Banking Supervision, a committee of central banks and bank supervisors that acts as the primary global standard-setter for prudential regulation, as implemented by the U.S. bank regulatory agencies on an interagency basis. The accord recognized that bank assets for the purpose of the capital ratio calculations needed to be assigned risk weights (the theory being that riskier assets should require more capital) and that off-balance sheet exposures needed to be factored in the calculations. Basel I had a very simple formula for assigning risk weights to bank assets from 0% to 100% based on four categories. In 2008, the banking agencies collaboratively began to phase-in capital standards based on a second capital accord, referred to as “Basel II,” for large or “core” international banks (generally defined for U.S. purposes as having total assets of $250 billion or more, or consolidated foreign exposures of $10 billion or more) known as “advanced approaches” banks. The primary focus of Basel II was on the calculation of risk weights based on complex models developed by each advanced approaches bank. Because most banks were not subject to Basel II, the U.S. bank regulators worked to improve the risk sensitivity of Basel I standards without imposing the complexities of Basel II. This “standardized approach” increased the number of risk-weight categories and recognized risks well above the original 100% risk weight. It is institutionalized by the Dodd-Frank Act for all banking organizations, even for the advanced approaches banks, as a floor.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on a strengthened set of capital requirements for banking organizations around the world, known as Basel III, to address deficiencies recognized in connection with the global financial crisis.

The Basel III Rule. In July 2013, the U.S. federal banking agencies approved the implementation of the Basel III regulatory capital reforms in pertinent part, and, at the same time, promulgated rules effecting certain changes required by the Dodd-Frank Act (the “Basel III Rule”). In contrast to capital requirements historically, which were in the form of guidelines, Basel III was released in the form of enforceable regulations by each of the regulatory agencies. The Basel III Rule is applicable to all banking organizations that are subject to minimum capital requirements, including federal and state banks and savings and loan associations, as well as to bank and savings and loan holding companies, other than “small bank holding companies” who are relieved from compliance with the Basel III Rule. While holding companies with consolidated assets of less than $3 billion, like the Company, are considered small bank holding companies for this purpose, the Company has securities registered with the SEC and that disqualifies us from taking advantage of the relief. Banking organizations became subject to the Basel III Rule on

January 1, 2015 and its requirements were fully phased-in as of January 1, 2019.

The Basel III Rule increased the required quantity and quality of capital and, for nearly every class of assets, it requires a more complex, detailed and calibrated assessment of risk and calculation of risk-weight amounts.

Not only did the Basel III Rule increase most of the required minimum capital ratios in effect prior to January 1, 2015, but it introduced the concept of Common Equity Tier 1 Capital, which consists primarily of common stock, related surplus (net of Treasury stock), retained earnings, and Common Equity Tier 1 minority interests subject to certain regulatory adjustments. The Basel III Rule also changed the definition of capital by establishing more stringent criteria that instruments must meet to be considered Additional Tier 1 Capital (primarily non-cumulative perpetual preferred stock that meets certain requirements) and Tier 2 Capital (primarily other types of preferred stock and subordinated debt, subject to limitations). A number of instruments that qualified as Tier 1 Capital under Basel I do not qualify, or their qualifications changed. For example, noncumulative perpetual preferred stock, which qualified as simple Tier 1 Capital under Basel I, does not qualify as Common Equity Tier 1 Capital, but qualifies as Additional Tier 1 Capital. The Basel III Rule also constrained the inclusion of minority interests, mortgage-servicing assets, and deferred tax assets in capital and requires deductions from Common Equity Tier 1 Capital in the event that such assets exceed a certain percentage of a banking institution’s Common Equity Tier 1 Capital.

The Basel III Rule required minimum capital ratios as of January 1, 2015, as follows:

- A ratio of minimum Common Equity Tier 1 Capital equal to 4.5% of risk-weighted assets;
- An increase in the minimum required amount of Tier 1 Capital from 4% to 6% of risk-weighted assets;
- A continuation of the minimum required amount of Total Capital (Tier 1 plus Tier 2) at 8% of risk-weighted assets; and
- A minimum leverage ratio of Tier 1 Capital to total quarterly average assets equal to 4% in all circumstances.

In addition, institutions that seek the freedom to make capital distributions (including for dividends and repurchases of stock) and pay discretionary bonuses to executive officers without restriction must also maintain 2.5% in Common Equity Tier 1 Capital attributable to a capital conservation buffer (fully phased-in as of January 1, 2019). The purpose of the conservation buffer is to ensure that banking institutions maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. Factoring in the conservation buffer increases the minimum ratios depicted above to 7% for Common Equity Tier 1 Capital, 8.5% for Tier 1 Capital and 10.5% for Total Capital.

Well-Capitalized Requirements. The ratios described above are minimum standards in order for banking organizations to be considered “adequately capitalized.” Bank regulatory agencies uniformly encourage banks to hold more capital and be “well-capitalized” and, to that end, federal law and regulations provide various incentives for banking organizations to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a banking organization that is well-capitalized may: (i) qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities; (ii) qualify for expedited processing of other required notices or applications; and (iii) accept, roll-over or renew brokered deposits. Higher capital levels could also be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve’s capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (i.e., Tier 1 Capital less all intangible assets), well above the minimum levels.

Under the capital regulations of the FDIC and Federal Reserve, in order to be well capitalized, a banking organization must maintain:

- A Common Equity Tier 1 Capital ratio to risk-weighted assets of 6.5% or more;
- A ratio of Tier 1 Capital to total risk-weighted assets of 8% or more (6% under Basel I);
- A ratio of Total Capital to total risk-weighted assets of 10% or more (the same as Basel I); and
- A leverage ratio of Tier 1 Capital to total adjusted average quarterly assets of 5% or greater.

It is possible under the Basel III Rule to be well-capitalized while remaining out of compliance with the capital conservation buffer discussed above.

As of December 31, 2018: (i) the Bank is not subject to a directive from the WDFI or the FDIC to increase its capital; and (ii) the Bank was well-capitalized, as defined by FDIC regulations. As of December 31, 2018, the Company had regulatory capital in excess of the Federal Reserve’s requirements and met the Basel III Rule requirements to be well-capitalized.

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

The Potential for Community Bank Capital Simplification. Community banks have long raised concerns with bank regulators about the regulatory burden, complexity, and costs associated with certain provisions of the Basel III Rule. In response, Congress provided a potential Basel III "off-ramp" for institutions, like the Company, with total consolidated assets of less than $10 billion. Section 201 of the Regulatory Relief Act instructed the federal banking regulators to establish a single "Community Bank Leverage Ratio" ("CBLR") of between 8 and 10%. On November 21, 2018, the agencies proposed setting the CBLR at 9% of tangible equity to total assets for a qualifying bank to be well-capitalized. Under the proposal, a community banking organization would be eligible to elect the new framework if it has less than $10 billion in total consolidated assets, limited amounts of certain assets and off-balance sheet exposures, and a CBLR greater than 9%. The electing institution would not be required to calculate the existing risk-based and leverage capital requirements of the Basel III Rule and would not need to risk weight its assets for purposes of capital calculations.

The Company is in the process of considering the CBLR proposal and will await the final regulation to determine whether it will elect the framework.

Regulation and Supervision of the Company

General. The Company, as the sole shareholder of the Bank, is a bank holding company. As a bank holding company, the Company is registered with, and is subject to regulation supervision and enforcement by, the Federal Reserve under the BHCA. The Company is legally obligated to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where the Company might not otherwise do so. Under the BHCA, the Company is subject to periodic examination by the Federal Reserve. The Company is required to file with the Federal Reserve periodic reports of the Company's operations and such additional information regarding the Company and its subsidiaries as the Federal Reserve may require.

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

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

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

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

Capital Requirements. The Company has been subject to the complex consolidated capital requirements of the Basel III Rule since the U.S. federal banking agencies approved its implementation effective January 1, 2015. Only qualifying small bank holding companies were excluded from compliance with the Basel III Rule by virtue of the Federal Reserve's "Small Bank Holding Company Policy Statement". Prior to 2018, the Company's assets were in excess of the maximum permitted in the definition of a small bank holding company for this purpose; however, the Regulatory Relief Act expanded the category of holding companies that may rely on the policy statement by raising the maximum amount of assets they may hold to $3 billion, and the Federal Reserve issued an interim final rule, effective August 30, 2018, to bring the policy statement in line with the law. As a result, qualifying holding companies with assets of less than $3 billion are not subject to the capital requirements of the Basel III Rule and are deemed to be "well-capitalized". However, one of the qualifications for this treatment is that the holding company not have securities registered with the SEC. The Company is a publicly reporting company and has shares registered with the SEC. As such, the Company does not meet the qualifications of the Small Bank Holding Company Policy Statement. For a discussion of capital requirements, see "—the "Role of Capital" above.

Dividend Payments. The Company's ability to pay dividends to its shareholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. As a Wisconsin corporation, the Company is subject to the limitations of Wisconsin law, which allows it to pay dividends unless, after giving it effect, any of the following would occur: (i) the Company would not be able to pay the Company's debts as they become due in the usual course of business or (ii) the total assets would be less than the sum of its total liabilities plus any amount that would be needed if the Company were to be dissolved at the time of the dividend payment, to satisfy the preferential rights upon dissolution of shareholders whose rights are superior to the rights of the shareholders receiving the distribution.

As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should eliminate, defer or significantly reduce dividends to shareholders if: (i) the company's net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the prospective rate of earnings retention is inconsistent with the company's capital needs and overall current and prospective financial condition; or (iii) the company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. The Federal Reserve also possesses enforcement powers over bank holding companies and their nonbank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends have to maintain 2.5% in Common Equity Tier 1 Capital attributable to the capital conservation buffer. See "—The Role of Capital" above.

Monetary Policy. The monetary policy of the Federal Reserve has a significant effect on the operating results of financial or bank holding companies and their subsidiaries. Among the tools available to the Federal Reserve to affect the money supply are open market transactions in U.S. government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

Federal Securities Regulation. The Company's common stock is registered with the SEC under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Consequently, the Company is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

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

Supervision and Regulation of the Bank

General. The Bank is a Wisconsin state-chartered bank. The deposit accounts of the Bank are insured by the FDIC’s Deposit Insurance Fund (“DIF”) to the maximum extent provided under federal law and FDIC regulations, currently $250,000 per insured depositor category. As a Wisconsin-chartered FDIC-insured bank, The Bank is subject to the examination, supervision, reporting and enforcement requirements of the WDFI, the chartering authority for Wisconsin banks, and the FDIC, designated by federal law as the primary federal regulator of insured state banks that, like the Bank, are not members of the Federal Reserve System (nonmember banks).

Deposit Insurance. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured institutions pay insurance premiums at rates based on their risk classification. For institutions like the Bank that are not considered large and highly complex banking organizations, assessments are now based on examination ratings and financial ratios. The total base assessment rates currently range from 1.5 basis points to 30 basis points. At least semi-annually, the FDIC updates its loss and income projections for the DIF and, if needed, increases or decreases the assessment rates, following notice and comment on proposed rulemaking. The assessment base against which an FDIC-insured institution's deposit insurance premiums paid to the DIF has been calculated since effectiveness of the Dodd-Frank Act is based on its average consolidated total assets less its average tangible equity. This method shifted the burden of deposit insurance premiums toward those large depository institutions that rely on funding sources other than U.S. deposits.

The reserve ratio is the FDIC insurance fund balance divided by estimated insured deposits. The Dodd-Frank Act altered the minimum reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to FDIC-insured institutions when the reserve ratio exceeds certain thresholds. The reserve ratio reached 1.36% as of September 30, 2018 (most recent available), exceeding the statutory required minimum reserve ratio of 1.35%. The FDIC will provide assessment credits to insured depository institutions, like the Bank, with total consolidated assets of less than $10 billion for the portion of their regular assessments that contribute to growth in the reserve ratio between 1.15% and 1.35%. The FDIC will apply the credits each quarter that the reserve ratio is at least 1.38% to offset the regular deposit insurance assessments of institutions with credits.

FICO Assessments. In addition to paying basic deposit insurance assessments, FDIC-insured institutions must pay FICO assessments. FICO is a mixed-ownership governmental corporation chartered by the former Federal Home Loan Bank Board pursuant to the Competitive Equality Banking Act of 1987 to function as a financing vehicle for the recapitalization of the former Federal Savings and Loan Insurance Corporation. FICO issued 30-year noncallable bonds of approximately $8.1 billion that mature through 2019. FICO's authority to issue bonds ended on December 12, 1991. Since 1996, federal legislation has required that all FDIC-insured institutions pay assessments to cover interest payments on FICO's outstanding obligations. The FICO assessment rate is adjusted quarterly and for the fourth quarter of 2018 was 32 cents per $100 dollars of assessable deposits.

Supervisory Assessments. All Wisconsin banks are required to pay supervisory assessments to the WDFI to fund the operations of that agency. The amount of the assessment is calculated on the basis of the Bank's total assets. During the year ended December 31, 2018, the Bank paid supervisory assessments to the WDFI totaling approximately $66 thousand.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. For a discussion of capital requirements, see "—The Role of Capital" above.

Liquidity Requirements. Liquidity is a measure of the ability and ease with which bank assets may be converted to cash. Liquid assets are those that can be converted to cash quickly if needed to meet financial obligations. To remain viable, FDIC-insured institutions must have enough liquid assets to meet their near-term obligations, such as withdrawals by depositors. Because the global financial crisis was in part a liquidity crisis, Basel III also includes a liquidity framework that requires FDIC-insured institutions to measure their liquidity against specific liquidity tests. One test, referred to as the LCR, is designed to ensure that the banking entity has an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets into cash to meet liquidity needs for a 30-calendar day liquidity stress scenario. The other test, known as the NSFR, is designed to promote more medium- and long-term funding of the assets and activities of FDIC-insured institutions over a one-year horizon. These tests provide an incentive for banks and holding companies to increase their holdings in Treasury securities and other sovereign debt as a component of assets, increase the use of long-term debt as a funding source and rely on stable funding like core deposits (in lieu of brokered deposits).

In addition to liquidity guidelines already in place, the federal bank regulatory agencies implemented the Basel III LCR in September 2014, which requires large financial firms to hold levels of liquid assets sufficient to protect against constraints on their funding during times of financial turmoil, and in 2016 proposed implementation of the NSFR. While these rules do not, and will not, apply to the Bank, it continues to review its liquidity risk management policies in light of these developments.

Dividend Payments. The primary source of funds for the Company is dividends from the Bank. Under Wisconsin law, the board of directors of a bank may declare and pay a dividend from its undivided profits in an amount they consider expedient. The board of directors must provide for the payment of all expenses, losses, required reserves, taxes, and interest accrued or due from the bank before the declaration of dividends from undivided profits. If dividends declared and paid in either of the two immediately preceding years exceeded net income for either of those two years respectively, the bank may not declare or pay any dividend in the current year that exceeds year-to-date net income except with the written consent of the division. The FDIC and the WDFI may prohibit the payment of dividends by the Bank if either or both determine such payment would constitute an unsafe or unsound practice. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends will have to maintain 2.5 percent in Common Equity Tier 1 Capital attributable to the capital conservation buffer. See "—The Role of Capital" above.

State Bank Investments and Activities. The Bank is permitted to make investments and engage in activities directly or through subsidiaries as authorized by Wisconsin law. However, under federal law and FDIC regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law and FDIC regulations also prohibit FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines that the activity would not pose a significant risk to the DIF. These restrictions have not had, and are not currently expected to have, a material impact on the operations of the Bank.

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

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

Safety and Soundness Standards/Risk Management. The federal banking agencies have adopted operational and managerial standards to promote the safety and soundness of FDIC-insured institutions. The standards apply to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the safety and soundness standards prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. While regulatory standards do not have the force of law, if an institution operates in an unsafe and unsound manner, the FDIC-insured institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an FDIC-insured institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the FDIC-insured institution's rate of growth, require the FDIC-insured institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with safety and soundness may also constitute grounds for other enforcement action by the federal bank regulatory agencies, including cease and desist orders and civil money penalty assessments.

During the past decade, the bank regulatory agencies have increasingly emphasized the importance of sound risk management processes and strong internal controls when evaluating the activities of the FDIC-insured institutions they supervise. Properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation, and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal, and reputational risk. In particular, recent regulatory pronouncements have focused on operational risk, which arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses. New products and services, third-party risk, incentive compensation and cybersecurity are critical sources of risk that FDIC-insured institutions are expected to address in the current environment. The Bank is expected to have active board and senior management oversight; adequate policies, procedures, and limits; adequate risk measurement, monitoring, and management information systems; and comprehensive internal controls.

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

Transaction Account Reserves. Federal Reserve regulations require FDIC-insured institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2019, the first $16.3 million of otherwise reservable balances are exempt from reserves and have a zero percent reserve requirement; for transaction accounts aggregating between $16.3 million to $124.2 million, the reserve requirement is 3% of those transaction account balances; and for net transaction accounts in excess of $124.2 million, the reserve requirement is 10% of the aggregate amount of total transaction account balances in excess of $124.2 million. These reserve requirements are subject to annual adjustment by the Federal Reserve.

Community Reinvestment Act Requirements. The CRA requires the Bank to have a continuing and affirmative obligation in a safe and sound manner to help meet the credit needs of the entire community, including low- and moderate-income neighborhoods. Federal regulators regularly assess the Bank’s record of meeting the credit needs of its communities. Applications for additional acquisitions would be affected by the evaluation of the Bank’s effectiveness in meeting its CRA requirements.

Anti-Money Laundering. The USA Patriot Act is designed to deny terrorists and criminals the ability to obtain access to the U.S. financial system and has significant implications for FDIC-insured institutions, brokers, dealers and other businesses involved in the transfer of money. The USA Patriot Act mandates financial services companies to have policies and procedures with respect to measures designed to address any or all of the following matters: (i) customer identification programs; (ii) money laundering; (iii) terrorist financing; (iv) identifying and reporting suspicious activities and currency transactions; (v) currency crimes; and (vi) cooperation between FDIC-insured institutions and law enforcement authorities.

Privacy and Cybersecurity. The Bank is subject to many U.S. federal and state laws and regulations governing requirements for maintaining policies and procedures to protect non-public confidential information of their customers. These laws require the Bank to periodically disclose their privacy policies and practices relating to sharing such information and permit consumers to opt out of their ability to share information with unaffiliated third parties under certain circumstances. They also impact the Bank’s ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes, or to contact customers with marketing offers. In addition, the Bank is required to implement a comprehensive information security program that includes administrative, technical, and physical safeguards to ensure the security and confidentiality of customer records and information. These security and privacy policies and procedures, for the protection of personal and confidential information, are in effect across all businesses and geographic locations.

Concentrations in Commercial Real Estate. Concentration risk exists when FDIC-insured institutions deploy too many assets to any one industry or segment. A concentration in commercial real estate is one example of regulatory concern. The interagency Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices guidance (“CRE Guidance”) provides supervisory criteria, including the following numerical indicators, to assist bank examiners in identifying banks with potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny: (i) commercial real estate loans exceeding 300% of capital and increasing 50% or more in the preceding three years; or (ii) construction and land development loans exceeding 100% of capital. The CRE Guidance does not limit banks’ levels of commercial real estate lending activities, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. On December 18, 2015, the federal banking agencies issued a statement to reinforce prudent risk-management practices related to CRE lending, having observed substantial growth in many CRE asset and lending markets, increased competitive pressures, rising CRE concentrations in banks, and an easing of CRE underwriting standards. The federal bank agencies reminded FDIC-insured institutions to maintain underwriting discipline and exercise prudent risk-management practices to identify, measure, monitor, and manage the risks arising from CRE lending. In addition, FDIC-insured institutions must maintain capital commensurate with the level and nature of their CRE concentration risk.

As of December 31, 2018, the Bank did not exceed these guidelines.

Consumer Financial Services. The historical structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011, when the CFPB commenced operations to supervise and enforce consumer protection laws. The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including the Bank, as well as the authority to prohibit “unfair, deceptive or abusive” acts and practices. The CFPB has examination and enforcement authority over providers with more than $10 billion in assets. FDIC-insured institutions with $10 billion or less in assets, like the Bank, continue to be examined by their applicable bank regulators.

Because abuses in connection with residential mortgages were a significant factor contributing to the financial crisis, many new rules issued by the CFPB and required by the Dodd-Frank Act addressed mortgage and mortgage-related products, their underwriting, origination, servicing and sales. The Dodd-Frank Act significantly expanded underwriting requirements applicable to loans secured by 1-4 family residential real property and augmented federal law combating predatory lending practices. In addition to numerous disclosure requirements, the Dodd Frank Act imposed new standards for mortgage loan originations on all lenders, including banks and savings associations, in an effort to strongly encourage lenders to verify a borrower's ability to repay, while also establishing a presumption of compliance for certain "qualified mortgages." The Regulatory Relief Act provided relief in connection with mortgages for banks with assets of less than $10 billion, and, as a result, mortgages the Bank makes are now considered to be qualified mortgages if they are held in portfolio for the life of the loan.

The CFPB's rules have not had a significant impact on the Bank's operations, except for higher compliance costs.

ITEM 1A. RISK FACTORS

Forward-Looking Statements

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," "might," "should," "indicate," "will," "would," "could," "contemplate "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 the economic conditions of our market area and of 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;
- the imposition of tariffs or other domestic or international governmental policies impacting the value of the agricultural or other products of our borrowers; and
- 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 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 the Company 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.

Risk Factors

An investment in our common stock contains a high degree of risk. In addition to the other information contained in, or incorporated by reference into, this Form 10-K, including the matters addressed under the caption “Forward-Looking Statements” above, you should carefully consider the risks described below. If any of the events highlighted in the following risks actually occur, or if additional risks and uncertainties not presently known to us or that we do not currently believe to be material, materialize, our business, results of operations or financial condition would likely suffer. In such an event, the trading price of our common stock could decline, and you could lose all or part of your investment. In assessing these risks, you should also refer to the other information contained in our filings with the SEC and this Form 10-K, including our financial statements and related notes.

Risks Related to Our Business

We are subject to specific market risks due to our focus on agricultural lending.

We primarily concentrate our lending activities in the state of Wisconsin, which has a significant agricultural economy. Historically, our senior management’s primary business lending experience has been in agricultural lending, with a specific expertise in and focus on dairy and dairy-related businesses. Although we attempt to maintain a diversified customer base and a diversified loan portfolio, we are more heavily dependent upon the agricultural economy than a typical commercial bank. At December 31, 2018, agricultural loans comprised $724.5 million, or approximately 60.0%, of our total loan portfolio, and the Bank also serviced an additional $624.7 million of agricultural loans, which generated approximately $6.1 million of servicing fee income.

The agricultural economy is subject to certain risks that are either inherently volatile or are beyond our ability, or the ability of farmers or other participants in the agricultural economy, to predict or control. Some of these risks include, but are not limited to:

- Market Prices. Agricultural markets are sensitive to real and perceived changes in supply and demand of agricultural products, and given that approximately 90% of our agricultural lending is to dairy farms, the credit quality of a substantial portion of our loan portfolio is closely related to the performance of, and supply and demand in, this sub-sector of the agricultural market. For example, the success of a dairy operation hinges in large part on the cost of feed and the price of milk. When feed costs are high and milk prices are low, it places a strain on our dairy borrowers’ business, which may impair their ability to repay their outstanding loans to us.

- Governmental Policies and Regulations. Our agricultural loans are dependent on the profitable operation and management of the farm properties securing the loans and their cash flows, and government policies and regulations (including the availability of price supports for crops and other agricultural products (in particular, milk), subsidies, tariffs, trade agreements, or government-sponsored crop insurance) are outside the control of our borrowers and may affect the successful operation of a farm.
- Changing Consumer Preferences. The business of dairy farms and dairy-related borrowers is subject to changing consumer preferences and nutritional and health-related concerns. Periodically, medical and other studies are released which raise concerns over the healthfulness of cow's milk in the human diet. As a result of studies or other cultural influences, the dairy industry could be affected by certain consumer concerns about dairy products, such as the fat, cholesterol, calorie, sodium and lactose content of such products, which could reduce demand for dairy products and negatively affect dairy-related revenue.

- Weather-Related Risks. Severe weather, including such things as drought, hail, excessive rain or other natural disasters, could impact the quantity and quality of feed necessary to support our borrowers' dairy operations and, in turn, increase their expenses. If significant adverse weather-related events occur, it could impair the ability of borrowers to repay outstanding loans or impair the value of collateral securing loans due to significant property damage, which could either result in loss of revenue or cause us to incur additional expenses.
- Disease-Related Risks. The operations of our dairy farm and dairy-related borrowers depend primarily on their cattle. If the livestock were to contract an illness or disease, the borrowers would incur additional expenses, and the viability of their operations may be compromised if the disease is not properly managed. The existence of a widespread livestock disease or pandemic could have a significant impact on our borrowers' ability to repay outstanding loans or impair the value of collateral securing loans, which could either result in loss of revenue or cause us to incur additional expenses.
- Real Property Value. Our dairy farm and dairy-related borrowers tend to grow and produce much of their feed as opposed to purchasing it from third parties, unlike many dairy farmers in other parts of the country. While this means they are often less subject to fluctuations in feed prices, they require more land. Accordingly, declines in real property values in the areas in which we operate could result in a deterioration of the credit quality of our borrowers or an increase in the number of loan delinquencies, default and charge-offs, and could reduce the value of any collateral we realize following a default on agricultural loans.

Our focus on local markets and agricultural lending creates credit concentration risks.

Credit risk is primarily related to the risk that a borrower will not be able to repay some or all of its obligations to us. Concentrations of credit risk occur when the aggregate amount owed by one borrower, a group of related borrowers, or borrowers within the same or related markets, industries or groups, represent a relatively large percentage of the total capital or total credit extended by a bank. Although each loan in a concentration may be of sound quality, concentration risks represent a risk not present when the same loan amounts are extended to a more diversified group of borrowers. Loans concentrated in one borrower depend, to a large degree, upon the financial capability and character of the individual borrower. Loans made to a group of related borrowers can be susceptible to financial problems experienced by one or a few members of that group. Loans made to borrowers that are part of the same or related industries or groups, or that are located in the same market area, can all be adversely impacted with respect to their ability to repay some or all of their obligations when adverse conditions prevail in the broader economy generally, in the market specifically or even within just the respective industries or groups.

Our lending is primarily to borrowers located or doing business in Wisconsin. Furthermore, at December 31, 2018, we had certain loan-type concentrations of credit risk, specifically in agricultural lending, which are described in more detail in the section of this Form 10-K entitled "Item 1 - Business—Lending Activities" and "Item 1 - Business—General—Market." Because of the concentration of agricultural loans in our lending portfolio and the volume of our borrowers in regions dependent upon agriculture, we could be disproportionately affected by changes in the agricultural industry relative to others because these high concentrations present a risk to our lending operations. If any of these borrowers becomes unable to repay their loan obligations for any reason, our nonperforming loans, our allowance for loan losses, and our provision for loan losses could increase significantly, which could have a material adverse effect on our business, financial condition and results of operations.

A prolonged period of weakness in the agricultural economy could result in an increase in agricultural defaults and impaired assets.

The agricultural economy in the Midwest, including Wisconsin, has declined over the past several years. In particular, milk prices have generally declined since 2014. A prolonged period of weakness in the agricultural economy could result in a decrease in demand for loans or other products and services offered by us, an increase in agricultural loan delinquencies and defaults, an increase in impaired assets and foreclosures, a decline in the value of our loans secured by real estate, and an inability to sell foreclosed assets. The effects of a prolonged period of a weakened agricultural economy could have a material adverse effect on our business, financial condition and results of operations.

Our business is dependent on local economies, and a regional or local economic downturn affecting Wisconsin may magnify the adverse effects and consequences to us.

We operate as a community-oriented business bank, with a focus on servicing both business customers and individuals in our market areas, which include our headquarters in Manitowoc, full-service branches in Appleton, Green Bay, and Stevens Point, and a loan production office in each of Darlington, Eau Claire, Fond du Lac, and Sheboygan. Although we have a primary focus on agricultural and business banking, future growth opportunities will depend largely on market area penetration, market area growth and our ability to compete for traditional banking business within our market areas. We anticipate that as a result of this concentration, a downturn in the general economy in our market areas, including Wisconsin specifically, could increase the risk of loss associated with our loan portfolio. Although economic conditions in our markets have been generally strong, there can be no assurance that such conditions will continue to prevail.

Volatility in commodity prices may adversely affect our financial condition and results of operations.

At December 31, 2018, approximately 60.0% of our total loan portfolio was comprised of agricultural loans. Volatility in certain commodity prices, including milk, could adversely impact the ability of those borrowers to perform under the terms of their borrowing arrangements with us. In terms of the dairy industry, milk prices have fluctuated. For the 16-year period ended December 31, 2018, the per-year average Class III milk price (a weighted average price of all uses of milk in a particular milk order) in the United States paid to producers has ranged from an average low price of $11.36 per hundredweight (cwt) in 2009 to an average high price of $22.34 per cwt in 2014, according to the University of Wisconsin - Madison. During 2018, the Class III milk price was an average of $14.61 per cwt. "Hundredweight" or "cwt" is a measure equal to 100 pounds of milk shipped. A decrease in milk prices may result in an increase in the number of non-performing loans in our agricultural portfolio, which could have a material adverse effect on our financial condition, earnings and capital.

Changes in U.S. trade policies, such as the implementation of tariffs, and other factors beyond the Company's control may adversely impact our business, financial condition and results of operations.

Over the past year, the U.S. government implemented tariffs on certain products, and certain countries or entities, such as Mexico, Canada, China and the European Union, have issued and continue to threaten retaliatory tariffs against products from the United States, including agricultural products, and additional tariffs and retaliatory tariffs may be imposed in the future by these and other countries. In particular, Mexico imposed retaliatory tariffs on cheese from the United States, among other goods. Tariffs, retaliatory tariffs or other trade restrictions on products and materials that our customers import or export, including among others, agricultural products and dairy products, could cause the prices of our customers' products to increase which could reduce demand for such products, or reduce our customer margins, and adversely impact their revenues, financial results and ability to service debt, which, in turn, could adversely affect our financial condition and results of operations. In addition, to the extent changes in the political environment have a negative impact on us or on the markets in which we operate our business, results of operations and financial condition could be materially and adversely impacted in the future.

Our business is significantly dependent on the real estate markets where we operate, as a large portion of our loan portfolio is secured by real estate.

At December 31, 2018, approximately 60.2% of our aggregate loan portfolio, comprising our agriculture real estate loans (including agricultural construction loans), commercial real estate loans and residential real estate loans, was primarily secured by interests in real estate predominantly located in Wisconsin. Additionally, some of our other lending occasionally involves taking real estate as primary or secondary collateral. Real property values in Wisconsin may be different from, and in some instances worse than, real property values in other markets or in the United States as a whole, and may be affected by a variety of factors outside our control and the control of our borrowers, including national and local economic conditions generally. The market value of real estate securing our real estate loans can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Although a significant portion of such loans is secured by real estate as a secondary form of repayment, adverse developments affecting real estate values in Wisconsin could increase the credit risk associated with our loan portfolio and cause an increase in the number of loan delinquencies, defaults and charge-offs. Additionally, real estate lending typically involves higher loan principal amounts and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties.

If problems develop in the real estate market, particularly within Wisconsin, the value of collateral securing our real estate loans could decline. In such case, we may not be able to realize the amount of security that we anticipated at the time of originating the loan, which could cause us to increase our provision for loan losses and adversely affect our operating results, financial condition and/or capital.

Our commercial real estate and commercial loans generally carry greater credit risk than loans secured by owner occupied one-to-four family real estate, and our credit risk may increase if we succeed in our plan to increase our commercial lending.

At December 31, 2018, $415.7 million, or approximately 34.4%, of our loan portfolio consisted of commercial real estate and commercial loans. Given their generally larger balances and the complexity of the underlying collateral, commercial real estate and commercial loans generally expose a lender to greater credit risk than loans secured by owner occupied one-to-four family real estate. For commercial real estate loans, the principal risk is that repayment is generally dependent on income from tenant leases being generated in amounts sufficient to cover operating expenses and debt service. For commercial loans, the principal risk is that repayment is generally dependent upon the successful operation of the borrower’s business. If loans that are collateralized by real estate or other business assets become troubled and the value of the collateral has been significantly impaired, then we may not be able to recover the full contractual amount of principal and interest that we anticipated at the time we originated the loan, which could cause us to increase our provision for loan losses and would adversely affect our operating results.

We are subject to environmental liability risk associated with real estate collateral securing our loans.

A significant portion of our loan portfolio is secured by real property. Under certain circumstances, we may take title to the real property collateral through foreclosure or other means. As the titleholder of the property, we may be responsible for environmental risks, such as hazardous materials, which attach to the property. For these reasons, prior to extending credit, we have an environmental risk assessment program to identify any known environmental risks associated with the real property that will secure our loans. In addition, we routinely inspect properties following the taking of title. When environmental risks are found, environmental laws and regulations may prescribe our approach to remediation. As a result, while we have ownership of a property, we may incur substantial expense and bear potential liability for any damages caused. The environmental risks may also materially reduce the property's value or limit our ability to use or sell the property. We also cannot guarantee that our environmental risk assessment will detect all environmental issues relating to a property, which could subject us to additional liability.

Our business depends on our ability to successfully manage credit risk.

The operation of our business requires us to manage credit risk. As a lender, we are exposed to the risk that our borrowers will be unable to repay their loans and leases according to their terms, and that the collateral securing repayment of their loans, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers, including the risk that a borrower may not provide information to us about its business in a timely manner, and/or may present inaccurate or incomplete information to us, and risks relating to the value of collateral. In order to manage credit risk successfully, we must, among other things, maintain disciplined and prudent underwriting standards and ensure that our bankers follow those standards. The weakening of these standards for any reason, such as an attempt to attract higher yielding loans, a lack of discipline or diligence by our employees in underwriting and monitoring loans, the inability of our employees to adequately adapt policies and procedures to changes in economic or any other conditions affecting borrowers and the quality of our loan portfolio, may result in loan defaults, foreclosures and additional charge-offs and may necessitate that we significantly increase our allowance for loan and lease losses, each of which could adversely affect our net income. As a result, our inability to successfully manage credit risk could have a material adverse effect on our business, financial condition or results of operations.

Strong competition could hurt our earnings and slow growth.

We face intense competition in making loans and attracting deposits. Price competition for loans and deposits sometimes results in us charging lower interest rates on our loans and paying higher interest rates on our deposits, which may reduce our net interest income. Many of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. We also face competition for agricultural loans from participants in the nationwide Farm Credit System and much larger regional, national and global banks. Competition also makes it more difficult and costly to attract and retain qualified employees. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of non-bank competition in the financial services industry. If we are not able to effectively compete in our market areas and targeted business segments, our profitability may be negatively affected.

Consumers and businesses are increasingly using non-banks to complete their financial transactions, which could adversely affect our business and results of operations.

Technology and other changes are allowing consumers and businesses to complete financial transactions that historically have involved banks through alternative methods. For example, the wide acceptance of internet-based commerce has resulted in a number of alternative payment processing systems and lending platforms in which banks play only minor roles. Customers can now maintain funds in prepaid debit cards or digital currencies, and pay bills and transfer funds directly without the direct assistance of banks. The diminishing role of banks as financial intermediaries has resulted and could continue to result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the potential loss of lower cost deposits as a source of funds could have a material adverse effect on our business, financial condition and results of operations.

Our ability to maintain our reputation is critical to the success of our business, and the failure to do so may materially adversely affect our performance.

We have benefited from strong relationships with our customers, and also from our relationships with financial intermediaries. As a result, our reputation is an important component of our business. A key component of our business strategy is to leverage our reputation for customer service and knowledge of our customers' needs and businesses to expand our presence by capturing new business opportunities from existing and prospective customers in and outside of our local market areas. We strive to conduct our business in a manner that enhances our reputation. We aim to enhance our reputation, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities and markets we serve, who are able to connect with customers through on-site visits and knowledge of our customers' businesses, and who care about and deliver superior service to our customers. If our reputation is negatively affected by the actions of our employees, by our inability to conduct our operations in a manner that is appealing to current or prospective customers, or by events beyond our control, our business and operating results may be adversely affected.

Changes in interest rates may hurt our earnings and asset value.

Like other financial institutions, we are subject to interest rate risk. Our primary source of income is net interest income, which is the difference between interest earned on interest-earning assets (consisting primarily of loans and securities) and the interest paid on interest-bearing liabilities (consisting primarily of deposits and borrowings). Changes in both the general level of interest rates and in the difference between short-term and long-term rates can affect our net interest income. Interest rates are highly sensitive to many factors, including government monetary policies, domestic and international economic and political conditions and other factors beyond our control.

While we pursue an asset/liability strategy designed to mitigate our risk from changes in interest rates, including by seeking to originate variable rate loans and balancing the respective terms of assets and liabilities, changes in interest rates may still have a material adverse effect on our financial condition and results of operations. Changes in the level of interest rates also may negatively affect our ability to originate loans, the value of our assets and liabilities and our ability to realize gains from the sale of our assets, all of which could affect our earnings.

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

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

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

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings and capital could decrease.

At December 31, 2018, our allowance for loan losses totaled $16.5 million, which represented 1.4% of gross loans. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for our loans. In determining the amount of the allowance for loan losses, we review our loss and delinquency experience, and we evaluate other factors including, among other things, current economic conditions. If our assumptions are incorrect, or if delinquencies or non-performing loans increase, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, which would require additions to our allowance, and could decrease our net income or reduce our capital.

In addition, our regulators, as an integral part of their examination process, periodically review the allowance for loan losses and may require us to increase the allowance for loan losses by recognizing additional provisions for loan losses charged to expense, or to charge off loans, which, net of any recoveries, would decrease the allowance for loan losses. Any such additional provisions for loan losses or charge-offs could have a material adverse effect on our financial condition and results of operations.

We rely on the accuracy and completeness of information about our customers and counterparties, and inaccurate or incomplete information could subject us to various risks.

In deciding whether to extend credit or enter into other transactions with our customers and counterparties, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements and other financial information. We may also rely on representations as to the accuracy and completeness of such information and, with respect to financial statements, on reports of independent auditors.

While we strive to verify the accuracy and sufficiency of such information, if this information is inaccurate or incomplete, we may be subject to loan losses, regulatory action, reputational harm, or other adverse effects on the operation of our business, results of operations, or financial condition.

We depend on our management team to implement our business strategy and on our relationship managers to maintain and grow our agricultural and commercial relationships, and we could be harmed by the loss of their services.

We are dependent upon the services and expertise of our founders and the other members of our management team who direct our strategy and operations, especially relating to our agricultural lending focus, and we have benefited from our management's extensive banking knowledge and experience in this regard. We also rely heavily upon the talents, experience and customer relationships of our loan officers and have benefited from their expertise and relationship-building skills, especially with respect to our agricultural and commercial lending. Members of our executive management team and our seasoned loan officers could be difficult to replace. Our loss of the services of one or more of these persons, or our inability to hire additional qualified personnel, could impact our ability to implement our business strategy and could have a material adverse effect on our business and results of operations.

Limits on our ability to use brokered deposits as part of our funding strategy may adversely affect our ability to grow.

A "brokered deposit" is any deposit that is obtained from or through the mediation or assistance of a deposit broker, which includes larger correspondent banks and securities brokerage firms. These deposit brokers attract deposits from individuals and companies throughout the country and internationally whose deposit decisions are based almost exclusively on obtaining the highest interest rates. We have used brokered deposits in the past, and we intend to continue to use brokered deposits as one of our funding sources to support future growth. At December 31, 2018, brokered deposits represented approximately 25.2% of our total deposits and equaled $308.5 million. There are risks associated with using brokered deposits. In order to continue to maintain our level of brokered deposits, we may be forced to pay higher interest rates than contemplated by our asset-liability pricing strategy. In addition, banks that become less than "well capitalized" under applicable regulatory capital requirements may be restricted in their ability to accept or prohibited from accepting brokered deposits. In addition, banks not considered to be "well capitalized" are subject to a cap on interest rates paid to depositors as published by the FDIC. Such depositor interest rate caps could impede our ability to raise local deposits to replace brokered deposits no longer available if we were not considered to be "well capitalized." If brokered deposits become more difficult to access, we will have to seek alternative funding sources in order to continue to fund our growth. This may include increasing our reliance on the FHLB borrowings, attempting to attract non-brokered deposits, reducing our available for sale securities portfolio and selling loans, potentially at a time when pricing may be unfavorable, which may increase our funding costs and reduce our net interest income and net income. There can be no assurance that brokered deposits will be available or, if available, sufficient to support our continued growth.

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

Liquidity risk is the risk that we will not be able to meet our obligations, including financial commitments, as they come due and is inherent in our operations. An inability to raise funds through deposits, borrowings, the sale of loans and/or investment securities and from other sources could have a substantial negative effect on our liquidity. Our most important source of funds consists of our customer deposits, which we supplement with other sources such as brokered deposits. Deposit balances can decrease for a variety of reasons, including when customers perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments, we could lose a relatively low cost source of funds. This loss would require us to seek other funding alternatives, including brokered deposits, in order to continue to grow, thereby increasing our funding costs and reducing our net interest income and net income.

Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. Economic conditions and a loss of confidence in financial institutions may increase our cost of funding and limit access to certain customary sources of capital, including inter-bank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve. There is also the potential risk that collateral calls with respect to our repurchase agreements could reduce our available liquidity.

Any decline in available funding could adversely impact our ability to continue to implement our business plan, including originating loans, investing in securities, meeting our expenses or fulfilling obligations such as repaying our borrowings and meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

If a significant portion of any future unrealized losses in our portfolio of investment securities were to become other than temporarily impaired with credit losses, we would recognize a material charge to our earnings, and our capital ratios would be adversely impacted.

Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of those securities. These factors include, but are not limited to, changes in interest rates, rating agency downgrades of the securities, defaults by the issuer or individual mortgagors with respect to the underlying securities, and instability in the credit markets. Any of the foregoing factors could cause an other than temporary impairment ("OTTI") in future periods and result in realized losses.

We analyze our investment securities quarterly to determine whether, in the opinion of management, any of the securities have OTTI. To the extent that any portion of the unrealized losses in our portfolio of investment securities is determined to have OTTI and is credit-loss related, we will recognize a charge to our earnings in the quarter during which such determination is made, and our capital ratios will be adversely impacted. Generally, a fixed income security is determined to have OTTI when it appears unlikely that we will receive all of the principal and interest due in accordance with the original terms of the investment. In addition to credit losses, losses are recognized for a security with an unrealized loss if the Company has the intent to sell the security or if it is more likely than not that the Company will be required to sell the security before collection of the principal amount.

The occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

As a bank, we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us or our clients, which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, litigation or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to systems used by us or our clients, denial or degradation of service attacks and malware or other cyber-attacks.

In recent periods, there continues to be a rise in electronic fraudulent activity, security breaches and cyber-attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts. Moreover, in recent periods, several large corporations, including financial institutions and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity. Some of our clients may have been affected by these breaches, which could increase their risks of identity theft and other fraudulent activity that could involve their accounts with us.

Information pertaining to us and our clients is maintained, and transactions are executed, on networks and systems maintained by us and certain third party partners, such as our online banking, mobile banking or accounting systems. The secure maintenance and transmission of confidential information, as well as execution of transactions over these systems, are essential to protect us and our clients against fraud and security breaches and to maintain the confidence of our clients. Breaches of information security also may occur through intentional or unintentional acts by those having access to our systems or the confidential information of our clients, including employees. In addition, increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our clients and underlying transactions, as well as the technology used by our clients to access our systems. Our third party partners' inability to anticipate, or failure to adequately mitigate, breaches of security could result in a number of negative events, including losses to us or our clients, loss of business or clients, damage to our reputation, the incurrence of additional expenses, disruption to our business, additional regulatory scrutiny or penalties or our exposure to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We depend on information technology and telecommunications systems of third parties, and any systems failures, interruptions or data breaches involving these systems could adversely affect our operations and financial condition.

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems, third party servicers, accounting systems, mobile and online banking platforms and financial intermediaries. We outsource to third parties many of our major systems, such as data processing and mobile and online banking. The failure of these systems, or the termination of a third party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third party systems, we could experience service denials if demand for such services exceeds capacity or such third party systems fail or experience interruptions. A system failure or service denial could result in a deterioration of our ability to process loans or gather deposits and provide customer service, compromise our ability to operate effectively, result in potential noncompliance with applicable laws or regulations, damage our reputation, result in a loss of customer business or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on business, financial condition, results of operations and growth prospects. In addition, failures of third parties to comply with applicable laws and regulations, or fraud or misconduct on the part of employees of any of these third parties, could disrupt our operations or adversely affect our reputation.

It may be difficult for us to replace some of our third party vendors, particularly vendors providing our core banking and information services, in a timely manner if they are unwilling or unable to provide us with these services in the future for any reason and even if we are able to replace them, it may be at higher cost or result in the loss of customers. Any such events could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Our operations rely heavily on the secure processing, storage and transmission of information and the monitoring of a large number of transactions on a minute-by-minute basis, and even a short interruption in service could have significant consequences. We also interact with and rely on retailers, for whom we process transactions, as well as financial counterparties and regulators. Each of these third parties may be targets of the same types of fraudulent activity, computer break-ins and other cyber security breaches described above, and the cyber security measures that they maintain to mitigate the risk of such activity may be different than our own and may be inadequate.

As a result of financial entities and technology systems becoming more interdependent and complex, a cyber incident, information breach or loss, or technology failure that compromises the systems or data of one or more financial entities could have a material impact on counterparties or other market participants, including ourselves. As a result of the foregoing, our ability to conduct business may be adversely affected by any significant disruptions to us or to third parties with whom we interact.

We rely on other companies to provide certain key components of our business infrastructure.

Third-party service providers provide certain key components of our business infrastructure, such as data processing and deposit processing systems, mobile payment systems, internet connections, and network access. While we have selected these third-party service providers carefully, we do not control their operations. Any failure by these third parties to perform or provide agreed-upon goods and services for any reason or their poor performance of services could adversely affect our ability to deliver products and services to our customers and otherwise to conduct our business. Replacing these third-party service providers could also entail significant delay and expense.

We may face risks with respect to future acquisitions.

We may continue to attempt to expand our business in Wisconsin or other states through mergers and acquisitions. We anticipate that we will seek targets that are culturally similar to us, have experienced management and possess either significant market presence or have potential for improved profitability through economies of scale or expanded services. In addition to the general risks associated with our growth plans, acquiring other banks, businesses or branches involves various risks commonly associated with acquisitions, including, among other things, the following:

- the time and costs associated with identifying and evaluating potential acquisition and merger targets;
- unexpected delays, complications or expenses resulting from regulatory approval requirements or other conditions to closing;
- inaccuracies in the estimates and judgments used to evaluate credit, operations, management and market risks with respect to the target institution;
- the time and costs of evaluating new markets, hiring experienced local management, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- our ability to finance an acquisition and possible dilution to our existing shareholders;
- the diversion of our management's attention to the negotiation of a transaction;
- the incurrence of an impairment of goodwill associated with an acquisition and adverse effects on our results of operations;

- entry into new markets where we lack experience; and
- risks associated with integrating the operations and personnel of the acquired business in a manner that permits growth opportunities and does not materially disrupt existing customer relationships or result in decreased revenues resulting from any loss of customers.

With respect to the risks particularly associated with the integration of an acquired business, we may encounter a number of difficulties, such as: (1) customer loss and revenue loss; (2) the loss of key employees; (3) the disruption of our operations and business; (4) our inability to maintain and increase competitive presence; (5) possible inconsistencies in standards, control procedures and policies; and/or (6) unexpected problems with costs, operations, personnel, technology and credit.

In addition to the risks posed by the integration process itself, the focus of management's attention and effort on integration may result in a lack of sufficient management attention to other important issues, causing harm to our business. Also, general market and economic conditions or governmental actions affecting the financial industry generally may inhibit our successful integration of an acquired business. Failure to realize the expected revenue increases, cost savings, increases in geographic or product presence and/or other projected benefits from an acquisition could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

If we fail to successfully keep pace with technological change, our business could be materially adversely affected.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Failure to successfully keep pace with technological change affecting the financial services industry generally, and virtual banking in particular, could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

We designed our disclosure controls and procedures to reasonably assure that information we must disclose in reports we file or submit under the Exchange Act is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected and any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business results of operations and financial condition.

If our risk management framework does not effectively identify or mitigate our risks, we could suffer losses.

Our risk management framework seeks to mitigate risk and appropriately balance risk and return. We have established processes and procedures intended to identify, measure, monitor and report the types of risk to which we are subject, including credit risk, operations risk, compliance risk, reputation risk, strategic risk, market risk and liquidity risk. We seek to monitor and control our risk exposure through a framework of policies, procedures, monitoring and reporting requirements. There may be risks that exist, or that develop in the future, that we have not appropriately anticipated, identified or mitigated. If our risk management framework does not effectively identify or mitigate our risks, we could suffer unexpected losses and could be materially adversely affected.

We incur significant costs as a result of operating as a public company, and our management is required to devote substantial time to new compliance initiatives relating to our financial and accounting systems, procedures and controls in order to satisfy our new public company reporting requirements.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company, and these expenses may increase even more after we are no longer an "emerging growth company." We have made, and will continue to make, changes to our internal controls and procedures for financial reporting and accounting systems to meet our reporting obligations as a stand-alone public company. These obligations increase our operating expenses and could divert management's attention from other aspects of our business. We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, Dodd-Frank

Act, as well as rules adopted, and to be adopted, by the SEC and the Nasdaq Global Market, except for such requirements that we may elect not to comply with during the period we are an emerging growth company, which could require us to further upgrade our systems and/or hire additional staff, which would increase our operating costs. Our management and other personnel need to devote a substantial amount of time to these compliance initiatives. Moreover, we expect these rules and regulations to substantially increase our legal and financial compliance costs and to make some activities more time-consuming and costly. The increased costs may cause us to incur losses. We cannot predict or estimate the amount or timing of additional costs we may incur to respond to these requirements.

As an “emerging growth company,” we are taking advantage of certain temporary exemptions from various reporting requirements, including reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and an exemption from the requirement to obtain an attestation from our auditors on management’s assessment of our internal control over financial reporting. When these exemptions cease to apply, we expect to incur additional expenses and devote increased management effort toward ensuring compliance with them.

The soundness of other financial institutions could adversely affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other institutional clients. Many of these transactions expose us to credit risk in the event of default by our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations or earnings.

Risks Related to Our Industry

We may be materially and adversely affected by the highly regulated environment in which we operate.

We are subject to extensive federal and state regulation, supervision and examination. A more detailed description of the primary federal and state banking laws and regulations that affect us is contained in Item 1 of this Form 10-K in the section captioned “Supervision and Regulation.” Banking regulations are primarily intended to protect depositors’ funds, FDIC funds, customers and the banking system as a whole, rather than our shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things.

As a bank holding company, we are subject to extensive regulation and supervision and undergo periodic examinations by our regulators, who have extensive discretion and authority to prevent or remedy unsafe or unsound practices or violations of law by banks and bank holding companies and to impose additional restrictions on the activities of bank and bank holding companies. Failure to comply with applicable laws, regulations or policies could result in sanctions by regulatory agencies, civil monetary penalties, additional restrictions on our activities, and/or damage to our reputation, which could have a material adverse effect on us. Although we have policies and procedures designed to mitigate the risk of any such violations, there can be no assurance that such violations will not occur.

Current or proposed regulatory or legislative changes to laws applicable to the financial industry may impact the profitability of our business activities and may change certain of our business practices, including our ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads, and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations in order to comply and could therefore also materially and adversely affect our business, financial condition and results of operations.

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

We are required by our regulators to maintain adequate levels of capital to support our operations. We believe our current level of capital is sufficient to permit us to maintain regulatory capital compliance for the foreseeable future. Nonetheless, we may at some point need to raise additional capital to support continued growth or to address losses.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside of our control, and on our financial condition and performance. Accordingly, we may not be able to raise additional capital if needed on terms that are acceptable to us, or at all. If we cannot raise additional capital when needed, our operations and our financial condition could be materially and adversely affected. In addition, if we are unable to raise additional capital if required by the Federal Reserve, we may be subject to adverse regulatory action.

We face a risk of noncompliance with and enforcement actions under the Bank Secrecy Act and other anti-money laundering statutes and regulations.

We maintain systems and procedures designed to ensure that we comply with applicable laws and regulations. The federal Bank Secrecy Act, the USA Patriot Act, and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network, established by the Treasury to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. Federal and state bank regulators also have begun to focus on compliance with Bank Secrecy Act and anti-money laundering regulations. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including future acquisition plans, which would negatively impact our business, financial condition and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us.

Changes in accounting standards and policies may negatively affect our performance.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time there are changes in the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we report and record our financial condition and results of operations. In some cases, we could be required to apply a new or revised accounting standard retroactively, which could have a negative impact on our reported results.

A new accounting standard may require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The FASB has adopted a new accounting standard that will be effective for the Company and the Bank for our first fiscal year after December 15, 2019. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which may require us to increase our allowance for loan losses, and to greatly increase the types of data we will need to collect and review to determine the appropriate level of the allowance for loan losses. Any increase in our allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses may have a material adverse effect on our financial condition and results of operations.

Our ability to pay dividends is dependent upon the Bank's performance.

The Company's only source of funds to pay dividends is dividends or other distributions it may receive directly from the Bank. The Company's payment of dividends in the future, if any, will be subject to legal, regulatory and contractual restrictions (including with respect to junior subordinated debentures (and related trust preferred securities ("TruPS")), which are senior to our shares of preferred and common stock and have a preference on dividends and with respect to our subordinated notes, which restrict the payment of dividends upon an event of default under the notes), and will also depend on the Bank's earnings, capital requirements, financial condition and other factors considered relevant by our board of directors. Dividends are payable on shares at the discretion of our board of directors, subject to the provisions of the Wisconsin Business Corporation Law, and any regulatory restrictions.

Our stock is relatively thinly traded.

Although our common stock is traded on the Nasdaq Global Market, the average daily trading volume of our common stock is relatively small compared to many public companies. The desired market characteristics of depth, liquidity, and orderliness require the substantial presence of willing buyers and sellers in the marketplace at any given time. In our case, this presence depends on the individual decisions of a relatively small number of investors and general economic and market conditions over which we have no control. Due to the relatively small trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause the stock price to fall more than would be justified by the inherent worth of the Company. Conversely, attempts to purchase a significant amount of our stock could cause the market price to rise above the reasonable inherent worth of the Company.

The stock market can be volatile, and fluctuations in our operating results and other factors could cause our stock price to decline.

The stock market has experienced, and may continue to experience, fluctuations that significantly impact the market prices of securities issued by many companies. Market fluctuations could adversely affect our stock price. These fluctuations have often been unrelated or disproportionate to the operating performance of particular companies. These broad market fluctuations, as well as general economic, systemic, political and market conditions, such as recessions, loss of investor confidence, interest rate changes, government shutdowns, trade wars, Brexit, or international currency fluctuations, may negatively affect the market price of our common stock. Moreover, our operating results may fluctuate and vary from period to period due to the risk factors set forth herein. As a result, period-to-period comparisons should not be relied upon as an indication of future performance. Our stock price could fluctuate significantly in response to our quarterly or annual results, annual projections and the impact of these risk factors on our operating results or financial position.

Although the Company's common stock is quoted on The Nasdaq Global Market, the volume of trades on any given day has been limited historically, as a result of which shareholders might not have been able to sell or purchase the Company's common stock at the volume, price or time desired. In June 2016, the Company's common stock was added to the Russell 3000® Index based on the total market value of shares outstanding. Inclusion in this index may have positively impacted the price, trading volume, and liquidity of the Company's common stock, in part, because index funds or other institutional investors often purchase securities that are in this index. There can be no assurance that the Company's common stock will remain in that index. If the Company's common stock is removed from the Russell 3000® Index for any reason, including as a result of a decrease in the total market value of the Company's outstanding shares, holders attempting to track the composition of that index will be required to sell the Company's common stock, which could cause a material decrease in the price at which the Company's common stock trades.

We are subject to examinations and challenges by tax authorities that may be costly and time-consuming and may require expensive remedial action or other costs.

In the normal course of business, the Company and the Bank are routinely subject to examinations and challenges from federal and state tax authorities regarding the amount of taxes due in connection with investments that both entities have made and the businesses in which they have engaged. Federal and state taxing authorities have over the past few years become increasingly aggressive in challenging tax positions taken by financial institutions. These tax positions may relate to tax compliance, sales and use, franchise, gross receipts, payroll, property and income tax issues, including tax base, apportionment and tax credit planning. The challenges made by tax authorities may result in adjustments to the timing or amount of taxable income or deductions or the allocation of income among tax jurisdictions. If not resolved in our favor, such challenges could have an adverse effect on our financial condition and results of operations.

A prolonged U.S. government shutdown or default by the U.S. on government obligations would harm our results of operations.

Our results of operations, including revenue, non-interest income, expenses and net interest income, would be adversely affected in the event of widespread financial and business disruption on account of a default by the United States on U.S. government obligations or a prolonged failure to maintain significant U.S. government operations, including the recent partial shutdown of the U.S. government which ended on January 25, 2019. Of particular impact to the Company are the operations pertaining to the SBA, the USDA Farm Service Agency (FSA) and the FDIC. Any such failure to maintain such U.S. government operations, and the after-effects of such shutdown, could impede our ability to originate SBA or FSA loans and our ability to sell such loans in the secondary market, which would materially adversely affect our business, results of operations and financial condition.

In addition, many of our investment securities are issued by and some of our loans are made to the U.S. government and government agencies and sponsored entities. Uncertain domestic political conditions, including prior federal government shutdowns and potential future federal government shutdowns or other unresolved political issues, may pose credit default and liquidity risks with respect to investments in financial instruments issued or guaranteed by the federal government and loans to the federal government. Any downgrade in the sovereign credit rating of the United States, as well as sovereign debt issues facing the governments of other countries, could have a material adverse impact on financial markets and economic conditions in the United States and worldwide. Any such adverse impact could have a material adverse effect on our liquidity, financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Bank owns its headquarters in Manitowoc, Wisconsin, and branches in Manitowoc, Stevens Point, and Green Bay, Wisconsin and leases its other locations. The following table provides information related to our leased locations:

Location	Function	Lease Expiration Year
Appleton, WI	Full service banking location	2020
Darlington, WI	Loan production office	2021
Eau Claire, WI	Loan production office	2020
Fond du Lac, WI	Loan production office	2020
Sheboygan, WI	Loan production office	2020

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are subject to certain legal proceedings and claims in the ordinary course of business. We are not presently party to, nor is any of our property the subject of, any legal proceedings, other than ordinary routine litigation incidental to our business, the resolution of which we believe would have a material adverse effect on our business, financial condition, operating results or cash flows. We establish reserves for specific legal matters when we determine that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

Our common stock is listed on the Nasdaq Global Market under the ticker symbol “ICBK.”

Holders

We had approximately 305 shareholders of record at March 15, 2019. The number of shareholders does not reflect persons or entities that hold their stock in nominee or “street” name through various brokerage firms.

Dividends

We pay quarterly dividends on our common stock, and in 2018, our board of directors declared dividends totaling $0.28 per share. On February 21, 2019, our Board of Directors declared a quarterly dividend totaling $0.05 per share for shareholders of record as of March 8, 2019.

Although we expect to pay dividends according to our dividend policy as of the date of this report, we may elect not to pay dividends. Any declarations of dividends will be at the discretion of our board of directors, therefore, there can be no assurance that we will pay any dividends to holders of our stock, or as to the amount of any such dividends.

Recent Sales of Unregistered Securities

None.

ITEM 6. SELECTED FINANCIAL DATA

Not required for smaller reporting companies.

ITEM 7. 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 in Item 8 of this Form 10-K. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause such differences are discussed in the sections titled "Forward-Looking Statements" and "Item 1A - Risk Factors."

General

The following discussion and analysis presents our financial condition and results of operations on a consolidated basis. However, because we conduct all of our material business operations through the Bank, the discussion and analysis relates to activities primarily conducted at the Bank.

Executive Overview

We are the holding company for Investors Community Bank, which is headquartered in Manitowoc, Wisconsin. 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, residential real estate and installment and consumer 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 net income, net interest margin, efficiency ratio, return on average assets, return on average common shareholders' equity, earnings per share, and non-performing assets to total assets. We must also maintain appropriate regulatory leverage and risk-based capital ratios. The following table sets forth the key financial metrics we use to measure our performance.

	For the Year Ended December 31,		
	2018	2017	2016
	(dollars in thousands, except per share data)		
Net income	$14,251	$10,425	$10,694
Net interest margin	2.91 %	3.11 %	3.35 %
Efficiency ratio [1]	54.42 %	54.63 %	53.72 %
Return on average assets	0.96 %	0.80 %	0.98 %
Return on average common shareholders' equity [1]	9.74 %	7.77 %	9.51 %
Basic earnings per share	$2.06	$1.52	$1.65
Diluted earnings per share	$2.04	$1.49	$1.61
Non-performing asset to total assets [2]	1.94 %	1.15 %	1.84 %
Adverse classified coverage [1]	57.12 %	51.57 %	32.08 %
Dividend payout ratio	13.73 %	16.11 %	12.42 %
Equity to assets ratio	10.00 %	10.09 %	10.56 %

(1) This measure is not recognized under GAAP and is therefore considered to be a non-GAAP financial measure. See below for a reconciliation of this measure to its most directly comparable GAAP measure.

(2) Non-performing assets consist of nonaccrual loans and other real estate owned.

	For the Year Ended December 31,		
	2018	2017	2016
	(dollars in thousands)		
Efficiency Ratio GAAP to Non-GAAP reconciliation:			
Non-interest expense	$28,283	$25,992	$24,146
Less: net loss on sales and write-downs of OREO	(642)	(552)	(358)
Adjusted non-interest expense (non-GAAP)	$27,641	$25,440	$23,788
Net interest income	$41,955	$38,885	$35,567
Non-interest income	8,833	7,653	8,715
Less: net loss on sales of securities	—	31	—
Operating revenue	$50,788	$46,569	$44,282
Efficiency ratio	54.42 %	54.63 %	53.72 %

	For the Year Ended December 31,		
	2018	2017	2016
Return on Average Common Shareholders' Equity GAAP to Non-GAAP reconciliation:			
Return on average common shareholders' equity			
Return on average shareholders' equity	9.50%	7.58%	8.99%
Effect of excluding average preferred shareholders' equity	0.24%	0.19%	0.52%
Return on average common shareholders' equity	9.74%	7.77%	9.51%

	December 31, 2018	December 31, 2017	December 31, 2016
	(dollars in thousands)		
Adverse classified asset ratio:			
Substandard loans	$ 120,887	$ 83,226	$ 54,616
Less: Non-impaired restructured loans	(5,078)	(1,072)	(4,300)
Net substandard loans	$ 115,809	$ 82,154	$ 50,316
Other real estate owned	6,568	4,565	2,763
Substandard unused commitments	1,625	799	1,592
Less: Substandard government guarantees	(7,111)	(4,289)	(6,779)
Total adverse classified assets (non-GAAP)	$ 116,891	$ 83,229	$ 47,892
Total equity (Bank)	$ 185,458	$ 146,937	$ 135,777
Accumulated other comprehensive loss on available for sale securities	2,221	627	370
Allowance for loan losses	16,505	13,247	12,645
Allowance for unused commitments	475	564	485
Adjusted total equity (non-GAAP)	$ 204,659	$ 161,375	$ 149,277
Adverse classified asset ratio	57.12 %	51.57 %	32.08 %

Critical Accounting Policies and Estimates

Certain of our accounting policies are important to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances which could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy and changes in the financial condition of borrowers. Our significant accounting policies are discussed in detail in Note 1 to our Consolidated Financial Statements included in Item 8 of this Form 10-K. Those significant accounting policies that we consider to be most critical are described below. Our policies with respect to the methodology for the determination of goodwill, allowance for loan losses, OREO and fair value of financial instruments involve a degree of complexity and require management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could materially impact our results of operations. These critical policies and their application are reviewed with the board of directors annually and prior to any change in policy.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired and is included as an asset on the consolidated balance sheets. Goodwill is not amortized but is subject to impairment tests on at least an annual basis.

Management will periodically review the carrying value of its long-lived and intangible assets to determine if any impairment has occurred or whether changes in circumstances have occurred that would require a revision to the remaining useful life, in which case an impairment charge would be recorded as an expense in the period of impairment. 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 was $5.0 million at December 31, 2018 and 2017.

During the fourth quarter of 2018, the market value of our stock price dropped below our tangible book value. We engaged a third party to assist the Company in determining the fair value of the Company as a single reporting unit pursuant to Step 1 of the

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350-20-35 (the "Step 1 Analysis") as of December 31, 2018. The Step 1 Analysis included an Income and Market Approaches. The Income Approach used as discounted cash flow method. This method estimates value by forecasting income for a forecast period and estimates the terminal value. These amounts were then discounted back to December 31, 2018. The Market Approach used the market value of equity to tangible book value multiple of similar publicly traded commercial banks (e.g. total tangible assets, pre-tax return on average assets, located in the Midwest). The Market Approach also includes the acquisition price/tangible book value multiple on similar sized banks in the Midwest occurring after January 1, 2017. More weighting was placed on the Income Method. Through the Step 1 Analysis it was determined there was no impairment charge to goodwill in the year ended December 31, 2018. Goodwill is included on the consolidated balance sheets. The future value of Goodwill could be impacted by the Company's future earnings, largely related to unanticipated losses from the Company's loan portfolio.

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 of and migratory direction of adversely graded loans, external factors including regulatory requirements, 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 and 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.

Other Real Estate Owned

Assets acquired through or in lieu of loan foreclosure are initially recorded at lower of cost or fair value less estimated costs to sell, establishing a new cost basis. Subsequent to foreclosure, independent valuations are performed annually and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other non-interest expense. Costs related to the development and improvement of other real estate owned is capitalized.

Fair Value of Financial Instruments

A significant portion of the Company's assets are financial instruments carried at fair value. This includes securities available for sale and certain impaired loans. The majority of assets carried at fair value are based on either quoted market prices or market prices for similar instruments. For additional disclosures regarding the fair value of financial instruments, see Note 20. "Fair Value Measurements" to our consolidated financial statements.

JOBS Act Transition Period

The Jumpstart Our Business Startups (JOBS) Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. Thus, as an emerging growth company, the Company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to avail ourselves of this extended transition period.

Comparison of Financial Condition at December 31, 2018 and 2017

Total Assets. Total assets increased $123.8 million, or 8.9%, from $1.4 billion at December 31, 2017 to $1.5 billion at December 31, 2018. The increase was primarily the result of loan growth of $58.3 million and net security purchases of $69.9 million, which were partially the result of $30 million of subordinated notes that were issued by the Company on May 30, 2018.

Total assets increased $154.4 million, or 12.4%, from $1.2 billion at December 31, 2016 to $1.4 billion at December 31, 2017. The increase is primarily the result of loan growth of $118.5 million, an increase in loans held for sale of $5.4 million, and an increase in cash and due from banks of $24.1 million, between December 31, 2016 and December 31, 2017. In addition, $5.5 million of additional bank owned life insurance policies were purchased during 2017.

Net Loans. Total net loans increased by $55.1 million, or 4.9%, from $1.1 billion at December 31, 2017 to $1.2 billion at December 31, 2018. The increase was the result of a 5.5% increase in our agricultural portfolio, a 2.2% increase in our commercial real estate portfolio, a 1.9% increase in our commercial portfolio, and a 21.2% increase in our residential real estate loans which include multi-family housing projects.

Total net loans increased by $117.9 million, or 11.6%, from $1.0 billion at December 31, 2016 to $1.1 billion at December 31, 2017. The increase was primarily attributed to a 9.9% increase in our agricultural portfolio, an 8.2% increase in our commercial real estate portfolio, and a 27.1% increase in our commercial portfolio.

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

	As of December 31,									
	2018		2017		2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(dollars in thousands)									
Agriculture loans	$724,508	60.0 %	$686,430	59.7 %	$624,632	60.6 %	$499,320	66.8 %	$415,164	64.1 %
Commercial real estate loans	299,212	24.8 %	292,704	25.5 %	270,475	26.3 %	161,741	21.6 %	137,517	21.2 %
Commercial loans	116,460	9.7 %	114,332	10.0 %	89,944	8.7 %	51,978	6.9 %	53,745	8.3 %
Residential real estate loans	66,843	5.5 %	55,138	4.8 %	45,276	4.4 %	34,631	4.6 %	40,885	6.3 %
Installment and consumer other	272	0.0 %	347	0.0 %	159	0.0 %	519	0.1 %	811	0.1 %
Total gross loans	$1,207,295	100.0 %	$1,148,951	100.0 %	$1,030,486	100.0 %	$748,189	100.0 %	$648,122	100.0 %
Allowance for loan losses	(16,505)		(13,247)		(12,645)		(10,405)		(10,603)	

Net Loans	$1,190,790	$1,135,704	$1,017,841	$737,784	$637,519

The following table sets forth loan origination activity for the periods indicated:

	For the Year Ended December 31,				
	2018	2017	2016	2015	2014
	(dollars in thousands)				
Total gross loans:					
Balance, beginning of period	$1,148,951	$1,030,486	$748,189	$648,122	$569,138
Loan originations, net of repayments	126,319	149,201	244,542	170,144	96,117
Loans acquired, net of repayments	—	—	121,265	—	—
Less: Loans sold, net of repayments	(60,591)	(23,702)	(81,031)	(66,640)	(15,165)
Less: Loans charged-off, net	(1,280)	(1,904)	(1,670)	(1,907)	(647)
Less: Transfers to other real estate owned	(6,104)	(5,130)	(809)	(1,530)	(1,321)
Balance, end of period	$1,207,295	$1,148,951	$1,030,486	$748,189	$648,122

The majority of our loan participations and sales relate to agricultural customers. When customers request additional funding, generally for expansion of their operations, the existing loan participations are usually repurchased, with the consent of the participating institution, to allow for repackaging of the loans. This allows the new loans, including the additional funding, to be re-participated at a later time. The decision to re-participate a loan is dependent on many factors, including in-house lending limits and longer-term interest rate options provided to the borrower. As reflected by the balances of "Loans sold, net of repayments," we increased the amount of loans we participated in 2018 in an effort to improve our loan-to-deposit ratio and reduce our reliance on wholesale funding.

Loan Servicing. 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.

The loan servicing portfolio is shown below:

	As of December 31,				
	2018	2017	2016	2015	2014
	(dollars in thousands)				
Total loans:	$1,207,295	$1,148,951	$1,030,486	$748,189	$648,122
Less: Non-qualified loan sales included below	(827)	(1,258)	(1,963)	(3,945)	(8,894)
Loans serviced:					
Agricultural	623,725	575,328	562,843	480,133	413,933
Commercial	35,832	22,102	11,038	11,080	10,419
Commercial real estate	1,700	3,236	3,083	4,720	4,941
Total loans serviced	661,257	600,666	576,964	495,933	429,293
Total loans and loans serviced	$1,867,725	$1,748,359	$1,605,487	$1,240,177	$1,068,521

Loan Maturity. The following table sets forth certain information at December 31, 2018 regarding scheduled contractual maturities during the periods indicated. The table does not include any estimate of prepayments, which significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown below.

	As of December 31, 2018			
	Due In One Year or Less	More Than One Year to Five Years	Due After Five Years	Total
	(dollars in thousands)			
By Loan Portfolio Class:				
Agricultural	$576,801	$101,881	$45,826	$724,508
Commercial real estate	72,038	147,814	79,360	299,212
Commercial	52,829	45,370	18,261	116,460
Residential real estate	16,098	44,919	5,826	66,843
Installment and consumer other	262	4	6	272
Total loans	$718,028	$339,988	$149,279	$1,207,295
By Interest Rate Type:				
Fixed	$396,948	$295,920	$98,663	$791,531
Adjustable loans at floor	50	294	3	347
Adjustable	321,030	43,675	50,712	415,417
Total loans	$718,028	$339,889	$149,378	$1,207,295

Securities. Our securities portfolio is predominately composed of municipal securities, investment grade mortgage-backed securities, and U.S. Government and agency 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 increased by $69.9 million, or 55.5%, from $126.0 million at December 31, 2017 to $195.9 million at December 31, 2018, due to additional security purchases of $96.1 million, which was partially offset by $23.4 million of normal maturities and paydowns during 2018.

Securities increased to $126.0 million at December 31, 2017 from $123.4 million at December 31, 2016, primarily as the result of additional security purchases of $53.1 million, which were partially offset by $21.1 million of security sales and $28.1 million of normal maturities and paydowns during 2017.

The following table sets forth the amortized cost and fair values of our securities portfolio at the dates indicated.

	December 31, 2018		December 31, 2017		December 31, 2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(dollars in thousands)					
Available for sale:						
Municipal securities	$34,985	$34,520	$33,949	$33,765	$45,638	$45,456
Mortgage-backed securities	157,147	154,603	88,242	87,309	73,648	73,308
U.S. Government and agency securities	4,368	4,331	4,874	4,956	1,000	1,000
U.S. treasury securities	2,497	2,491	—	—	—	—
Asset-backed securities	—	—	—	—	3,761	3,673
Total available for sale	$198,997	$195,945	$127,065	$126,030	$124,047	$123,437

At December 31, 2018 and 2017, we had no investments in a single company or entity (other than the U.S. government or an agency of the U.S. government), including both debt and equity securities, that had an aggregate book value in excess of 10% of our equity.

The following table sets forth the stated maturities and weighted average yields of investment securities at December 31, 2018. Certain mortgage-backed securities have adjustable interest rates and will reprice periodically within the various maturity ranges. These repricing schedules are not reflected in the table below.

	December 31, 2018									
	One Year or Less		More Than One Year to Five Years		More Than Five Years to Ten Years		More Than Ten Years		Total	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
	(dollars in thousands)									
Municipal securities	$5,849	1.25 %	$8,616	1.53 %	$4,089	2.21 %	$16,431	2.60 %	$34,985	2.07 %
Mortgage-backed securities	38	3.35 %	2,392	2.67 %	46,575	2.53 %	108,142	3.14 %	157,147	2.95 %
U.S. Government and agency securities	—	—	—	—	4,368	2.84 %	—	—	4,368	2.84 %
U.S. Treasury securities	—	—	2,497	2.48 %	—	—	—	—	2,497	2.48 %
Total	$5,887		$13,505		$55,032		$124,573		$198,997	2.61 %

Deposits. Deposits increased $113.3 million, or 10.2%, from December 31, 2017 to $1.2 billion at December 31, 2018. Deposits increased $132.6 million, or 13.6%, to $1.1 billion at December 31, 2017 from $977.5 million at

December 31, 2016. The increase during the two-year time period was primarily the result of increased time and brokered deposits.

The changes in our deposit balance mix below reflect our long-term strategy focus on customer relationships in order to secure less volatile and less costly funding and reduce our reliance on wholesale funding (e.g. national time deposits, brokered deposits, FHLB advances). Core deposit (demand deposits, money market accounts, and certificates of deposit) increased $69.3 million, or 10.1%, since December 31, 2017, which allowed us to decrease our reliance on brokered deposits by 0.3% of our total deposit balances from 25.5% to 25.2%, and reduce our wholesale FHLB funding by $32.1 million, or 26.4%, since December 31, 2017.

	December 31, 2018			December 31, 2017			December 31, 2016		
	Amount	Percent		Amount	Percent		Amount	Percent	
	(dollars in thousands)								
Time deposits	$516,929	42.3	%	$444,395	40.0	%	$404,667	41.4	%
Brokered deposits	308,504	25.2	%	282,616	25.5	%	193,613	19.8	%
Money market accounts	218,929	17.9	%	199,118	18.0	%	206,435	21.1	%
Demand, noninterest-bearing	121,436	9.9	%	125,584	11.3	%	118,657	12.1	%
NOW accounts and interest checking	51,779	4.2	%	51,613	4.6	%	48,727	5.0	%
Savings	5,770	0.5	%	6,751	0.6	%	5,419	0.6	%
Total deposits	$1,223,347	100.0	%	$1,110,077	100.0	%	$977,518	100.0	%

The following tables set forth the average balances and weighted average rates of our deposit products for the periods indicated.

	For the Year Ended December 31,					
	2018			2017		
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
	(dollars in thousands)					
Time deposits	$505,118	42.6 %	1.90 %	$419,918	41.8 %	1.12 %
Brokered deposits	315,378	26.6 %	1.78 %	241,866	24.1 %	1.09 %
Money market accounts	208,567	17.6 %	1.30 %	190,740	19.0 %	0.49 %
Demand, noninterest-bearing	100,819	8.5 %	—	96,172	9.6 %	—
NOW accounts and interest checking	49,610	4.2 %	0.64 %	49,124	4.9 %	0.36 %
Savings	5,965	0.5 %	0.26 %	5,987	0.6 %	0.13 %
Total deposits	$1,185,457	100.0 %	1.57 %	$1,003,807	100.0 %	0.85 %

	For the Year Ended December 31, 2016		
	Average Balance	Percent	Weighted Average Rate
	(dollars in thousands)		
Time deposits	$361,944	43.5 %	1.34 %
Brokered deposits	184,179	22.1 %	1.29 %
Money market accounts	157,076	18.9 %	0.51 %
Demand, noninterest-bearing	85,199	10.2 %	—
NOW accounts and interest checking	37,322	4.5 %	0.44 %
Savings	6,567	0.8 %	0.23 %
Total deposits	$832,287	100.0 %	0.98 %

The following table sets forth the maturity of time deposits of $100,000 or more, including brokered time deposits, as of the date indicated.

	December 31, 2018 (dollars in thousands)
3 months or less	$ 75,624
Over 3 through 6 months	58,381
Over 6 months through 12 months	164,560
Over 12 months	339,990
Total	$ 638,555

Borrowings. The Bank had fixed rate advances outstanding from the FHLB-Chicago in the amount of $89.4 million and $121.5 million on December 31, 2018 and 2017, respectively. The terms of security agreements with the FHLB require the Bank to pledge collateral for such borrowings consisting of qualifying first mortgage loans, certain securities available for sale, and stock in the FHLB. We did not have overnight advances with the FHLB at December 31, 2018 or 2017. The Bank decreased its FHLB borrowings as a result of the increase in core deposits.

As of December 31, 2018 and 2017, the Bank also had a line-of-credit available with the Federal Reserve Bank of Chicago. Borrowings under this line of credit are limited by the amount of securities or pledged by the Bank as collateral. Our available credit due to our pledged loans totaled $143.4 million at December 31, 2018, and $8.6 million due to pledged securities at December 31, 2017. No securities were pledged at December 31, 2018, and no loans were pledged at December 31, 2017. We had no borrowings from the Federal Reserve Bank of Chicago as of December 31, 2018 or 2017.

On September 14, 2017, the Company entered into a credit agreement with U.S. Bank, National Association for a $15.0 million revolving line-of-credit with an interest rate equal to the one-month LIBOR rate plus 2.25%. The line also bears a non-usage fee of 0.275% per annum. The non-usage fee for year ended December 31, 2018 and 2017 was $42 thousand and $5 thousand, respectively. The line did not have an outstanding balance as of December 31, 2018 or 2017.

We also have other borrowings as a result of sold loans that do not qualify for sale accounting. These agreements are recorded as financing transactions as we maintain effective control over the transferred loans. The dollar amount of the loans underlying the sale agreements continues to be carried in our loan portfolio, and the transfer is reported as a secured borrowing with pledge of collateral.

The following table sets forth information concerning balances and interest rates on our borrowings at the dates and for the periods indicated.

	For the Year Ended December 31,		
	2018	2017	2016
	(dollars in thousands)		
FHLB Advances:			
Balance at end of period	$89,400	$121,500	$107,895
Average outstanding during the period	$105,218	$127,635	$112,722
Maximum outstanding at any month-end	$155,500	$143,300	$132,895
Weighted average interest rate during the period	1.67 %	1.37 %	1.14 %
Weighted average interest rate at end of period	1.89 %	1.44 %	1.26 %
Other Borrowings:			
Balance at end of period	$827	$1,299	$2,152
Average outstanding during the period	$1,027	$1,545	$3,047
Maximum outstanding at any month-end	$1,278	$1,825	$3,930
Weighted average interest rate during the period	4.81 %	5.77 %	5.30 %
Weighted average interest rate at end of period	4.51 %	6.41 %	5.32 %

Subordinated Debentures. In September 2005 and June 2006, we formed two wholly owned subsidiary business trusts, County Bancorp Statutory Trust II ("Trust II") and County Bancorp Statutory Trust III ("Trust III"), respectively, for the purpose of issuing capital securities which qualify as Tier 1 capital. Trust II issued at par $6.0 million of floating rate capital securities. The capital securities of Trust II are nonvoting, mandatorily redeemable in 2035, and are guaranteed by us. Trust III issued at par $6.0 million of floating rate capital securities. The capital securities of Trust III are nonvoting, mandatorily redeemable in 2036, and are also guaranteed by us.

We own all of the outstanding common securities of Trust II and Trust III. The trusts used the proceeds from the issuance of their capital securities to buy floating rate junior subordinated deferrable interest debentures ("debentures") issued by the Company. These debentures are the trusts' only assets, and interest payments from these debentures finance the distributions paid on the capital securities. These debentures are unsecured, rank junior, and are subordinate in the right of payment to all of our senior debt.

The capital securities of Trust II and Trust III have been structured to qualify as Tier 1 capital for regulatory purposes. However, the securities cannot be used to constitute more than 25% of the Company's "core" Tier 1 capital according to regulatory requirements. We used the proceeds of the Trust II issue for general corporate purposes, and we used the proceeds of the Trust III issue to redeem the securities of County Bancorp Statutory Trust I.

As a result of the acquisition of Fox River Valley Bancorp, Inc. ("Fox River Valley") in 2016, we acquired a wholly owned subsidiary business trust, Fox River Valley Capital I Trust ("FRV Trust I") which was formed in 2003 by Fox River Valley for the purpose of issuing capital securities which qualify as Tier I capital. The trust issued at par $3.5

million of floating rate securities. The securities are non-voting, mandatorily redeemable in 2033 and are guaranteed by us.

The capital securities of FRV Trust I have been structured to qualify as Tier I capital for regulatory purposes. However, the securities cannot be used to constitute more than 25% of the Company's Tier I capital.

On May 30, 2018, the Company entered into a Subordinated Note Purchase Agreement with certain institutional investors pursuant to which the Company sold and issued $30.0 million in aggregate principal amount of its 5.875% fixed-to-floating rate subordinated notes due 2028 (the "Notes"). The Notes were issued by the Company to the purchasers at a price equal to 100% of their face amount. The Notes have a stated maturity of June 1, 2028, are redeemable, in whole or in part, on or after June 1, 2023, and at any time upon the occurrences of certain events. The Notes will bear interest at a fixed rate of 5.875% per year, from and including May 30, 2018 to, but excluding, June 1, 2023. From and including June 1, 2023 to, but excluding the maturity date or early redemption date, the interest rate will reset quarterly at a variable rate equal to the then current 3-month LIBOR plus 288.4 basis points. The Notes qualify as Tier II capital of the Company.

On September 17, 2018, the Company closed its offer to exchange (the "Exchange Offer") up to $30,000,000 aggregate principal amount of the Notes, which were issued in a private placement to certain institutional investors, for a like principal amount of its new 5.875% fixed-to-floating rate subordinated notes due 2028 registered under the Securities Act of 1933, as amended.

According to information provided by the exchange agent, U.S. Bank National Association, $30,000,000 aggregate principal amount, or 100% of the privately-placed Notes were tendered for exchange in the Exchange Offer.

Comparison of Operating Results for the Years Ended December 31, 2018 and 2017

Net Income. Net income increased $3.8 million, or 36.7%, for the year ended December 31, 2018 from the year ended December 31, 2017, which represented earnings per share in 2018 of $2.06 (basic) and $2.04 (diluted). The increase in net income was primarily related to a $3.1 million increase in net interest income, a $0.6 million increase in loan servicing fees due to an increase in the volume of loans sold and serviced during 2018 and a decrease in income tax expense due to the lower corporate income tax rates as a result of the Tax Cuts and Jobs Act (the "Tax Act") that was enacted into law on December 22, 2017. Income tax expense was negatively impacted in 2017 by $1.0 million related to the revaluation of the deferred tax asset as a result of the Tax Act. During 2018 non-interest expense increased by $2.3 million mostly due to an increase in salaries and benefits.

Interest Income. Total interest and dividend income increased by $11.2 million, or 21.0%, for the year ended December 31, 2018 compared to the year ended December 31, 2017, primarily as the result of average loan growth of $106.4 million. The average loan yield increased by 28 basis points to 4.92% for the year ended December 31, 2018 compared to the year ended December 31, 2017, primarily due to the Federal Reserve's increases to the target federal funds rate during 2018. During 2018, the Company increased its holdings of securities available for sale by $69.9 million as the result of the proceeds for the subordinated notes and increased core deposits. For the year ended December 31, 2018, the average yield of our investment securities portfolio improved by 69 basis points to 2.61% compared to the year ended December 31, 2017.

Interest Expense. Total interest expense for the year ended December 31, 2018 increased by $8.1 million, or 57.1%, to $22.3 million from $14.2 million for the year ended December 31, 2017. The increase was primarily due to both an increase in deposit rates and borrowing costs and an increase in the volume of interest-bearing liabilities. The average cost of funds for the year ended December 31, 2018 was 1.82%, which was 47 basis points higher than the year ended December 31, 2017. The increase interest expenses represented a 57.9% increase related to rate variances as the result of the increase in the target federal funds rate, and a 42.1% increase related to volume variances.

Income. Net interest income for the year ended December 31, 2018 increased $3.1 million, or 7.9%, to $42.0 million compared to the year ended December 31, 2017.

Our average interest-earning assets increased by $188.0 million, or 15.0%, to $1.4 billion for the year ended December 31, 2018 compared to the same period of 2017. Our net interest rate spread decreased to 2.64% for the year ended December 31, 2018 from 2.89% for the year ended December 31, 2017. Our net interest margin decreased to 2.91% for the year ended December 31, 2018 from 3.11% for the year ended December 31, 2017. The decreases in our interest rate spread and net interest margin reflect rates of interest bearing deposits increasing in response to target federal funds interest rate increases quicker than yields on interest-earning assets.

Provision for Loan Losses. Based on our analysis of the components of the allowance for loan losses described in "Allowance for Loan Losses" below, we recorded a provision for loan losses of $3.2 million for the year ended December 31, 2018, as the result of continued growth in the loan portfolio and charge-offs taken during 2018 compared to a provision for loan losses of $2.3 million for the year ended December 31, 2017. For the year ended

December 31, 2018, we charged-off $1.3 million in loans, compared to $1.9 million the year ended December 31, 2017, and recovered previously charged-off loans of $1.3 million and $0.2 million for the same periods, respectively. Of the $1.3 million in loan recoveries for the year ended December 31, 2018, $1.2 million was from a single customer. The total allowance for loan losses was $16.5 million, or 1.37% of total loans, and $13.2 million, or 1.15% of total loans, at December 31, 2018 and 2017, respectively. Total non-performing loans, excluding performing troubled debt restructurings, were $23.0 million and $11.6 million at December 31, 2018 and 2017, respectively. This $11.4 million increase was the result of the strained agricultural economy and the four-year sustained low prices of Class III milk. The allowance for loan losses reflects the estimate we believe to be appropriate to cover probable incurred losses inherent in the loan portfolio at December 31, 2018.

Non-Interest Income. Non-interest income increased by $1.1 million, or 15.4%, to $8.8 million for the year ended December 31, 2018 compared to $7.7 million for the same period of 2017. The primary factor contributing to the annual fluctuation in non-interest income is the Bank's volume and activity in loan servicing fees and loan servicing rights income. For the year ended December 31, 2018, loan servicing fees increased to $6.1 million from $5.5 million for the year ended December 31, 2017.

Non-Interest Expense. Non-interest expense increased $2.3 million, or 8.8%, to $28.3 million for the year ended December 31, 2018, compared $26.0 million for the same period of 2017, primarily as the result of an increase in employee compensation and benefits of $1.3 million in connection with the addition of eight full-time equivalent employees, or 5.6%, to 152 for the year-ended December 31, 2018. Also during 2018, there was a $0.4 million increase in occupancy expenses related to the relocation of our Company headquarters during the third quarter of 2018, and a $0.5 million increase in information processing expenses related to technology investments and implementations made throughout the year, which were included in other expenses.

Income Taxes. Income tax expense for the year ended December 31, 2018 was $5.1 million compared to $7.8 million for the year ended December 31, 2017. The effective tax rates as a percent of pre-tax income were approximately 26% and 43% for the years ended December 31, 2018 and 2017, respectively. The decrease in income tax expense and the effective tax rate for the year ended December 31, 2018 compared to the year ended December 31, 2017 was due to the reduction of the federal corporate income tax rate from 35% to 21% as a result of the Tax Act that was enacted late in the 4th quarter of 2017, as well as, the 2017 revaluation of our net deferred tax asset which resulted in $1.0 million of additional income tax expense.

Analysis of Net Interest Income

Net interest income represents the difference between income we earn on our interest-earning assets and the expense we pay on interest-bearing liabilities. Net interest income depends on the volume of interest-earning assets and interest-bearing liabilities and the interest rates earned on such assets and paid on such liabilities.

Average Balances and Yields. The following table sets forth average balance sheets, average yields and rates, income and expenses, and certain other information for the periods indicated. All average balances are daily average balances. Nonaccrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effects of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.

	For the Year Ended December 31,								
	2018			2017			2016		
	Average Balance [1]	Income/ Expense	Yields/ Rates	Average Balance [1]	Income/ Expense	Yields/ Rates	Average Balance [1]	Income/ Expense	Yields/ Rates
	(dollars in thousands)								
Assets									
Investment securities	$169,302	$4,425	2.61 %	$112,439	$2,158	1.92 %	$108,549	$1,801	1.66 %
Loans [2]	1,193,254	58,706	4.92 %	1,086,836	50,395	4.64 %	913,887	43,552	4.77 %
Interest bearing deposits due from other banks	77,545	1,086	1.40 %	52,786	499	0.95 %	38,153	228	0.60 %
Total interest-earning assets	$1,440,101	$64,217	4.46 %	$1,252,061	$53,052	4.24 %	$1,060,589	$45,581	4.30 %
Allowance for loan losses	(15,037)			(13,550)			(11,687)		
Other assets	59,291			56,615			42,649		
Total assets	$1,484,355			$1,295,126			$1,091,551		
Liabilities									
Savings, NOW, money market, interest checking	$282,746	$3,398	1.20 %	$245,851	$1,643	0.67 %	$214,749	$1,066	0.50 %
Time deposits	801,892	15,251	1.90 %	661,784	10,172	1.54 %	532,338	7,129	1.34 %
Total interest-bearing deposits	$1,084,638	$18,649	1.72 %	$907,635	$11,815	1.30 %	$747,087	$8,195	1.10 %
Other borrowings	1,027	50	4.81 %	1,545	89	5.76 %	3,047	161	5.30 %
FHLB advances	105,218	1,759	1.67 %	127,635	1,748	1.37 %	112,722	1,284	1.14 %
Junior subordinated debentures	32,721	1,804	5.51 %	15,492	515	3.32 %	14,628	374	2.56 %
Total interest-bearing liabilities	$1,223,604	$22,262	1.82 %	$1,052,307	$14,167	1.35 %	$877,484	$10,014	1.14 %
Non-interest bearing deposits	100,819			96,172			84,621		
Other liabilities	9,883			9,059			8,276		
Total liabilities	1,334,306			1,157,538			970,381		
SBLF preferred stock [3]	—			—			2,184		
	150,049			137,588			118,986		

Shareholders' equity									
Total liabilities and equity	$1,484,355			$1,295,126			$1,091,551		
Net interest income		41,955			38,885			35,567	
Interest rate spread (4)			2.64 %			2.89 %			3.16 %
Net interest margin (5)			2.91 %			3.11 %			3.35 %
Ratio of interest-earning assets to interest-bearing liabilities	1.18			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 our Series C noncumulative perpetual preferred stock, Series C, issued to the U.S. Treasury through the U.S. Treasury’s Small Business Lending Fund program. This stock was 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 table presents the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior 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.

	Year Ended December 31, 2018 v. 2017 Increase (Decrease) Due to Change in Average			Year Ended December 31, 2017 v. 2016 Increase (Decrease) Due to Change in Average		
	Volume	Rate	Net	Volume	Rate	Net
	(dollars in thousands)					
Interest Income:						
Investment securities	$1,322	$945	$2,267	$66	$291	$357
Loans	5,120	3,191	8,311	7,982	(1,139)	6,843
Federal funds sold and interest-bearing deposits with banks	290	297	587	108	163	271
Total interest income	6,732	4,433	11,165	8,156	(685)	7,471
Interest Expense:						
Savings, NOW, money market and interest checking	$278	$1,477	$1,755	$170	$407	$577
Time deposits	2,394	2,685	5,079	1,893	1,150	3,043
Other borrowings	(26)	(13)	(39)	(88)	16	(72)
FHLB advances	(46)	57	11	183	281	464
Junior subordinated debentures	810	479	1,289	23	118	141
Total interest expense	$3,410	$4,685	$8,095	$2,181	$1,972	$4,153
Net interest income	$3,322	$(252)	$3,070	$5,975	$(2,657)	$3,318

Risk Management

Overview. Managing risk is an essential part of successfully managing a financial institution. Among our most prominent risk exposures are market risk, credit risk, interest rate risk and liquidity risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan or security when it is due. Interest rate risk is the potential reduction of net interest income or the reduction in the value of assets and liabilities as a result of changes in interest rates. Market risk refers to potential losses arising from changes in interest rates, commodity prices, real estate prices and/or other relevant market rates or prices. Liquidity risk is the possible inability to fund obligations to depositors, lenders or borrowers when due. Other risks that we face are operational risk, cyber risk, and reputation risk. Operational risks include risks related to fraud, regulatory compliance, processing errors, technology, and disaster recovery. Cyber risk is the risk of technological intrusion resulting in loss of customer information, loss of data, denial of service attacks, and cyber-theft. Reputation risk is the risk that negative publicity or press, whether true or not, could cause a decline in our customer base or revenue.

Credit Risk Management. Our strategy for credit risk management focuses on having a layered approach to risk involving risk-taking, risk monitoring, and risk mitigation. In our target markets, we field an experienced lending staff supported by a centralized, robust risk management infrastructure working under well-defined credit policies and rigorous underwriting criteria. We have developed portfolio strategies and controls that are conducive to the development of a diversified loan portfolio including a variety of exposure control limits on different portfolio segments and have established an internal lending limit that is substantially below our legal lending limit. Regular total portfolio and loan level monitoring ensures timely risk recognition, provides early warning of potential problems and allows prompt attention to potential problem loans. This strategy emphasizes generally conservative loan-to-value ratios and full recourse to guarantors with substantial net worth on credit exposures. In addition to our portfolio monitoring practices, we have a comprehensive loan review system using both internal and external resources to review at least 30% of portfolio exposure annually. Formal management quarterly problem loan reviews include assessment of risk ratings and loan collateral valuation in order to identify impaired loans.

The Bank takes a proactive approach to managing problem loans. Delinquent loans greater than 15 days are reviewed by the management team weekly. When a borrower fails to make a required loan payment, management takes a number of steps to have the borrower cure the delinquency and restore the loan to a current status. Bankers make the initial contact with the borrower when the loan becomes 15 days past due. If payment is not then received by the 30th day of delinquency, additional points of contact are generally made, the loan risk rating is reassessed, and a plan of collection is identified and pursued for each individual loan. The loan relationship may be downgraded and transferred to a special assets officer, depending on the prospects for the borrower bringing the loan current, the financial strength and commitment of any guarantors, the type and value of the collateral securing the loan and other factors. Collection efforts may lead to a demand of repayments, the initiation of litigation and/or foreclosure on collateral securing the loan. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the assets or real property securing the loan generally are sold by the Bank in a commercially reasonable manner. While we develop loan workout arrangements for most problem loans, we also consider the sale of the non-performing loans. Management regularly informs the board of directors of the amount and status of delinquent loans, all loans rated special mention or worse, all nonaccrual loans, all troubled debt restructures, and all OREO. When a credit is downgraded to "special mention" and/or "substandard," it is generally transferred to a special assets officer.

Non-Performing Assets. We consider foreclosed assets and loans that are maintained on a nonaccrual basis to be non-performing assets. Loans are generally placed on nonaccrual status when collectability is judged to be uncertain or payments have become 90 days or more past due. On loans where the full collection of principal or interest payments is not probable, the accrual of interest income ceases and any already accrued interest is reversed. Interest income is not accrued on such loans until the borrower's financial condition and payment record demonstrate an ability to service the debt. Payments received on a nonaccrual loan are first applied to the outstanding principal balance when collectability of principal is in doubt.

Real estate that we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as OREO until it is sold. Assets acquired through or in lieu of loan foreclosure are initially recorded at fair value less costs to sell. Upon acquiring a property, the Bank engages an independent third party realtor to assist in marketing and selling the property. Management reviews all OREO on a quarterly basis and makes adjustments to listing prices and marketing strategies as deemed appropriate. On an annual basis all OREO properties are re-appraised by independent third party appraisers. Any holding costs and declines in fair value after acquisition of the property result in charges against income.

Troubled debt restructurings occur when we grant borrowers concessions that we would not otherwise grant but for economic or legal reasons pertaining to the borrower's financial difficulties. Generally, this occurs when the cash flows of the borrower are insufficient to service the loan under its original terms. We may modify the terms of a loan as a troubled debt restructuring by reducing the loan's stated interest rate, extending the loan's maturity or otherwise restructuring the loan terms to enable payment. We may consider permanently reducing the recorded investment in the loan or structuring a non-accruing secondary note in a troubled debt restructuring as well, but we generally do not make such concessions. Modifications involving a reduction of the stated interest rate of loans are typically for periods ranging from six months to one year. These modifications are made only when there is a reasonable and attainable workout plan that has been agreed to by the borrower and that is in our best interests. Loans classified as troubled debt restructurings are rated "substandard" by the Bank. Once the borrower has demonstrated sustained performance with the modified terms, the loan may be removed from non-performing status. Any loans categorized as troubled debt restructurings will continue to retain that designation through the life of the loan.

Volatility in milk prices is a normal aspect of the dairy business. The dairy industry is currently experiencing a four-year slump in milk prices. Class III milk prices began declining in 2014 and bottomed out at $12.76 cwt in May 2016. In June 2016, the Wisconsin dairy economy began to stabilize and recover slightly. In June 2016, the Class III prices started to stabilize and averaged a price of $16.08 cwt for the 19 month period ending December 31, 2017; however, in 2018, Class III milk prices declined again averaging $14.61 cwt for the year ending December 31, 2018, and further declined to $13.89 in February 2019. The amount a farmer actually receives is increased by the amount of fat, protein and other valuable components of the milk sold. As milk prices ebb and flow, certain farmers may be adversely impacted by sustained periods of lower prices. Due to the stressed dairy industry, we are experiencing an increase in troubled debt restructuring and non-performing loans; however, we are working closely with our customers as they work through the downturn and return to profitability so that they will be able to make payments on their loans. Since its formation in 1997, the Bank has worked with distressed customers to work through several economic cycles, and in doing so has experienced less than $6.0 million of agricultural related charge-offs. We believe that due to the growing market for dairy products, the collateral value of farm real estate will remain solid. According to a 2018 report, the United States Department of Agriculture, National Agricultural Statistics Service reported the value of Wisconsin farm real estate increased by 2.3% during 2018.

The following table provides information with respect to our non-performing assets, as well as troubled debt restructurings and loans 90 days or more past due and still accruing at the dates indicated.

	As of December 31,				
	2018	2017	2016	2015	2014
	(dollars in thousands)				
Nonaccrual loans:					
Agricultural loans	$19,173	$7,653	$12,323	$17,705	$1,293
Commercial loans	1,773	1,757	3,376	3,712	3,409
Commercial real estate loans	2,037	2,149	4,340	3,162	5,163
Residential real estate loans	—	—	68	—	1,690
Total nonaccrual loans	$22,983	$11,559	$20,107	$24,579	$11,555
Other real estate owned (1)	6,568	4,564	2,763	2,872	7,137
Total non-performing assets (2)	$29,551	$16,123	$22,870	$27,451	$18,692
Loans 90+ days past due and still accruing	—	—	—	—	—
Performing troubled debt restructured loans	19,389	9,019	4,300	610	846
Total non-performing assets and performing troubled debt restructurings	$48,940	$25,142	$27,170	$28,061	$19,538
Non-performing loans to total loans	1.90 %	1.01 %	1.95 %	3.29 %	1.78 %
Non-performing loans and loans past due 90 days and still accruing to total loans	1.90 %	1.01 %	1.95 %	3.29 %	1.78 %
Non-performing assets to total assets (2)(3)	1.94 %	1.15 %	1.84 %	3.10 %	2.42 %
Total non-performing assets and performing troubled debt restructurings to total assets	3.22 %	1.80 %	2.19 %	3.17 %	2.53 %

(1) 2017 and 2016 include $0.4 million of bank property transferred from premises and equipment which is not considered a non-performing asset and is not reflected in this table.
(2) Non-performing assets are defined as nonaccrual loans plus OREO.
(3) Loans are presented before allowance for loan losses and do not include deferred loan origination costs (fees).

Interest income that would have been recorded for the years ended December 31, 2018 and 2017, had nonaccrual loans been current according to their original terms, amounted to $2.0 million and $0.9 million, respectively. No income related to nonaccrual loans was included in interest income for the years ended December 31, 2018 or 2017.

Total nonaccrual loans increased by $11.4 million to $23.0 million at December 31, 2018 primarily due to the stressed agricultural economy discussed earlier. Total nonaccrual loans decreased from December 31, 2016 to December 31, 2017 by $8.5 million to $11.6 million primarily due to collection activities, loan payoffs, and the completion of foreclosures and transfer of properties into OREO.

The Bank is actively managing its OREO portfolio. As of December 31, 2018, OREO totaled $6.6 million compared to $5.0 million at December 31, 2017. The increase in OREO at December 31, 2018 compared to December 31, 2017, was the result of transferring $6.1 million of properties to OREO, offset in part by sales of $3.8 million of OREO. We expect the balance of the OREO in our portfolio and the related expenses to decline as we continue to sell properties.

Performing troubled debt restructured loans increased $10.4 million, or 115.0%, to $19.4 million at December 31, 2018. The increase is primarily the result of loans within our agriculture portfolio that were modified to give the borrower an interest-only payment period to assist the borrower in working through the downturn in the agricultural economy discussed earlier.

Special Mention and Classified Loans. Federal regulations require us to review and classify loans on a regular basis. There are four classifications for problem loans: special mention, substandard, doubtful and loss. We categorize loans into these risk categories based on relevant information about the ability of borrowers and, if appropriate, guarantors to service their debts, and the quality and projected realizable value of collateral. We analyze loans through quarterly asset quality reviews based on observable risk criteria such as overdrafts, late payments, financial performance and collateral valuations.

"Special mention loans" show potential weakness that deserve the Bank's management's close attention. If left uncorrected, the potential weaknesses may result in the further deterioration of the credit. We have two categories of "substandard loans." "Substandard – performing" credits generally have a well-defined weakness; however, collateral coverage is adequate, the loans are not considered impaired, payments are being made, and the loans are on accrual status. "Substandard – impaired" credits are inadequately protected by the current sound net worth and paying capacity of the obligor or the collateral pledged. As such they have a well-defined weakness that jeopardizes the liquidation of the debt. They are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. “Doubtful loans” have all the weaknesses inherent in substandard loans with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. A loan classified as “loss” is considered uncollectible and of such little value that continuance as a loan of the institution is not warranted. When management classifies a loan as substandard or doubtful, a specific allowance for probable and reasonably estimable loan losses is established. If management classifies a loan as loss, an amount equal to 100% of the portion of the loan classified as loss is charged to the allowance for loan losses.

The following table shows the aggregate amounts of our doubtful, substandard and special mention loans.

	As of December 31,				
	2018	2017	2016	2015	2014
	(dollars in thousands)				
Doubtful, Substandard, and Special mention loans:					
Doubtful	$—	$—	$—	$—	$—
Substandard impaired	56,757	33,002	21,440	30,402	24,844
Substandard performing	64,130	50,224	28,876	—	—
Special mention	6,566	8,902	15,168	13,911	12,843
Total substandard and special mention loans	$127,453	$92,128	$65,484	$44,313	$37,687

Other than as disclosed in the above tables, there are no other loans for which management has serious doubts about the ability of the borrowers to comply with the present loan repayment terms.

Delinquencies. The following tables provide information about delinquencies in our loan portfolio at the dates indicated.

	Loans Delinquent For:								
	30-89 Days			90 Days or more			Total Delinquent Loans		
	Amount	% of Delinquent Loans 30-89 Days		Amount	% of Delinquent Loans 90 Days or more		Amount	% of Delinquent Loans	
	(dollars in thousands)								
As of December 31, 2018:									
Agricultural loans	$1,429	100.0	%	$7,968	75.1	%	$9,397	78.1	%
Commercial real estate loans	—	0.0	%	2,037	19.2	%	2,037	16.9	%
Commercial loans	—	0.0	%	600	5.7	%	600	5.0	%
Residential real estate	—	0.0	%	—	0.0	%	—	0.0	%
Installment and consumer other	—	0.0	%	—	0.0	%	—	0.0	%
Total	$1,429	100.0	%	$10,605	100.0	%	$12,034	100.0	%
As of December 31, 2017:									
Agricultural loans	$476	30.9	%	$6,819	70.9	%	$7,295	65.4	%
Commercial real estate loans	—	0.0	%	2,149	22.4	%	2,149	19.3	%
Commercial loans	1,064	69.1	%	642	6.7	%	1,706	15.3	%
Residential real estate	—	0.0	%	—	0.0	%	—	0.0	%
Installment and consumer other	—	0.0	%	—	0.0	%	—	0.0	%
Total	$1,540	100.0	%	$9,610	100.0	%	$11,150	100.0	%
As of December 31, 2016:									
Agricultural loans	$12	1.8	%	$9,680	64.1	%	$9,692	35.5	%
Commercial real estate loans	287	42.8	%	2,710	18.0	%	2,997	27.9	%
Commercial loans	371	55.4	%	2,695	17.9	%	3,066	36.5	%
Residential real estate	—	0.0	%	—	0.0	%	—	0.1	%
Installment and consumer other	—	0.0	%	—	0.0	%	—	0.0	%
Total	$670	100.0	%	$15,085	100.0	%	$15,755	100.0	%
As of December 31, 2015:									
Agricultural loans	$983	80.5	%	$2,405	29.0	%	$3,388	8.4	%
Commercial real estate loans	234	19.1	%	2,418	29.1	%	2,652	36.3	%
Commercial loans	—	0.0	%	3,476	41.9	%	3,476	47.7	%
Residential real estate	5	0.4	%	—	0.0	%	5	7.6	%
Installment and consumer other	—	0.0	%	—	0.0	%	—	0.0	%
Total	$1,222	100.0	%	$8,299	100.0	%	$9,521	100.0	%
As of December 31, 2014:									
Agricultural loans	$364	88.3	%	$238	3.5	%	$602	9.5	%
Commercial real estate loans	—	0.0	%	2,592	38.5	%	2,592	6.6	%

Commercial loans	42	10.2	%	3,366	50.0	%	3,408	36.9	%
Residential real estate	6	1.5	%	534	8.0	%	540	47.0	%
Installment and consumer other	—	0.0	%	—	0.0	%	—	0.0	%
Total	$412	100.0	%	$6,730	100.0	%	$7,142	100.0	%

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses inherent in the loan portfolio. This estimate includes losses associated with specifically identified loans, as well as estimated probable credit losses inherent in the remainder of the loan portfolio. Loan losses are charged against the allowance when, in our judgment, the uncollectability of all or a portion of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Reductions to the allowance occur as loans are charged off. We estimate the required amount of the allowance using a number of factors, including past loan loss experience, the nature of the portfolio, economic conditions, information about specific borrower situations, and estimated collateral values. We evaluate the adequacy of the allowance for loan losses on a quarterly basis, although we may increase the frequency of our reviews as necessary. When additional allowance for loan loss is necessary, a provision for loan losses is charged to earnings.

Our methodology for assessing the sufficiency of the allowance for loan losses consists three components: (a) a general component related to performing or “pass rated” credits (the significant majority of the loan portfolio), (b) a general component for classified, yet not impaired credits, and (c) a specific component relating to loans that are individually classified as impaired. Although we determine the amount of each element of the allowance separately, the entire allowance for loan losses is available for the entire portfolio.

As disclosed in the notes to the financial statements, our allowance for loan losses is comprised primarily of general reserves of $12.8 million with a limited amount of specific reserves totaling $3.7 million at December 31, 2018. This compares to general reserves of $11.8 million with a limited amount of specific reserves totaling $1.4 million at December 31, 2017.

General Component. The general component of the allowance for loan losses relates to loans that are not determined to be impaired. Management determines the appropriate loss factor for each segment of loans with similar risk characteristics within the portfolio based on that segment’s loss experience and several other quantitative, qualitative and economic factors relevant to each segment. While loan segments generally represent groups of loans with similar risk characteristics, we may include loans categorized by loan grade, or any other characteristic that causes a loan’s risk profile to be similar to a group of loans. We consider estimated credit losses associated with each segment of our portfolio to differ from purely historical loss experience due to qualitative factors including changes in lending policies and procedures and changes in the nature and volume of the loan portfolio; quantitative factors including changes in the volume and severity of past due, nonaccrual, and adversely graded loans, changes in concentrations of credit, and changes in the value of underlying collateral for collateral dependent loans; and economic factors including changes in economic or business conditions and the effect of competition, legal and regulatory requirements on estimated credit losses. The historical charge-off data is updated on a rolling quarterly basis, with the oldest quarter’s charge-off data being replaced with the most recent quarter’s charge-off data. We typically give more weight to the more recent charge-off data for each specific type of loan, as we believe that is more indicative of current trends. Our quantitative, qualitative, and economic factors are reviewed on a quarterly basis for each loan segment and our historical loss experience is reviewed quarterly to ensure that our analysis is reflective of current conditions in our loan portfolio and economy.

Classified Component.. Loans that have been downgraded to special mention or substandard-performing, but are not currently impaired, are considered to have a higher inherent of risk of loss than pass rated loans. Management judgment is needed to estimate the additional risk of loss for these types of loans. Risk allocations on non-impaired special mention and substandard-performing loans reflect management’s assessment of the increased risk of loss associated with adversely graded loans. The allocated reserve for these loans is based upon management’s assessment of loss history and risk migration analysis. Additionally, in determining the allocation, management considers the credit attributes of individual loans, including loan to value ratios, past due status, strength and willingness of the guarantors, and other relevant attributes generally found in these groups of loans.

Specific Component. The specific component of the allowance for loan losses relates to loans that are individually evaluated and determined to be impaired. The allowance for each impaired loan is determined by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the market price reasonably obtainable for the loans or, if the loan is collateral dependent, by the fair value of the collateral less estimated costs to sell. Collateral valuations are supported by current appraisals, which are discounted by us based upon a liquidation scenario. Impairment for other types of loans is measured using the fair value of the collateral less estimated costs to sell. We identify a loan as impaired when, based upon current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. We consider a number of factors in determining impairment, including payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower.

Discussion of Allowance for Loan Losses. At December 31, 2018, our allowance for loan losses was $16.5 million, or 1.4% of loans and 71.8% of nonaccrual loans. At December 31, 2017, our allowance for loan losses was $13.2 million, or 1.2% of loans and 114.6% of nonaccrual loans. Nonaccrual loans at December 31, 2018 were $23.0 million, or 1.9% of loans, compared to $11.6 million, or 1.0% of loans at December 31, 2017.

Many factors are evaluated in our analysis of the allowance for loan loss, including milk prices and unemployment rates, economic and business conditions and our most recent historical loss experience. Notwithstanding the improvement in the quantitative, qualitative and economic factors in recent years, we anticipate we will resume making provisions to the allowance for loan losses to support growth in the loan portfolio in the near future, as circumstances warrant.

The allowance for loan losses is maintained at a level that represents management's best estimate of probable incurred losses in the loan portfolio at the balance sheet date. However, there can be no assurance that the allowance for loan losses will be adequate to cover losses which may be realized in the future or that additional provisions for loan losses will not be required.

The following tables set forth the breakdown of the allowance for loan losses (ALL) by loan category at the dates indicated.

	As of December 31, 2018			As of December 31, 2017			As of December 31, 2016		
	Amount	% of ALL	% of Loans in Category	Amount	% of ALL	% of Loans in Category	Amount	% of ALL	% of Loans in Category
	(dollars in thousands)								
Agricultural loans	$12,258	74.27%	1.69%	$9,712	73.31%	1.41%	$8,173	64.63%	1.31%
Commercial real estate loans	2,779	16.84%	0.93%	1,978	14.93%	0.68%	2,762	21.84%	1.02%
Commercial loans	1,414	8.57%	1.21%	1,508	11.38%	1.32%	1,239	9.80%	1.38%
Residential real estate	53	0.32%	0.08%	47	0.35%	0.09%	470	3.72%	1.04%
Installment and consumer other	1	0.01%	0.04%	2	0.02%	0.58%	1	0.01%	0.63%
Total	$16,505	100.0%	1.37%	$13,247	100.0%	1.15%	$12,645	100.0%	1.23%

	As of December 31, 2015			As of December 31, 2014		
	Amount	% of ALL	% of Loans in Category	Amount	% of ALL	% of Loans in Category
	(dollars in thousands)					
Agricultural loans	$6,355	61.10%	1.27%	$3,456	32.59%	0.83%
Commercial real estate loans	2,237	21.50%	1.38%	3,326	31.37%	2.42%
Commercial loans	1,268	12.20%	2.44%	2,420	22.82%	4.50%
Residential real estate	533	5.10%	1.54%	1,392	13.13%	3.40%
Installment and consumer other	12	0.10%	2.31%	9	0.09%	1.11%
Total	$10,405	100.0%	1.39%	$10,603	100.0%	1.64%

Analysis of Loan Loss Experience. The following table sets forth an analysis of the allowance for loan losses for the periods indicated.

	For the Year Ended December 31,				
	2018	2017	2016	2015	2014
	(dollars in thousands)				
Balance, beginning of period	$13,247	$12,645	$10,405	$10,603	$10,495
Provision for loan losses	3,195	2,330	2,959	(1,019)	589
Loans charged off:					
Agriculture loans	1,238	—	1,142	1,145	115
Commercial real estate loans	42	987	242	162	141
Commercial loans	—	917	277	415	339
Residential real estate loans	—	—	5	178	52
Installment and consumer other	—	—	4	7	—
Total loans charged off	$1,280	$1,904	$1,670	$1,907	$647
Recoveries:					
Agriculture loans	1	43	2	61	21
Commercial real estate loans	1,280	92	884	743	126
Commercial loans	61	41	65	1,197	18
Residential real estate loans	—	—	—	727	1
Installment and consumer other	1	—	—	—	—
Total recoveries	$1,343	$176	$951	$2,728	$166
Net loans charged off (recovered)	$(63)	$1,728	$719	$(821)	$481
Allowance for loan losses, end of period	$16,505	$13,247	$12,645	$10,405	$10,603
Net charge-offs (recoveries) to average loans	(0.01)%	0.16 %	0.08 %	(0.12)%	0.08 %
Allowance for loan losses to total loans	1.37 %	1.15 %	1.23 %	1.39 %	1.64 %

Liquidity Management and Capital Resources

Liquidity is the ability to meet current and future financial obligations of a short-term and long-term nature. 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 December 31, 2018, the Bank had fixed rate advances outstanding with FHLB of $89.4 million and no borrowings outstanding at the Federal Reserve Bank of Chicago. The Bank had unused collateral of $90.8 million with FHLB, a $143.4 million line-of-credit available with the Federal Reserve Bank of Chicago, and a $15.0 million line-of-credit with U.S. Bank at December 31, 2018.

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 provided by operating activities was $26.2 million and $11.3 million, for the years ended December 31, 2018 and 2017, respectively. 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 purchases, sales and originations, net of repayments was $139.8 million and $131.5 million, for the years ended December 31, 2018 and 2017, respectively. Net cash provided by financing activities, consisting primarily of the activity in deposit accounts, FHLB advances, and proceeds from the issuances of subordinated debentures, was $107.9 million and $144.3 million, for the years ended December 31, 2018 and 2017, respectively.

At December 31, 2018, the Bank exceeded all of its regulatory capital requirements to be considered well-capitalized with Tier 1 leverage capital of $187.7 million, or 12.44% of average total assets, which is above the required level to be considered well-capitalized of $75.4 million, or 5.0% of average total assets, and total risk-based capital of $204.3 million, or 15.35% of risk-weighted assets, which is above the required level to be considered well-capitalized of $133.2 million, or 10.0% of risk-weighted assets. The Bank had Tier 1 risk-based capital of $187.7 million, or 14.09% of risk-weighted assets, which is above the required level to be considered well-capitalized of $106.5 million, or 8.0% of risk-weighted assets, and Tier 1 common equity of $187.7 million, or 14.09% of risk-weighted assets, which is above the required level to be considered well-capitalized of $86.5 million, or 6.5% of risk-weighted assets at December 31, 2018. For a discussion of certain other sources of liquidity, please see "Comparison of Financial Condition at December 31, 2018 and 2017—Borrowings."

At the holding company level, our primary sources of liquidity are dividends from the Bank, and borrowings and capital offerings. The main uses of liquidity are the payment of interest to holders of our junior subordinated debentures and subordinated notes and interest and payment of dividends to preferred shareholders and common shareholders. There are certain restrictions on the payment of dividends by the Bank to us, which are described in the section captioned “Item I – Business - Supervision and Regulation—Supervision and Regulation of the Bank—Dividend Payments.” At December 31, 2018, there were up to $100.5 million of retained earnings available for the payment of dividends by the Bank to us provided that the Bank remain adequately capitalized. The Bank paid us $2.0 million and $1.1 million in dividends during the year ended December 31, 2018 and 2017, respectively.

Off-Balance Sheet Arrangements

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with GAAP, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions include commitments to extend credit, standby and performance letters of credit, and commitments to originate loans.

Commitments to extend credit are agreements to lend funds to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Bank, is based on management’s credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are usually collateralized and contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the payment or the performance of a Bank customer to a third party. Both standby and performance letters of credit are generally issued for terms of one to four years. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting these commitments. At December 31, 2018, the Company had commitments to extend credit and unused lines of credit, including unused credit card lines of $179.2 million and standby letters of credit of $5.6 million.

At December 31, 2018, we had outstanding commitments to originate loans and unadvanced funds on loans of $179.2 million. We anticipate that we will have sufficient funds available to meet our current loan origination commitments. Certificates of deposit that are scheduled to mature in one year or less from December 31, 2018 totaled $379.2 million. If a substantial portion of these deposits are not retained, we may utilize FHLB advances, wholesale deposits, or raise interest rates on deposits to attract new accounts, which may result in higher levels of interest expense. At December 31, 2018, we had no irrevocable and stand-by-letters of credit from the FHLB.

For the years ended December 31, 2018 and 2017, we did not engage in any off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

Contractual Obligations. The following table summarizes significant contractual obligations and other commitments as of December 31, 2018:

	Payments Due by Period	
	1-3 Years	Total

	1 Year or less		3-5 Years	More than 5 Years	
	(dollars in thousands)				
Operating lease obligations	$283	$138	$—	$—	$421
Certificates of deposit	379,203	361,822	64,215	—	805,240
FHLB advances	45,000	36,400	8,000	—	89,400
Subordinated debentures	—	—	—	44,703	44,703
Other borrowings	—	—	—	827	827
Total contractual obligations	$424,486	$398,360	$72,215	$45,530	$940,591

Effect of Inflation and Changing Prices

The consolidated financial statements and related financial data presented in this Form 10-K have been prepared according to GAAP, which requires the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs and the effect that general inflation may have on both short-term and long-term interest rates. Virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution’s performance than do general levels of inflation. Although inflation expectations do affect interest rates, interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General. Market risk refers to potential losses arising from changes in interest rates, commodity prices, such as milk prices, and/or other relevant market rates or prices. We are exposed to market risk as a result of our banking activities. Our market risk is comprised primarily of interest rate risk. As a financial institution, the majority of our assets and liabilities are sensitive to changes in interest rates. Therefore, a principal part of our operations is to manage interest rate risk and limit our exposure to changes in market interest rates. We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment.

A major source of interest rate risk is a difference in the repricing of assets and liabilities. First, there are differences in the timing of rate changes reflecting the maturity and/or repricing of assets and liabilities. For example, the rate earned on a commercial real estate loan may be fixed for 10 years, while the rate paid on a certificate of deposit may be fixed only for a few months. Due to these timing differences, net interest income is sensitive to changes in the level and shape of the yield curve. Second, there are differences in the drivers of rate changes of various assets and liabilities known as basis risk. For example, commercial loans may reprice based on one-month LIBOR or prime, while the rate paid on retail money market demand accounts may be only loosely correlated with LIBOR and depend on competitive demand for funds. Due to these basis differences, net interest income is sensitive to changes in spreads between certain indices or repricing rates.

Another important source of interest rate risk relates to the potential exercise of explicit or embedded options for prepayment or withdrawal. For example, most residential real estate loans can be prepaid without penalty, and most consumer deposits can be withdrawn without penalty. The exercise of such options by customers can exacerbate the timing differences discussed above.

Deposit accounts typically react more quickly to changes in market interest rates than loans because of the shorter maturities of deposits. However, given the asset sensitive nature of our balance sheet, a decrease in interest rates may adversely affect our earnings while increases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Our strategy for managing interest rate risk emphasizes adjustable-rate loans for retention in our loan portfolio, promoting core deposit products and time deposits, adjusting the maturities of borrowings and adjusting the investment portfolio mix and duration.

We have an asset/liability committee, which includes members of management, to communicate, coordinate and control all aspects involving asset-liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

Our goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income and net income and control exposure to interest rate risk within policy limits approved by our board of directors. These limits and guidelines reflect our tolerance for interest rate risk over both short-term and long-term horizons. We analyze our sensitivity to changes in interest rates through our net interest income simulation model. Exposures are reported on a monthly basis to the asset and liability committee and at meetings of our board of directors.

Net Interest Income Simulation Analysis. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest we pay on our interest-bearing liabilities, such as deposits and borrowings.

Income simulation is the primary tool for measuring the interest rate risk inherent in our balance sheet at a given point in time by showing the effect on net interest income, over specified time horizons, under a range of interest rate shock scenarios. These simulations take into account repricing, maturity and prepayment characteristics of individual products. We estimate what our net interest income would be for a one- and two-year horizon based on current interest rates. We then calculate what the net interest income would be for the same period under different interest rate assumptions.

These estimates require us to make certain assumptions, including loan and mortgage-related investment prepayment speeds, reinvestment rates, and deposit maturities and decay rates. These assumptions are inherently uncertain, and, as a result, we cannot precisely predict the impact of changes in interest rates on our net interest income. Although the net interest income table below provides an indication of our interest rate risk exposure at a particular point in time, such estimates are not intended to, and do not, provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results

The following table shows the estimated impact on net interest income for the one- and two-year periods beginning December 31, 2018 resulting from potential changes in interest rates. The net interest income simulation analyses assume a static balance sheet and do not include possible future actions that management might undertake to mitigate this risk.

Rate Shift	Net Interest Income Year 1 Forecast (dollars in thousands)	Year 1 Change from Base	Net Interest Income Year 2 Forecast (dollars in thousands)	Year 2 Change from Base
+400 bps	$ 58,600	26.29 %	$ 112,700	23.57 %
+200 bps	52,400	12.93 %	101,800	11.62 %
+100 bps	49,300	6.25 %	96,300	5.59 %
Base	46,400	0.00 %	91,200	0.00 %
-100 bps	43,200	-6.90 %	85,200	-6.58 %
-200 bps	39,300	-15.30 %	76,900	-15.68 %

As of December 31, 2018, net interest income simulation indicated that our exposure to changing interest rates was within our internal policy guidelines. As the table illustrates, our balance sheet is asset-sensitive over a one and two year time horizon and net interest income would increase as interest rates increase. It should be noted that the magnitude of any possible increase in interest rates is constrained by the low absolute starting levels of rates. While immediate, proportional and severe shifts in interest rates upward were used as part of this analysis, we believe that any actual shift in interest rates would likely be more gradual and would therefore have a more modest impact.

Depending on the relationship between long-term and short-term interest rates, market conditions and consumer preference, we may place greater emphasis on maximizing our net interest margin than on strictly matching the interest rate sensitivity of our assets and liabilities. We believe that our level of interest rate risk is acceptable using this approach.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENT OF COUNTY BANCORP, INC.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of County Bancorp, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying balance sheet of County Bancorp, Inc. and Subsidiaries (the “Company”) as of December 31, 2018, the related statements of operations, comprehensive income, stockholders' equity, and cash flows for the year ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting in accordance with the PCAOB. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion in accordance with the standards of the PCAOB.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Plante & Moran, PLLC

We have served as the Company's auditor since 2018.

Chicago, Illinois

March 14, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

County Bancorp, Inc. and Subsidiaries

Manitowoc, Wisconsin

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of County Bancorp, Inc. and Subsidiaries (the "Company") as of December 31, 2017, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting in accordance with the standards of the PCAOB. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting in accordance with the standards of the PCAOB. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ CliftonLarsonAllen LLP

We have served as the Company’s auditor since 1996.

Milwaukee, Wisconsin

March 15, 2018

COUNTY BANCORP, INC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017

	2018	2017
	(dollars in thousands)	
ASSETS		
Cash and cash equivalents	$61,087	$66,771
Securities available for sale, at fair value	195,945	126,030
FHLB Stock	2,978	4,138
Loans held for sale	2,949	6,575
Loans, net of allowance for loan losses of $16,505 as of December 31, 2018; $13,247 as of December 31, 2017	1,190,790	1,135,704
Premises and equipment, net	16,075	9,662
Loan servicing rights	9,047	8,950
Other real estate owned, net	6,568	4,962
Cash surrender value of bank owned life insurance	17,842	17,389
Deferred tax asset, net	4,346	3,265
Goodwill	5,038	5,038
Core deposit intangible, net of amortization of $1,288 as of December 31, 2018; $882 as of December 31, 2017	513	919
Accrued interest receivable and other assets	7,849	7,642
Total assets	$1,521,027	$1,397,045
LIABILITIES		
Deposits:		
Noninterest-bearing	$121,436	$125,584
Interest-bearing	1,101,911	984,493
Total deposits	1,223,347	1,110,077
Other borrowings	827	1,299
Advances from FHLB	89,400	121,500
Subordinated debentures	44,703	15,523
Accrued interest payable and other liabilities	10,466	7,660
Total liabilities	1,368,743	1,256,059
SHAREHOLDERS' EQUITY		
Preferred stock-$1,000 stated value; 15,000 shares authorized; 8,000 shares issued	8,000	8,000
Common stock - $0.01 par value; 50,000,000 authorized; 7,153,174 shares issued and 6,709,480 shares outstanding as of December 31, 2018; 7,112,962 shares issued and 6,672,381 shares outstanding as of December 31, 2017	28	28
Surplus	53,162	52,230

Retained earnings	98,475	86,385
Treasury stock, at cost, 443,694 and 439,581 shares at December 31,		
2018 and 2017, respectively	(5,030)	(5,030)
Accumulated other comprehensive loss	(2,351)	(627)
Total shareholders' equity	152,284	140,986
Total liabilities and shareholders' equity	$1,521,027	$1,397,045

See accompanying notes to the consolidated financial statements

COUNTY BANCORP, INC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2018 and 2017

	2018	2017
	(dollars in thousands except per share data)	
INTEREST AND DIVIDEND INCOME		
Loans, including fees	$58,706	$50,395
Taxable securities	3,727	1,808
Tax-exempt securities	698	350
Federal funds sold and other	1,086	499
Total interest and dividend income	64,217	53,052
INTEREST EXPENSE		
Deposits	18,649	11,815
FHLB advances and other borrowings	1,809	1,837
Subordinated debentures	1,804	515
Total interest expense	22,262	14,167
Net interest income	41,955	38,885
Provision for loan losses	3,195	2,330
Net interest income after provision for loan losses	38,760	36,555
NON-INTEREST INCOME		
Services charges	1,674	1,406
Gain on sale of loans, net	172	118
Loan servicing fees	6,110	5,484
Other	877	645
Total non-interest income	8,833	7,653
NON-INTEREST EXPENSE		
Employee compensation and benefits	16,785	15,437
Occupancy	1,059	654
Write-down of other real estate owned	873	905
Other	9,566	8,996
Total non-interest expense	28,283	25,992
Income before income taxes	19,310	18,216
Income tax expense	5,059	7,791
NET INCOME	$14,251	$10,425
NET INCOME PER SHARE:		
Basic	$2.06	$1.52
Diluted	$2.04	$1.49
Dividends paid per share	$0.28	$0.24

See accompanying notes to the consolidated financial statements

COUNTY BANCORP, INC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2018 and 2017

	2018	2017
	(dollars in thousands)	
Net income	$14,251	$10,425
Other comprehensive income:		
Unrealized loss on securities available-for-sale	(2,017)	(475)
Reclassification adjustments for losses included in net income	—	31
Income tax benefit	549	187
Total other comprehensive loss on securities available-for-sale	(1,468)	(257)
Unrealized loss on derivatives arising during the period	(179)	—
Income tax benefit	49	—
Total other comprehensive loss on derivatives	(130)	—
Total other comprehensive loss	(1,598)	(257)
Comprehensive income	$12,653	$10,168

See accompanying notes to the consolidated financial statements

COUNTY BANCORP, INC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years Ended December 31, 2018 and 2017

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	(dollars in thousands)						
Balance at December 31, 2016	$8,000	$ 26	$50,553	$77,907	$(4,828)	$ (370)	$ 131,288
Net income	—	—	—	10,425	—	—	10,425
Other comprehensive loss	—	—	—	—	—	(257)	(257)
Stock compensation expense	—	—	555	—	—	—	555
Purchase of treasury stock (7,668 shares)	—	—	—	—	(202)	—	(202)
Cash dividends declared on common stock	—	—	—	(1,594)	—	—	(1,594)
Cash dividends declared on preferred stock	—	—	—	(353)	—	—	(353)
Proceeds from sale of common stock (80,854 shares)	—	2	1,122	—	—	—	1,124
Balance at December 31, 2017	$8,000	$ 28	$52,230	$86,385	$(5,030)	$ (627)	$ 140,986
Net income	—	—	—	14,251	—	—	14,251
Other comprehensive loss	—	—	—	—	—	(1,598)	(1,598)
Stock compensation expense	—	—	473	—	—	—	473
Cash dividends declared on common stock	—	—	—	(1,874)	—	—	(1,874)
Cash dividends declared on preferred stock	—	—	—	(413)	—	—	(413)
Reclassification of stranded tax effects of rate change	—	—	—	126	—	(126)	-
Proceeds from sale of common stock (30,217 shares)	—	—	459	—	—	—	459
Balance at December 31, 2018	$8,000	$ 28	$53,162	$98,475	$(5,030)	$ (2,351)	$ 152,284

See accompanying notes to the consolidated financial statements

COUNTY BANCORP, INC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

	2018	2017
	(dollars in thousands)	
Cash flows from operating activities		
Net income	$14,251	$10,425
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization of premises and equipment	1,255	1,010
Amortization of core deposit intangible	406	522
Amortization of subordinated debenture costs	122	72
Provision for loan losses	3,195	2,330
Realized loss on sales of securities available-for-sale	—	31
Realized gain on sales of other real estate owned	(231)	(353)
Write-down of other real estate owned	873	905
Realized (gain) loss on sales of premises and equipment	(1)	290
Increase in cash surrender value of bank owned life insurance	(453)	(441)
Deferred income tax expense (benefit)	(483)	2,263
Stock compensation expense	473	555
Net amortization of securities	818	839
Net change in:		
Accrued interest receivable and other assets	(57)	(1,312)
Loans held for sale	3,626	(5,413)
Loan servicing rights	(97)	314
Accrued interest payable and other liabilities	2,479	(706)
Net cash provided by operating activities	26,176	11,331
Cash flows from investing activities		
Proceeds from maturities, principal repayments, and call of securities available for sale	23,386	28,116
Purchases of securities available for sale	(96,136)	(53,096)
Proceeds from sales of securities available-for-sale	—	21,093
Redemption of FHLB stock	1,160	1,550
Purchases of bank owned life insurance	—	(5,500)
Loan originations and principal collections, net	(64,385)	(125,323)
Proceeds from sales of premises and equipment	—	1,615
Purchases of premises and equipment	(7,667)	(2,758)
Proceeds from sales of other real estate owned	3,854	2,777
Net cash used in investing activities	(139,788)	(131,526)
Cash flows from financing activities		
Net increase in demand and savings deposits	14,530	22,624
Net increase in certificates of deposits	98,740	109,936
Net change in other borrowings	(472)	(853)
Proceeds from FHLB advances	150,000	192,660
Repayment of FHLB advances	(182,100)	(179,055)
Payments to acquire treasury stock	—	(202)

Proceeds from issuance of common stock	459	1,124
Increase in subordinated debentures	29,058	—
Dividends paid on preferred stock	(413)	(353)
Dividends paid on common stock	(1,874)	(1,594)
Net cash provided by financing activities	107,928	144,287
Net change in cash and cash equivalents	(5,684)	24,092
Cash and cash equivalents, beginning of period	66,771	42,679
Cash and cash equivalents, end of period	$61,087	$66,771
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$20,621	$13,657
Income taxes	4,875	6,650
Noncash investing activities:		
Transfer from loans to other real estate owned	$6,104	$5,130
Loans charged off	1,280	1,904

See accompanying notes to the consolidated financial statements

COUNTY BANCORP, INC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of County Bancorp, Inc. and its subsidiaries conform to accounting principles generally accepted in the United States of America and to general practice within the banking industry. The following is a description of the more significant of those policies.

Nature of Business and Significant Concentrations of Credit Risk

The Company is the sole shareholder of Investors Community Bank. The Bank is the sole member of Investors Insurance Services, LLC and ABS 1, LLC, which are both Wisconsin limited liability companies. The Company commenced operations in May of 1996; the Bank commenced operations in March of 1997. In July of 2010, the Bank formed Investors Insurance Services, LLC for the sole purpose of protecting the Bank from liability risk when selling crop insurance. Selling crop insurance had historically been a business function performed within the Bank. In August of 2011, the Bank formed ABS 1, LLC, for the sole purpose of holding real estate and personal property for sale which was obtained through repossession. ICB Investment Corp. commenced operations in 2001. In August of 2017, the Bank dissolved ICB Investment Corp., which was a wholly owned Nevada subsidiary, and distributed its assets to the Bank.

The Bank provides a full range of banking and related financial services, which include real estate lending, business services, and agricultural finance, to individual and corporate customers primarily located within the state of Wisconsin. The Bank's primary source of revenue is providing loans to customers, who are predominantly engaged in dairy farming and commercial activities. Its primary deposit products are savings and term certificate accounts. The Bank is subject to competition from other financial institutions and is regulated by federal and state banking agencies and undergoes periodic examinations by those agencies.

The Company has no other significant activities other than ownership of the Bank. Note 3 discusses the types of securities that the Company invests in. Note 4 discusses the types of lending that the Company engages in.

Agricultural loans, including agricultural operating, real estate and construction loans, represented 60.0% and 59.7% of our total loan portfolio at December 31, 2018 and 2017, respectively. Commercial real estate, including commercial construction loans, represented 24.8% and 25.5% of our total loan portfolio at December 31, 2018 and 2017, respectively.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, the Bank, and the Bank's wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company also has three wholly owned subsidiaries, County Bancorp Statutory Trust II, County Bancorp Statutory Trust III, and Fox River Valley Capital Trust I, that are Delaware statutory trusts which have not been consolidated in accordance with accounting guidance related to variable interest entities.

Use of Estimates in Preparing Financial Statements

The preparation of consolidated financial statements in conformity with generally accepted accounting procedures of the United States ("GAAP') requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the fair value of the Company in its goodwill impairment assessment, and the valuation of investment securities available for sale, loan servicing rights, other real estate owned, financial instruments, and deferred tax assets. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all of which mature within 90 days.

In the normal course of business, the Company maintains balances with correspondent banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to specified limits. Management believes these financial institutions have strong credit ratings and the credit risk related to these deposits is minimal.

Securities Available for Sale

Available for sale securities are carried at fair value with unrealized gains and losses excluded from earnings and reported separately in other comprehensive income (loss). The Company currently has no securities designated as trading or held-to-maturity. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. They are included in non-interest income or expense and, when applicable, are reported as a reclassification adjustment in other comprehensive income (loss).

Declines in the fair value of individual available for sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The Company monitors the investment security portfolio for impairment on an individual security basis and has a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the Company’s intent and ability to hold the investment for a period of time sufficient to recover the temporary impairment. A decline in value due to a credit event that is considered other than temporary is recorded as a loss in non-interest income.

Federal Home Loan Bank Stock

The Bank, as a member of the Federal Home Loan Bank of Chicago (“FHLB”), is required to maintain an investment in the capital stock of the FHLB based on the level of borrowings and other factors, and may invest additional amounts. Based on the redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost which approximates fair value. It is periodically evaluated by management for impairment. Because it is viewed as a long term investment, impairment is based on ultimate recovery of par value. Both stock and cash dividends are reported as income.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. Gains and losses on loan sales (sale proceeds minus carrying value) are recorded in non-interest income and direct loan origination costs and fees are deferred at origination of the loan and are recognized in non-interest income upon sale of the loan.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances adjusted for unearned income and the allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, non-refundable fees and direct loan origination costs on real estate and commercial loans are amortized over the life of the loan and accounted for as an adjustment of yield of the related loan categories.

The accrual of interest on mortgage and commercial loans is discontinued at the time the principal and interest is 90 days delinquent unless the credit is well-secured and in the process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on nonaccrual loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses (hereinafter referred to as “allowance”) is an estimate of loan losses inherent in the Company’s loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after loan losses and loan growth. Loan losses are charged off against the allowance when the Company determines the loan balance to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to the allowance.

The allowance consists of two primary components, general reserves and specific reserves related to impaired loans. The general component covers non-impaired loans and is based on historical losses adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on a weighted average of the actual loss history experienced by the Company over the most recent four years. The Company places more emphasis, or weight, on the more current quarters in the loss history period. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is generally measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loans' effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Under certain circumstances, the Company will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring ("TDR") if the Company for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal or interest due, or acceptance of other assets in full or partial satisfaction of the debt. Restructured loans can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accrual status, depending on the individual facts and circumstances of the borrower. Nonaccrual restructured loans are included and treated with other nonaccrual loans.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

The Company maintains a separate general valuation allowance for each portfolio segment. These portfolio segments include agricultural, commercial, commercial real estate, residential real estate, and installment and consumer other with risk characteristics described as follows:

Agricultural: Agricultural loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows. Adverse economic conditions and trends influenced by Class III milk prices and other key economic indicators are closely correlated to the credit quality of these loans.

Commercial: Commercial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows, and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Commercial Real Estate: Commercial real estate loans, including land and construction, generally possess a higher inherent risk of loss than other real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

Residential Real Estate: The degree of risk in residential mortgage and home equity lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower’s ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers’ capacity to repay their obligations may be deteriorating.

Installment and Consumer Other: The installment and consumer other loan portfolio is usually comprised of a large number of small loans. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the board of directors reviews the adequacy of the allowance, including consideration of the relevant risks in the portfolio, current economic conditions and other factors. If the board of directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Company's primary regulator reviews the adequacy of the allowance. The regulatory agencies may require additions to the allowance based on their judgment about information available at the time of their examinations.

Bank Premises and Equipment

Land is carried at cost. Bank premises and equipment are carried at cost, less accumulated depreciation. Depreciation is computed on the straight line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any recognized gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and improvements are capitalized and a deduction is made from the property accounts for retirements of capitalized renewals or improvements. Gains and losses on dispositions are included in current operations.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under credit arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded. The Company maintains a separate allowance for off-balance sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for off-balance sheet commitments is included in other liabilities.

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount and the fair value less costs to sell.

Loan Servicing Rights

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 change from quarter-to-quarter as market conditions and projected interest rates change, and 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 income statement. 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.

Other Real Estate Owned

Land purchased by the Bank that is held for sale is recorded at the lower of cost or market value.

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure less estimated costs to sell, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other non-interest expense.

Impairment losses on assets to be held and used are measured at the amount by which the carrying amount of a property exceeds its fair value. The evaluation of impairment is inherently subjective and requires estimates that are susceptible to significant revisions as more information becomes available. Due to potential changes in conditions, it is at least reasonably possible that changes in fair values will occur in the near term and that such changes could materially affect the amounts reported in the Company's financial statements. Costs of significant asset improvements are capitalized, whereas costs relating to holding assets are expensed. Revenue and expenses from operations and changes in the valuation allowance are included in other non-interest expense.

Cash Surrender Value of Bank Owned Life Insurance

The Company has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at its cash surrender value, or the amount that can be realized, if lower.

Goodwill and Core Deposit Intangible

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired and is included as an asset on the consolidated balance sheets. Goodwill is not amortized but is subject to impairment tests on at least an annual basis. Core deposit intangible represents the value of the acquired customer core deposit bases and is included in as an asset on the consolidated balance sheets. The core deposit intangible has an estimated finite life, is amortized on an accelerated basis over a 66-month period, and is subject to periodic impairment evaluation.

Management will periodically review the carrying value of its long-lived and intangible assets to determine if any impairment has occurred or whether changes in circumstances have occurred that would require a revision to the remaining useful life, in which case an impairment charge would be recorded as an expense in the period of impairment. 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 was $5.0 million at December 31, 2018 and 2017. There was no impairment charge to goodwill or core deposit intangible related to the Fox River Valley acquisition at December 31, 2018. The net book value of core deposit intangible was $0.5 million and $0.9 million at December 31, 2018 and December 31, 2017, respectively. Goodwill and core deposit intangible are included on the consolidated balance sheets.

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 the some portion or all of the deferred tax asset will not be realized.

The Company files income taxes 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 2015.

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

Comprehensive Income

Recognized revenue, expenses, gains, and losses are included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale and interest rate swap contracts designed as hedges, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income. Accumulated comprehensive income includes unrealized losses on securities available for sale and unrealized losses on interest rate swap contracts of ($2,221) and ($130), respectively, net of tax of $831 and $49, respectively, as of December 31, 2018. Accumulated comprehensive loss as of December 31, 2017 included only unrealized losses on securities available for sale, net of tax.

Derivatives

Derivative financial instruments are recognized as assets or liabilities at fair value. The accounting for changes in the fair value of derivatives depends on the use of the derivatives and whether the derivatives qualify for hedge accounting. Used as part of our asset and liability management to help manage interest rate risk, our derivatives consist of interest rate swap agreements that qualify for hedge accounting. We do not use derivatives for trading purposes.

Changes in the fair value of derivatives that are designated, for accounting purposes, as a hedge of the variability of cash flows to be received on various assets and liabilities and are effective are reported in other comprehensive income. They are later reclassified into earnings in the same periods during which the hedged transaction affects earnings and are included in the line item in which the hedged cash flows are recorded.

We formally document the relationship between the derivative instrument and the hedged item, as well as the risk-management objective and the strategy for undertaking the hedge transaction. This documentation includes linking cash flow hedges to specific assets on the balance sheet. If designated as a hedge, we also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivative instrument that is used is highly effective in offsetting changes in cash flows of the hedged items. Ineffective hedge gains and losses would be recognized immediately in current earnings as noninterest income or expense.

Equity Incentive Plan

Stock compensation accounting guidance requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards. All grants and awards out of the equity incentive plan are newly issued shares.

Treasury Stock

Common stock shares repurchased are recorded as treasury stock at cost.

Earnings per Share

Basic earnings per share represent income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options, and are determined using the treasury stock method.

Treasury shares are not deemed outstanding for earnings per share calculations.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company and put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, and (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Advertising Costs

Advertising costs are expensed as incurred.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 20. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Segments

The Company’s operations consist of one segment, community banking. The operating results of this segment are regularly reviewed by management to make decisions about resource allocations and to assess performance. Selected information is not presented separately for the Company's reportable segment, as there is no material difference between that information and the corresponding information in the consolidated financial statements.

New Accounting Pronouncements

In January 2016, FASB issued ASU No. 2016-01, Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities, to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This amendment supersedes the guidance to classify equity securities with readily determinable fair values into different categories, requires equity securities to be measured at fair value with changes in the fair value recognized through net income, and simplifies the impairment assessment of equity investments without readily determinable fair values. The amendment requires public business entities that are required to disclose the fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using the exit price notion. The amendment requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option. The amendment requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements. The amendment reduces diversity in current practice by clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entity's other deferred tax assets. This amendment is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Entities should apply the amendment by means of a cumulative-effect adjustment as of the beginning of the fiscal year of adoption, with the exception of the amendment related to equity securities without readily determinable fair values, which should be applied prospectively to equity investments that exist as of the date of adoption. Other than FHLB stock, the Company does not have any equity securities in its portfolio; the adoption of this ASU had no effect on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases: Amendments to the FASB Accounting Standards Codification which requires companies to recognize all leases as assets and liabilities on the consolidated balance sheet. This ASU retains a distinction between finance leases and operating leases, and the classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the current accounting literature. The result of retaining a distinction between finance leases and operating leases is that under the lessee accounting model, the effect of leases in a consolidated statement of comprehensive income and a consolidated statement of cash flows is largely unchanged from previous GAAP. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Earlier application is permitted. The Company is currently evaluating it leases and determining the effect of this ASU, but does not believe the impact will be significant to the consolidated financial position or operations.

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 engaged a third-party software consultant to assist in developing our loss model methodology, and is currently gathering historical data. At this time, the Company is still assessing the impact of this standard on the consolidated financial statements. The Company will be determining the appropriate model to utilize to implement the standard during 2019. Further, the Company plans to validate historical data by loan pools and collateral classifications and anticipates the calculation of estimates for at least two quarters in 2019 on a test basis to confirm model processes and to determine the financial statement impact prior to adoption in 2020. The Company is also developing internal control processes and disclosure documentation related to the adoption of this standard.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, to reduce the existing diversity in practice in how certain cash receipts and payments are presented and classified on the statement of cash flows. The amendment is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years with early adoption permitted including adoption in an interim period. Entities should apply this amendment as of the beginning of the first reporting period in which the guidance is effective. The adoption of this guidance did not have a material impact on its consolidated financial statements.

In March 2017, the FASB issued updated guidance codified within ASU No. 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 September 2017, the FASB issued updated guidance codified within ASU No. 2017-13, Revenue Recognition, Revenue from Contracts with Customers, Leases (Topic 840), and Leases (Topic 842) to clarify the amendment to the

SEC paragraphs pursuant to the staff announcement on July 20, 2017 and update ASU No. 2016-20 Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers which was an update to ASU 2014-09 Revenue from Contracts with Customers, is the culmination of efforts by the FASB and the International Accounting Standards Board to develop a common revenue standard for GAAP and International Financial Reporting Standards. ASU 2014-09 supersedes Topic 605—Revenue Recognition and most industry-specific guidance. The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those good or services. The guidance in ASU 2014-09 describes a 5-step process entities can apply to achieve the core principle or revenue recognition and requires disclosures sufficient to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers and the significant judgments used in determining that information. The amendments in this update became effective beginning January 1, 2018 and did not have a significant impact the Company’s financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which requires companies to reclassify the stranded effects in other comprehensive income to retained earnings as a result of the change in the tax rates under the Tax Cuts and Jobs Act (the “Tax Act”). The amendment is effective for fiscal years beginning after December 15, 2018, with early adoption permitted including adoption in an interim period. The Company early adopted this amendment as of January 1, 2018 and included the impact of the reclassification from other comprehensive income to retained earnings in the consolidated statements of shareholders’ equity.

In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) – Targeted Improvements, which provides an additional and optional transition method with which to adopt the new leases standard. The updated ASU allows entities to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The amendment is effective for the fiscal years beginning after December 15, 2018. The Company is currently evaluating which transition method it will use when adopting the new standard.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 842) – Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement, which focuses on improving the effectiveness of disclosures in the notes to the financial statements. The amendment is effective for the fiscal years beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The Company is currently evaluating the effect this standard will have on the Company’s financial statements.

NOTE 2—RESTRICTIONS ON CASH AND CASH EQUIVALENTS

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2018 and 2017 these reserve balances amounted to approximately $4.3 million and $6.3 million, respectively.

NOTE 3—SECURITIES AVAILABLE FOR SALE

The amortized cost and fair value of securities available for sale are as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(dollars in thousands)			
December 31, 2018				
U.S. government and agency securities	$4,368	$ —	$ (37)	$4,331
U.S treasury securities	2,497	—	(6)	2,491
Municipal securities	34,985	33	(498)	34,520

Mortgage-backed securities	157,147	203	(2,747)	154,603
	$198,997	$ 236	$ (3,288)	$195,945
December 31, 2017				
U.S. government and agency securities	$4,874	$ 82	$ —	$4,956
Municipal securities	33,949	56	(240)	33,765
Mortgage-backed securities	88,242	64	(997)	87,309
	$127,065	$ 202	$ (1,237)	$126,030

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The amortized cost and fair value of securities at December 31, 2018 and 2017 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)	
December 31, 2018		
Due in one year or less	$5,848	$5,843
Due from one to five years	11,113	10,974
Due from five to ten years	8,458	8,382
Due after ten years	16,431	16,143
Mortgage-backed securities	157,147	154,603
	$198,997	$195,945
December 31, 2017		
Due in one year or less	$7,990	$7,980
Due from one to five years	10,494	10,470
Due from five to ten years	11,482	11,494
Due after ten years	8,857	8,777
Mortgage-backed securities	88,242	87,309
	$127,065	$126,030

Proceeds from the sale of securities available-for-sale were $21.1 million and the gross loss was $31,000 for the year ended December 31, 2017. There were no sales for realized gains or losses of securities available for sale for the year ended December 31, 2018.

At December 31, 2018 and 2017 no securities were pledged to secure the FHLB advances besides FHLB stock of $3.0 million and $4.1 million, respectively. At December 31, 2017 the carrying amount of securities pledged to secure the Federal Reserve Bank Line of Credit was $8.6 million and $77.1 million pledged to secure municipal customer deposits. At December 31, 2018, there were no securities pledged to secure the Federal Reserve Bank line of credit and $53.4 million pledged to secure municipal customer deposits.

Temporarily Impaired Securities

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-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2018 and 2017.

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
December 31, 2018						
U.S. government and agency securities	$—	$ —	$4,331	$ (37)	$4,331	$ (37)

U.S treasury securities	2,491	(6)	—	—	2,491	(6)
Municipal securities	4,291	(15)	25,377	(483)	29,668	(498)
Mortgage-backed securities	41,925	(208)	83,319	(2,539)	125,244	(2,747)
	$48,707	$ (229)	$113,027	$ (3,059)	$161,734	$ (3,288)
December 31, 2017						
Municipal securities	$25,280	$ (224)	$1,354	$ (16)	$26,634	$ (240)
Mortgage-backed securities	54,278	(521)	16,466	(476)	70,744	(997)
	$79,558	$ (745)	$17,820	$ (492)	$97,378	$ (1,237)

The unrealized loss on the investments at December 31, 2018 and 2017 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 did not consider these investments to be other-than-temporarily impaired at December 31, 2018 and 2017.

Other-Than-Temporary Impairment

Upon acquisition of a security, the Company decides whether it is within the scope of the accounting guidance for beneficial interests in securitized financial assets or will be evaluated for impairment under the accounting guidance for investments in debt and equity securities.

The accounting guidance for beneficial interests in securitized financial assets provides incremental impairment guidance for a subset of the debt securities within the scope of the guidance for investments in debt and equity securities. For securities where the security is a beneficial interest in securitized financial assets, the Company uses the beneficial interest in securitized financial asset impairment model. For securities where the security is not a beneficial interest in securitized financial assets, the Company uses debt and equity securities impairment model.

The Company routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. There were no securities with material unrealized losses existing longer than 12 months, and no securities with unrealized losses which management believed were other-than-temporarily impaired, at December 31, 2018 or 2017.

At December 31, 2018, 156 debt securities had unrealized losses with aggregate depreciation of 2.03% from the Company’s amortized cost basis. At December 31, 2017, 127 debt securities had unrealized losses with aggregate depreciation of 1.27% from the Company’s amortized cost basis. These unrealized losses related principally to Government National Mortgage Association mortgage-backed and municipal debt securities. In analyzing an issuer’s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts’ reports. As management has the intent and ability to hold debt securities until maturity for the foreseeable future if classified as available for sale, the decline is not deemed to be other-than-temporary.

NOTE 4—LOANS

The components of the loan portfolio were as follows:

	December 31,	
	2018	2017
	(dollars in thousands)	
Agricultural loans	$724,508	$686,430
Commercial real estate loans	299,212	292,704
Commercial loans	116,460	114,332
Residential real estate loans	66,843	55,138
Installment and consumer other	272	347
Total gross loans	1,207,295	1,148,951
Allowance for loan losses	(16,505)	(13,247)
Loans, net	$1,190,790	$1,135,704

The following table presents the aging of the recorded investment in past due loans at December 31, 2018 and 2017:

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Loans Not Past Due	Total Loans
	(dollars in thousands)					
December 31, 2018						
Agricultural loans	$460	$969	$7,968	$9,397	$715,111	$724,508
Commercial real estate loans	—	—	2,037	2,037	297,175	299,212
Commercial loans	—	—	600	600	115,860	116,460
Residential real estate loans	—	—	—	—	66,843	66,843
Installment and consumer other	—	—	—	—	272	272
Total	$460	$969	$10,605	$12,034	$1,195,261	$1,207,295
December 31, 2017						
Agricultural loans	$476	$—	$6,819	$7,295	$679,135	$686,430
Commercial real estate loans	—	—	2,149	2,149	290,555	292,704
Commercial loans	1,064	—	642	1,706	112,626	114,332
Residential real estate loans	—	—	—	—	55,138	55,138
Installment and consumer other	—	—	—	—	347	347
Total	$1,540	$—	$9,610	$11,150	$1,137,801	$1,148,951

The following table lists information on nonaccrual, restructured, and certain past due loans:

	December 31, 2018	December 31, 2017
	(dollars in thousands)	
Nonaccrual loans, 90 days or more past due	$10,605	$9,610
Nonaccrual loans 30-89 days past due	868	1,493
Nonaccrual loans, less than 30 days past due	11,510	456
Restructured loans not on nonaccrual status	19,389	9,019
90 days or more past due and still accruing	—	—

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days on accrual by class of loan:

	December 31, 2018	December 31, 2017

	(dollars in thousands)	
Agricultural loans	$19,173	$7,651
Commercial real estate loans	2,037	2,149
Commercial loans	1,773	1,759
Residential real estate loans	—	—
Total	$22,983	$11,559

All nonaccrual loans are considered to be impaired. Total loans considered impaired and their related reserve balances are as follows:

	December 31,	
	2018	2017
	(dollars in thousands)	
Impaired loans without a specific allowance	$22,109	$10,755
Impaired loans with a specific allowance	34,648	22,247
Total impaired loans	56,757	33,002
Specific allowance related to impaired loans	$3,653	$1,436

The average recorded investment in total impaired loans for the years ended December 31, 2018 and 2017 amounted to approximately $44.9 million and $27.2 million, respectively. Interest income recognized on total impaired loans for the years ended December 31, 2018 and 2017 amounted to approximately $4.1 million and $1.7 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 $2.0 million and $0.9 million for the years ended December 31, 2018 and 2017, respectively.

The following tables present loans individually evaluated for impairment by class of loans at December 31, 2018 and 2017:

	December 31, 2018		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
	(dollars in thousands)		
With no related allowance:			
Agricultural loans	$22,218	$ 21,654	$ —
Commercial real estate loans	—	—	—
Commercial loans	455	455	—
Residential real estate loans	—	—	—
	$22,673	$ 22,109	$ —
With an allowance recorded			
Agricultural loans	$33,090	$ 31,293	$ 2,325
Commercial real estate loans	2,037	2,037	583
Commercial loans	1,326	1,318	745
Residential real estate loans	—	—	—
	36,453	34,648	3,653
Total	$59,126	$ 56,757	$ 3,653

	December 31, 2017		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
	(dollars in thousands)		
With no related allowance:			
Agricultural loans	$9,300	$ 7,868	$ —
Commercial real estate loans	3,506	2,465	—
Commercial loans	621	422	—
Residential real estate loans	—	—	—
	$13,427	$ 10,755	$ —
With an allowance recorded			
Agricultural loans	$33,224	$ 20,876	$ 1,026
Commercial real estate loans	—	—	—
Commercial loans	1,381	1,371	410
Residential real estate loans	—	—	—
	34,605	22,247	1,436
Total	$48,032	$ 33,002	$ 1,436

Changes in the allowance for loan losses were as follows:

December 31,

	2018	2017
	(dollars in thousands)	
Balance, beginning of year	$13,247	$12,645
Provision for loan losses	3,195	2,330
Loans charged off	(1,280)	(1,904)
Recoveries	1,343	176
Balance, end of period	$16,505	$13,247

Changes in the allowance for loan losses by portfolio segment were as follows:

	December 31, 2018				
	Beginning Balance	Provision for Loan Losses	Loans Charged Off	Loan Recoveries	Ending Balance
	(dollars in thousands)				
Agricultural loans	$9,712	$ 3,783	$(1,238)	$ 1	$12,258
Commercial real estate loans	1,978	(437)	(42)	1,280	2,779
Commercial loans	1,508	(155)	—	61	1,414
Residential real estate loans	47	6	—	—	53
Installment and consumer other	2	(2)	—	1	1
Total	$13,247	$ 3,195	$(1,280)	$ 1,343	$16,505

	December 31, 2017				
	Beginning Balance	Provision for Loan Losses	Loans Charged Off	Loan Recoveries	Ending Balance
	(dollars in thousands)				
Agricultural loans	$8,173	$ 1,496	$—	$ 43	$9,712
Commercial real estate loans	2,762	111	(987)	92	1,978
Commercial loans	1,239	1,145	(917)	41	1,508
Residential real estate loans	470	(423)	—	—	47
Installment and consumer other	1	1	—	—	2
Total	$12,645	$ 2,330	$(1,904)	$ 176	$13,247

The following tables present the balances in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method:

	December 31, 2018		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
	(dollars in thousands)		
Allowance for loan losses:			
Agricultural loans	$2,325	$9,933	$12,258
Commercial real estate loans	583	2,196	2,779
Commercial loans	745	669	1,414
Residential real estate loans	—	53	53
Installment and consumer other	—	1	1
Total ending allowance for loan losses	3,653	12,852	16,505
Loans:			
Agricultural loans	52,947	671,561	724,508
Commercial real estate loans	2,037	297,175	299,212
Commercial loans	1,773	114,687	116,460
Residential real estate loans	—	66,843	66,843
Installment and consumer other	—	272	272
Total loans	56,757	1,150,538	1,207,295
Net loans	$53,104	$1,137,686	$1,190,790

	December 31, 2017		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
	(dollars in thousands)		
Allowance for loan losses:			
Agricultural loans	$1,026	$8,686	$9,712
Commercial real estate loans	—	1,978	1,978
Commercial loans	410	1,098	1,508
Residential real estate loans	—	47	47
Installment and consumer other	—	2	2
Total ending allowance for loan losses	1,436	11,811	13,247
Loans:			
Agricultural loans	28,744	657,686	686,430
Commercial real estate loans	2,465	290,239	292,704
Commercial loans	1,793	112,539	114,332
Residential real estate loans	—	55,138	55,138
Installment and consumer other	—	347	347
Total loans	33,002	1,115,949	1,148,951

Net loans	$31,566	$1,104,138	$1,135,704

Troubled Debt Restructurings

The Company had allocated $2.0 million and $0.9 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings at December 31, 2018 and 2017, respectively. The Company had no additional lending commitments at December 31, 2018 and 2017 to customers with outstanding loans that are classified as troubled debt restructurings.

A TDR on nonaccrual status is classified as a nonaccrual loan until evaluation supports reasonable assurance of repayment and recent performance according to the modified terms of the loan. Once this assurance is reached, the TDR is classified as a restructured loan. At December 31, 2018, there were $31.5 million TDR loans, of which $12.1 million were classified as nonaccrual and $19.4 million were classified as restructured and accruing, and there were $0.3 million unfunded commitments on these loans. At December 31, 2017, there were $13.4 million TDR loans, of which $4.4 million were classified as nonaccrual and $9.0 million were classified as restructured and accruing. There were $0.1 million unfunded commitments on these loans.

The following table provides the number of loans modified in a troubled debt restructuring investment by class for the year ended December 31, 2018 and 2017:

	Year ended December 31, 2018		Year ended December 31, 2017	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(dollars in thousands)			
Troubled debt restructurings:				
Agricultural loans	32	$ 21,261	18	$ 7,755
Commercial loans	1	92	—	—
Total	33	$ 21,353	18	$ 7,755

During the years ended December 31, 2018 and 2017, there were no troubled debt restructurings which defaulted that were modified within twelve months of their default.

The following table provides the troubled debt restructurings for the year ended December 31, 2018 and 2017 grouped by type of concession:

	Year ended December 31, 2018		Year ended December 31, 2017	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(dollars in thousands)			
Agricultural loans				
Payment concessions	10	$ 4,284	9	$ 5,834
Extension of interest-only payments	22	16,977	7	1,176
Combination of extension of term and interest rate concessions	—	—	2	745
Commercial loans				
Extension of interest-only payments	1	92	—	—

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. 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 $0.3 million. 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 an average probability of ongoing ability to meet and/or exceed obligations.

Low Satisfactory. Credits classified as low satisfactory may have more inconsistent earnings, but have a fair probability of ongoing ability to meet and/or exceed obligations.

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 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 December 31, 2018					
	Sound/ Acceptable/ Satisfactory/ Low Satisfactory	Watch	Special Mention	Substandard Performing	Substandard Impaired	Total Loans
	(dollars in thousands)					
Agricultural loans	$495,418	$133,582	$ 564	$ 41,997	$ 52,947	$724,508
Commercial real estate loans	253,853	18,968	4,642	19,712	2,037	299,212
Commercial loans	95,842	15,237	1,360	2,248	1,773	116,460
Residential real estate loans	62,787	3,883	—	173	—	66,843
Installment and consumer other	272	—	—	—	—	272
Total	$908,172	$171,670	$ 6,566	$ 64,130	$ 56,757	$1,207,295

	As of December 31, 2017					
	Sound/ Acceptable/ Satisfactory/ Low Satisfactory	Watch	Special Mention	Substandard Performing	Substandard Impaired	Total Loans

(dollars in thousands)						
Agricultural loans	$503,292	$115,374	$ 3,443	$ 35,577	$ 28,744	$686,430
Commercial real estate loans	225,898	50,043	4,574	9,724	2,465	292,704
Commercial loans	93,347	13,384	885	4,923	1,793	114,332
Residential real estate loans	50,917	4,221	—	—	—	55,138
Installment and consumer other	347	—	—	—	—	347
Total	$873,801	$183,022	$ 8,902	$ 50,224	$ 33,002	$1,148,951

NOTE 5—PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31, 2018	2017	Estimated Useful Life
	(dollars in thousands)		
Land	$2,240	$1,316	N/A
Construction in process	1,593	250	N/A
Bank premises	12,810	8,554	35-40 years
Furniture, fixtures, and equipment	5,686	4,781	3-7 years
	22,329	14,901	
Accumulated depreciation and amortization	(6,254)	(5,239)	
	$16,075	$9,662	

Depreciation and amortization expense charged to operations for the years ended December 31, 2018 and 2017 totaled, $1.3 million and $1.0 million, respectively.

NOTE 6—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 $661.3 million and $600.7 million at December 31, 2018 and 2017, respectively.

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

	December 31, 2018	2017
	(dollars in thousands)	
Loan servicing rights:		
Balance, beginning of period	$8,950	$9,264
Additions	2,879	2,431
Impairment	(597)	(564)
Amortization	(2,185)	(2,181)
Balance, end of period	$9,047	$8,950

The fair values of these rights were approximately $13.2 million and $12.5 million at December 31, 2018 and 2017, respectively. The fair value of servicing rights was determined using an assumed discount rate of 20% and prepayment speeds primarily ranging from 4% to 9%, depending upon the stratification of the specific right, and nominal anticipated credit losses.

NOTE 7 – 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 to match the expected benefits of the low benefit acquired.

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. There was no impairment charge to goodwill or core deposit intangible in the years ended December 31, 2018 or 2017.

Goodwill: Goodwill resulted from the acquisition of Fox River Valley on May 13, 2016. The carrying amount of goodwill was $5.0 million at December 31, 2018 and 2017.

Core deposit intangible: Core deposit intangible, primarily related to acquired customer relationships, is amortized over its estimated finite life. The core deposit intangible related to the Fox River Valley acquisition had a gross carrying amount of $1.8 million.

Accumulated amortization on core deposit intangible was $1.3 million and $0.9 million for the years ended December 31, 2018 and 2017, respectively.

	December 31,	
	2018	2017
	(dollars in thousands)	
Core deposit intangible:		
Gross carrying amount	$1,801	$1,801
Accumulated amortization	(1,288)	(882)
Net book value	$513	$919

NOTE 8—OTHER REAL ESTATE OWNED

Changes in other real estate owned were as follows:

	For the Year Ended December 31,	
	2018	2017
	(dollars in thousands)	
Balance, beginning of period	$4,962	$3,161
Assets foreclosed	6,104	5,130
Write-down of other real estate owned	(873)	(905)
Net gain on sales of other real estate owned	231	353
Proceeds from sale of other real estate owned	(3,856)	(2,777)
Balance, end of period	$6,568	$4,962

Expenses applicable to other real estate owned include the following:

	For the Year Ended December 31,	
	2018	2017
	(dollars in thousands)	
Net gain on sales of other real estate owned	$231	$353
Write-down of other real estate owned	(873)	(905)
Operating expenses, net of rental income	(188)	101
	$(830)	$(451)

NOTE 9—DEPOSITS

Deposits are summarized as follows:

	December 31,	
	2018	2017
	(dollars in thousands)	
Demand deposits	$121,436	$125,584
Savings, NOW, and money market accounts	296,671	277,993
Certificates of deposit	805,240	706,500
Total deposits	$1,223,347	$1,110,077

Certificates of deposit in amounts of more than $250,000 at December 31, 2018 and 2017 were approximately $394.1 million and $345.3 million, respectively.

The scheduled maturities of certificates of deposit were as follows:

	December 31,	
	2018	2017
	(dollars in thousands)	
1 year or less	$377,588	$267,557
1 to 2 years	259,722	157,559
2 to 3 years	103,715	155,223
3 to 4 years	41,259	84,685
Over 4 years	22,956	41,476
	$805,240	$706,500

NOTE 10—ADVANCES FROM FHLB AND OTHER BORROWINGS

The Bank had advances outstanding from the FHLB in the amount of $89.4 million and $121.5 million on December 31, 2018 and 2017, respectively. These advances, rates, and maturities were as follows:

			Amount outstanding as of December 31,	
	Maturity	Rate	2018	2017
			(dollars in thousands)	
Loan Type				
Fixed rate, fixed term	01/02/2018	1.23%	$—	$1,000
Fixed rate, fixed term	01/12/2018	0.85%	—	8,000
Fixed rate, fixed term	02/12/2018	0.91%	—	5,000
Fixed rate, fixed term	04/23/2018	1.07%	—	2,300
Fixed rate, fixed term	06/18/2018	0.93%	—	10,000
Fixed rate, fixed term	07/16/2018	1.21%	—	762
Fixed rate, fixed term	07/16/2018	1.21%	—	1,038
Fixed rate, fixed term	07/19/2018	1.41%	—	15,000
Fixed rate, fixed term	08/20/2018	1.15%	—	1,000
Fixed rate, fixed term	08/20/2018	1.15%	—	800
Fixed rate, fixed term	08/20/2018	1.27%	—	2,200
Fixed rate, fixed term	11/09/2018	1.47%	—	10,000
Fixed rate, fixed term	12/31/2018	1.65%	—	3,000
Fixed rate, fixed term	01/02/2019	2.54%	3,000	—
Fixed rate, fixed term	01/04/2019	2.55%	12,000	—
Fixed rate, fixed term	02/27/2019	1.47%	5,000	5,000
Fixed rate, fixed term	03/08/2019	1.54%	10,000	10,000
Fixed rate, fixed term	07/15/2019	1.11%	8,000	8,000
Fixed rate, fixed term	08/12/2019	2.24%	5,000	—
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	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
Fixed rate, putable, no call 2 years	01/12/2023	2.03%	8,000	—
			$89,400	$121,500

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 and stock of the FHLB. At December 31, 2018 and 2017, the Bank had pledged qualifying mortgage loans $453.8 million and $326.9 million, respectively.

The Bank had no irrevocable letters of credit with the FHLB as of December 31, 2018 and 2017.

Future maturities of borrowings were as follows:

	December 31,	
	2018	2017
	(dollars in thousands)	
1 year or less	$45,000	$60,100
1 to 2 years	18,400	25,000
2 to 3 years	18,000	18,400
3 to 4 years	8,000	18,000
	$89,400	$121,500

As of December 31, 2018 and 2017, the Bank also had a line-of-credit available with the Federal Reserve Bank of Chicago. Borrowings under this line of credit are limited by the amount collateral pledged by the Company, which totaled $143.4 million in loans at December 31, 2018, and $8.6 million in securities at December 31, 2017. There were no outstanding advances included in other borrowings at December 31, 2018 or 2017, respectively.

On September 14, 2017, the Company entered into a credit agreement with U.S. Bank, National Association for a $15.0 million revolving line-of-credit with an interest rate equal to the one-month LIBOR rate plus 2.25%. The line also bears a non-usage fee of 0.275% per annum. The non-usage fee for year ended December 31, 2018 and 2017 was $42 thousand and $5 thousand, respectively. The line did not have an outstanding balance as of December 31, 2018 or 2017.

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 December 31, 2018 and 2017, the amounts of these borrowings were $0.8 thousand and $1.3 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 acquisition of Fox River Valley. Under the terms of the current triple-net lease the Company is obligated to pay monthly rent of $15 thousand. As of December 31, 2017, liability remaining under the capital lease was $41 thousand, and the amortization related to the lease was $148 thousand and was included in other non-interest expense. During the third quarter of 2018, the term of the lease was extended to April 2020, and the Company is obligated to pay monthly rent of $16 thousand. The renegotiation of terms resulted in the extended term being classified as an operating lease, and the rent expense is included in occupancy expense.

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

	December 31,	
	2018	2017
	(dollars in thousands)	
Balance outstanding at end of period	$827	$1,299
Average amount outstanding during the period	1,027	1,545
Maximum amount outstanding at any month end	1,278	1,825
Weighted average interest rate during the period	4.81 %	5.77 %

Weighted average interest rate at end of period	4.51 %	6.41 %

NOTE 11—SUBORDINATED DEBENTURES

In September 2005 and June 2006, the Company formed wholly owned subsidiary business trusts, County Bancorp Statutory Trust II (“Trust II”) and County Bancorp Statutory Trust III (“Trust III”) (together, the “Trusts”), which are both Delaware statutory trusts, for the purpose of issuing capital securities which qualify as Tier 1 capital of the Company. Trust II issued at par $6.0 million of floating rate capital securities in an exempt offering. The capital securities are nonvoting, mandatorily redeemable in 2035, and guaranteed by the Company. Trust III issued at par $6.0 million of floating rate capital securities in an exempt offering. The capital securities are nonvoting, mandatorily redeemable in 2036, and guaranteed by the Company.

The capital securities carry an interest rate identical to that of the related debentures. For Trust II, holders of capital securities are entitled to receive cumulative cash distributions at a rate based on the three month LIBOR plus 1.53% thereafter through maturity, which was 4.27% as of December 31, 2018. For Trust III, holders of capital securities are entitled to receive cumulative cash distributions at a rate based on the three month LIBOR plus 1.69% through maturity, which was 4.43% as of December 31, 2018. Interest was current through the most recent interest payment date of December 15, 2018.

The distribution rate payable on the capital securities is cumulative and payable quarterly in arrears. The Company has the right, subject to events of default, to defer payments of interest on the debentures at any time by extending the interest payment period for a period not exceeding 20 consecutive quarters with respect to each deferral period, provided that no extension period may extend beyond the redemption or maturity dates of the debentures. The capital securities are subject to mandatory redemption upon payment of the debentures. Trust II and III mature on September 15, 2035 and June 15, 2036, respectively, and may be redeemed if certain conditions are met or at any time within 180 days following the occurrence and continuation of certain changes in either tax treatment or the capital treatment of Trust II and Trust III, the debentures, or the capital securities. If the debentures are redeemed before they mature, the redemption price will be the principal amount plus any accrued but unpaid interest.

The Company owns all of the outstanding common securities of Trust II and Trust III. The Trusts used the proceeds from the issuance of their capital securities to buy floating rate junior subordinated deferrable interest debentures (“debentures”) issued by the Company. These debentures are the Trusts’ only assets, and interest payments from these debentures finance the distributions paid on the capital securities. These debentures are unsecured, rank junior, and are subordinate in the right of payment to all senior debt of the Company.

The capital securities of Trust II and Trust III have been structured to qualify as Tier 1 capital for regulatory purposes. However, the securities cannot be used to constitute more than 25 percent of the Company’s “core” Tier 1 capital according to regulatory requirements. The Company utilized the proceeds of the Trust II issuances for general corporate purposes and Trust III issuances to redeem the securities of County Bancorp Statutory Trust I.

In connection with the merger with Fox River Valley, the Company also acquired Fox River Valley’s wholly-owned subsidiary Fox River Valley Capital Trust I, a Delaware statutory trust (the “FRV Trust I”), which issued capital securities that qualify for Tier II capital of the Company. The Company assumed the $3.6 million of floating rate, junior subordinated debentures, of which the Company owns $0.1 million. The debentures are non-voting, mandatorily redeemable in 2033 and guaranteed by the Company.

The distribution rate payable on the debentures is cumulative and payable quarterly in arrears. The Company has the right, subject to events of default, to defer payments of interest on the debentures at any time by extending the interest payment period not exceeding 20 consecutive quarters with respect to each deferral period, provided that no extension period may extend beyond the redemption or maturity date of the debentures. Interest was current through the most recent interest payment date of November 28, 2018.

The FRV Trust I may redeem some or all of the capital securities, at par, with 30 days advance notice, on or after November 30, 2008, but only on May 30 or November 30 of any given year, and only in a minimum amount of $500,000 and in increments of $10,000 thereafter, or the full amount of the capital securities. The FRV Trust I may redeem all of the capital securities at any time upon the occurrence and during the continuation of a Tax Event, an Investment Company Event or a Capital Treatment Event (each as defined in the trust agreement for the FRV Trust I), at any time within 90 days following such event.

The FRV Trust I debentures carry an interest rate equal to 5-year LIBOR plus 3.40%, which resets every five years. The current rate is equal to 6.40% through November 30, 2023. Interest payments are due quarterly.

On May 30, 2018, the Company entered into a Subordinated Note Purchase Agreement with certain institutional investors pursuant to which the Company sold and issued $30.0 million in aggregate principal amount of its 5.875% fixed-to-floating rate subordinated notes due 2028 (the “Notes”). The Notes were issued by the Company to the purchasers at a price equal to 100% of their face amount. The Notes have a stated maturity of June 1, 2028, are redeemable, in whole or in part, on or after June 1, 2023, and at any time upon the occurrences of certain events. The Notes will bear interest at a fixed rate of 5.875% per year, from and including May 30, 2018 to, but excluding, June 1,

2023. From and including June 1, 2023 to, but excluding the maturity date or early redemption date, the interest rate will reset quarterly at a variable rate equal to the then current 3-month LIBOR plus 2.88%. The notes qualify as Tier II capital of the Company. The Company incurred $0.9 million of costs related to the issuance of the Notes. These costs have been capitalized are being amortized over the life of the Notes.

On September 17, 2018, the Company closed its offer to exchange (the “Exchange Offer”) up to $30,000,000 aggregate principal amount of Notes, which were issued in a private placement to certain institutional investors, for a like principal amount of its new 5.875% fixed-to-floating rate subordinated notes due 2028 registered under the Securities Act of 1933, as amended. All of the privately-placed Notes were tendered for exchange in the Exchange Offer.

NOTE 12—PREFERRED STOCK

The Company has 15,000 shares of non-cumulative, nonparticipating preferred stock authorized with a $1,000 per share stated value. This preferred stock pays a quarterly dividend at a variable rate equivalent to prime rate plus fifty basis points with a minimum dividend of 4.0%. The variable rate at December 31, 2018 was 6.00%. There were 8,000 shares issued and outstanding at both December 31, 2018 and 2017.

NOTE 13—INCOME TAXES

Allocation of income tax expense between current and deferred portions consisted of the following:

	December 31,	
	2018	2017
	(dollars in thousands)	
Current		
Federal income tax	$3,713	$4,665
State income tax	1,829	863
Total current	5,542	5,528
Deferred income tax expense	(483)	2,263
	$5,059	$7,791

For the year ended December 31, 2017, the value of our net deferred tax asset was reduced by $0.9 million and recorded as additional income tax expense as a result of the Tax Act that was enacted on December 22, 2017.

The reasons for the difference between income tax expense and the amount computed by applying the statutory tax rates to income before taxes were as follows:

	December 31,	
	2018	2017
	(dollars in thousands)	
Statutory federal tax rate	21 %	34 %
Income tax at statutory federal rate	$4,055	$6,194
Increase (reduction) resulting from:		
State income taxes, net of federal income tax benefit	1,191	917
Tax exempt interest	(193)	(207)
Increase in cash surrender value	(95)	(183)
Tax reform expense	—	1,000
Other	101	70
Income tax expense	$5,059	$7,791
Effective tax rate	26 %	43 %

The tax reform expense was due to a reduction in the value of our net deferred tax asset which was recorded as additional income tax expense as a result of the Tax Act.

The components of the net deferred tax asset were as follows:

	December 31, 2018	2017
	(dollars in thousands)	
Deferred tax assets:		
Management salary continuation accrued	$555	$540
Allowance for loan losses	4,314	3,290
Deferred compensation	481	306
Interest on nonaccrual loans	—	365
Other real estate owned	720	406
Acquired assets	—	(483)
Net operating loss	1,475	1,660
Available for sale investment securities	831	282
Interest rate swap contracts	49	—
Other	151	296
Total deferred tax assets	$8,576	$6,662
Deferred tax liabilities		
Loan servicing rights	2,465	2,438
Deferred loan costs	289	216
Depreciation and amortization	1,057	457
FHLB stock dividend	37	73
Other	382	213
Total deferred tax liabilities	$4,230	$3,397
Net deferred tax assets	$4,346	$3,265

The Company has federal net operating loss carryforwards of approximately $4.2 million as of December 31, 2018. These losses begin to expire in 2035. The Company also has state net operating loss carryforwards totaling approximately $9.5 million as of December 31, 2018 and begin to expire in 2032. These net operating loss carryforwards may be applied against future taxable income.

NOTE 14—OFF-BALANCE SHEET ACTIVITIES

Credit-Related Financial Instruments

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance sheet instruments.

Financial instruments with contract amounts representing credit risk as of December 31, 2018 and 2017 were as follows:

	December 31, 2018 (dollars in thousands)	2017
Commitments to extend credit and unused lines of credit, including unused credit card lines	$ 179,179	$ 235,807
Standby letters of credit	5,635	5,357

Commitments to extend credit are agreements to lend funds to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Bank, is based on management’s credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are usually collateralized and contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the payment or the performance of a Bank customer to a third party. Both standby and performance letters of credit are generally issued for terms of one to four years. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting these commitments.

NOTE 15—HEDGING ACTIVITIES

On June 15, 2018, the Company executed an interest rate swap to manage interest rate risk on two sets of its trust preferred securities. This derivative contract involves the receipt of floating rate interest from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreement, without the exchange of the underlying notional value. This instrument is designated as a cash flow hedge as the receipt of floating rate interest from the counterparty is used to manage interest rate risk associated with three month LIBOR advances. The change in the fair value of this hedging instrument is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged transaction affects earnings.

As of December 31, 2018, the Company had two outstanding interest rate swaps designated as a cash flow hedge each with an aggregate notional value of $6.0 million. Both interest rate swaps mature on June 15, 2028. A pre-tax unrealized loss of $0.2 million was recognized in accumulated other comprehensive income for the year ended December 31, 2018, and there was no ineffective portion of this hedge. There were no interest rate swaps designated as a cash flow hedge outstanding at December 31, 2017.

The Company is exposed to credit risk in the event of nonperformance by the interest rate swaps counterparty. The Company minimizes this risk by entering into derivative contracts with only large, stable financial institutions, and the Company has not experienced, and does not expect, any losses from counterparty nonperformance on the interest rate swaps. The Company monitors counterparty risk in accordance with the provisions of FASB ASC 815. In addition, the interest rate swap agreements contains language outlining collateral-pledging requirements for each counterparty. Collateral must be posted when the market value exceeds certain threshold limits. Derivative contracts are executed with a Credit Support Annex, which is a bilateral ratings-sensitive agreement that requires collateral postings at established credit threshold levels. These agreements protect the interests of the Company and its counterparties should either party suffer a credit rating deterioration. The Company was required to pledge $150 thousand of cash as collateral to the counterparty as of December 31, 2018.

NOTE 16—EMPLOYEE BENEFIT PLANS

The Company has a 401(k) plan covering substantially all employees. The Company’s contributions are based upon the discretion of the board of directors. Total expense was $0.7 million for each of the years ended December 31, 2018 and 2017, respectively.

On May 1, 2006, the Company entered into salary continuation agreements with five key employees. Under these agreements, the key employees will receive $60,000 per year beginning on the later of attaining age 65 or their separation from service, and continuing for 15 years. During 2011, the Company entered into a salary continuation agreement with an additional key employee. Under this agreement, the key employee will receive amounts ranging between $36,000 and $60,000 annually, depending on the employee's age at separation, commencing upon retirement and continuing for 15 years. Each of these agreements allow for early retirement opportunities or modifications which may reduce the annual payment.

As of December 31, 2018 and 2017, Company had accrued $2.0 million in conjunction with these salary continuation agreements. The payouts under these agreements for the years ending December 31, 2018 and 2017 were $105 thousand in each year.

NOTE 17—EQUITY INCENTIVE PLAN

In 2016, the shareholders' approved the Company's 2016 Equity Incentive Compensation Plan (the "Plan"), which replaced the Company's 2012 Equity Incentive Compensation Plan. Under the Plan, the Company may grant options and stock awards to its directors, officers and employees for shares of common stock. Both qualified and non-qualified stock options, stock appreciation rights, restricted stock, and restricted stock units may be granted and issued, respectively, under the Plan. As of December 31, 2018, 209,714 shares remained available under the Plan.

The exercise price of options is no less than the market price of the Company's stock on the date of grant and an option's maximum term is ten years. Vesting periods for options and restricted stock range from one to five years from the date of grant.

The Company grants restricted stock awards and restricted stock units to certain members of management and directors. The shares and units are allotted a grant date value equal to the Nasdaq Official Closing Price on the grant date.

The fair value of each option grant was estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions:

	December 31, 2018	2017
Risk-free interest rates	2.59-2.91%	2.08-2.27%
Dividend yields	1.03%-1.61%	0.74%-0.99%
Expected volatility	36.00%	35.00%
Weighted-average expected life of options	7.00 years	7.00 years

The expected volatility is based on historical volatility. The risk free rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on historical exercise experience. The dividend yield assumption is based on the Company's history of declaring dividends on its common stock.

The activity of the Company's outstanding stock options for the years ended December 31, 2018 and 2017 were as follows:

	December 31, 2018			December 31, 2017		
	Number of Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value (1)	Number of Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value (1)
	(dollars in thousands except option and per share data)					
Outstanding, beginning of year	228,318	$ 17.24		291,059	$ 15.18	
Granted	22,675	25.19		29,653	26.27	
Exercised	(30,217)	15.19		(87,526)	12.41	
Forfeited/expired	(11,788)	21.55		(4,868)	21.69	
Outstanding, end of period	208,988	$ 18.15	$ 209	228,318	$ 17.24	$ 2,859
Options exercisable at period-end	159,456	$ 16.54	$ 19	142,724	$ 15.08	$ 2,095
Weighted-average fair value of options granted during the period (2)		$ 9.41			$ 9.54	

(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 December 31, 2018 and 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.

Information pertaining to options outstanding at December 31, 2018 and 2017 was as follows:

	December 31, 2018 Options Outstanding			Options Exercisable	
		Weighted Average Remaining	Weighted Average		Weighted Average
Range of Exercise Prices	Number Outstanding	Contractual Life	Exercise Price	Number Exercisable	Exercise Price
$ 12.00	45,680	1.52 Years	$ 12.00	45,680	$ 12.00
13.02-14.83	36,220	4.70 Years	13.88	32,770	13.78
17.15-19.88	85,396	6.71 Years	19.58	71,623	19.63
20.92-24.98	10,714	8.45 Years	23.34	4,101	22.37
25.24-27.31	30,978	8.78 Years	26.50	5,282	26.63
Outstanding, end of period	208,988		$ 18.15	159,456	$ 16.54

	December 31, 2017 Options Outstanding			Options Exercisable	
		Weighted Average Remaining	Weighted Average		Weighted Average
Range of Exercise Prices	Number Outstanding	Contractual Life	Exercise Price	Number Exercisable	Exercise Price
$ 12.00	63,110	2.20 Years	$ 12.00	63,110	$ 12.00
13.02-15.19	39,511	5.77 Years	13.99	29,140	13.72
17.15-19.88	96,097	7.62 Years	19.60	48,452	19.68
20.17-24.46	11,191	8.97 Years	22.35	2,022	20.61
25.56-27.31	18,409	9.23 Years	26.73	—	—
Outstanding, end of period	228,318		$ 17.24	142,724	$ 15.08

	Number of Shares	Weighted Average

		Grant Date Fair Value
Nonvested options, December 31, 2016	113,446	$ 4.48
Granted	29,653	9.54
Vested	(37,791)	4.54
Forfeited/exercised	(19,714)	3.10
Nonvested options, December 31, 2017	85,594	$ 6.04
Granted	22,675	25.19
Vested	(40,681)	20.23
Forfeited/exercised	(18,056)	20.82
Nonvested options, December 31, 2018	49,532	$ 23.33

Activity in restricted stock awards and restricted stock units during 2018 and 2017 was as follows:

	December 31, 2018	
	Restricted Stock Awards	Weighted Average Grant Price
Outstanding, beginning of year	41,217	$ 18.35
Granted	6,611	27.15
Vested	(15,014)	15.71
Forfeited/expired	(4,113)	23.51
Outstanding, end of period	28,701	$ 21.02

	December 31, 2017	
	Restricted Stock Awards	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

	December 31, 2018	
	Restricted Stock Units	Weighted Average Grant Price
Outstanding, beginning of year	8,691	$ 25.53
Granted	9,840	27.46
Vested	(4,036)	24.25
Forfeited/expired	(2,723)	27.41
Outstanding, end of period	11,772	$ 27.15

December 31, 2017

	Restricted Stock Units	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 years ended December 31, 2018 and 2017, share-based compensation expense, including options, restricted stock awards, and restricted stock units, applicable to the Plan was $0.5 million and $0.7 million, respectively, and the recognized tax benefit related to this expense was $0.1 million and $0.1 million, respectively.

As of December 31, 2018, unrecognized share-based compensation expense related to nonvested options and restricted stock amounted to $0.5 million and is expected to be recognized over a weighted average period of 1.49 years.

NOTE 18—REGULATORY MATTERS

The Company (on a consolidated basis) and 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and 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 Bank to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations), of Tier 1 capital (as defined in the regulations) to average assets (as defined in the regulations), and of Tier 1 Common Equity (as defined) to risk-weighted assets. Management believed, as of December 31, 2018 and 2017, that the Company and Bank met all capital adequacy requirements to which they were subject.

As of December 31, 2018, the most recent notification from the banking regulators categorized the Bank 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 leverage and Tier 1 Common Equity ratios as set forth in the following table. There were no conditions or events since the notification that management believes have changed the Bank’s category.

The Company’s and 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)					
December 31, 2018						
Total Capital (to risk weighted assets):						
Consolidated	210,768	15.81%	131,664	9.875%	Not applicable	
Bank	204,327	15.35%	131,488	9.875%	$133,153	10.00%
Tier 1 Capital (to risk weighted assets):						
Consolidated	164,675	12.35%	104,998	7.875%	Not applicable	
Bank	187,679	14.09%	104,858	7.875%	106,522	8.00 %
Tier 1 Capital (to average assets):						
Consolidated	164,675	11.09%	59,374	4.00 %	Not applicable	
Bank	187,679	12.44%	60,330	4.00 %	75,413	5.00 %
Tier 1 Common Equity (to risk weighted assets):						
Consolidated	141,085	10.58%	84,999	6.375%		

					Not applicable	
Bank	187,679	14.09 %	84,885	6.375 %	86,549	6.50 %
December 31, 2017						
Total Capital (to risk weighted assets):						
Consolidated	165,174	13.08 %	116,775	9.25 %	Not applicable	
Bank	161,375	12.79 %	116,719	9.25 %	$ 126,183	10.00 %
Tier 1 Capital (to risk weighted assets):						
Consolidated	151,363	11.99 %	91,526	7.25 %	Not applicable	
Bank	147,564	11.69 %	91,483	7.25 %	100,946	8.00 %
Tier 1 Capital (to average assets):						
Consolidated	151,363	11.03 %	54,914	4.00 %	Not applicable	
Bank	147,564	10.76 %	54,875	4.00 %	68,594	5.00 %
Tier 1 Common Equity (to risk weighted assets):						
Consolidated	127,840	10.13 %	72,590	5.75 %	Not applicable	
Bank	147,564	11.69 %	72,555	5.75 %	82,019	6.50 %

(a) The ratios for December 31, 2018 and 2017 include a capital conservation buffer of 1.875% and 1.25%, respectively.

The Basel III Rule implemented a capital conservation buffer that is added to the minimum requirements for capital adequacy purposes. The capital conservation buffer was subject to a three year phase-in period that began on January 1, 2016 and was fully phased in on January 1, 2019 at 2.5%. The required phase-in capital conservation buffer during 2018 and 2017 was 1.875% and 1.25%, respectively. As of December 31, 2018 and 2017, the ratios for the Company and the Bank were sufficient to meet the fully phased-in conservation buffer.

NOTE 19—RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates.

Activity consisted of the following:

	December 31,	
	2018	2017
	(dollars in thousands)	
Balance, beginning of period	$6,969	$6,475
New loans	4,055	1,679
Repayments	(5,387)	(1,185)
Balance, end of period	$5,637	$6,969

Deposits from related parties held by the Bank at December 31, 2018 and 2017 amounted to $5.2 million and $19.5 million, respectively.

NOTE 20—FAIR VALUE MEASUREMENTS

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimate of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is considered a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

The Company groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

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 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 that 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 are classified as Level 3.

Deposits

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook 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 ninety days approximate their fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on current market rates for similar types of borrowing arrangements.

Advances from FHLB

Current market rates for debt with similar terms and remaining maturities are used to estimate fair value of existing debt. Fair values are estimated using discounted cash flow analyses based on current market rates for similar types of borrowing arrangements.

Subordinated Debentures

The carrying amounts approximate fair value.

Hedging Activities

Interest rate swap agreements are measured at fair value on a recurring basis. We measure fair value utilizing models that use primarily market observable inputs, such as forecasted yield curves.

Accrued Interest

The carrying amounts approximate fair value.

Commitments to Extend Credit and Standby Letters of Credit

As of December 31, 2018 and 2017, the carrying and fair values of the commitment to extend credit and standby letters of credit are not considered significant.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities 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)			
December 31, 2018				
Securities available for sale:				
U.S. government and agency securities	$—	$4,331	$ —	$4,331
U.S treasury securities	—	2,491	—	2,491
Municipal securities	—	34,520	—	34,520
Mortgage-backed securities	—	154,603	—	154,603
Total assets at fair value	$—	$195,945	$ —	$195,945
Derivative instruments, interest rate swaps	$—	$179	$ —	$179
Total liabilities at fair value	$—	$179	$ —	$179
December 31, 2017				
Securities available for sale:				
U.S. government and agency securities	$—	$4,956	$ —	$4,956
Municipal securities	—	$33,765	—	33,765
Mortgage-backed securities	—	87,309	—	87,309
Total assets at fair value	$—	$126,030	$ —	$126,030

Assets Measured at Fair Value on a Nonrecurring Basis

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
	(dollars in thousands)		
December 31, 2018			
Impaired loans	$—	$ —	$30,995
Other real estate owned	—	—	6,568
Total assets at fair value	$—	$ —	$37,563
December 31, 2017			
Impaired loans	$—	$ —	$20,811
Other real estate owned	—	—	4,962

Total assets at fair value	$—	$ —	$25,773

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

December 31, 2018	Valuation Techniques	Unobservable Inputs	Range (Average)
Impaired loans	Evaluation of collateral	Estimation of value	NM*
Other real estate owned	Appraisal	Appraisal adjustment	16%-54% (32%)

December 31, 2017	Valuation Techniques	Unobservable Inputs	Range (Average)
Impaired loans	Evaluation of collateral	Estimation of value	NM*
Other real estate owned	Appraisal	Appraisal adjustment	0%-39% (14%)

* 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 receivables, 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.

Impaired Loans

In accordance with the provisions of the loan impairment guidance, impairment was measured for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceeds the recorded investments in such loans. Impaired loans for which an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria.

Impairment amounts on impaired loans represent specific valuation allowance and write-downs during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged-off.

Other Real Estate Owned

Foreclosed assets are recorded at fair value based on property appraisals, less estimated selling costs, at the date of the transfer with any impairment amount charged to the allowance for loan losses. Subsequent to the transfer, foreclosed assets are carried at the lower of cost or fair value, less estimated selling costs with changes in fair value or any impairment amount recorded in the other non-interest expense. Values are estimated using Level 3 inputs based on customized discounting criteria. The carrying value of foreclosed assets is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs.

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

	December 31, 2018		December 31, 2017		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Input Level
	(dollars in thousands)				
Financial assets:					
Cash and cash equivalents	$61,087	$61,087	$66,771	$66,771	1
FHLB Stock	2,978	2,978	4,138	4,138	2
Securities available for sale	195,945	195,945	126,030	126,030	2
Loans, net of allowance for loan losses	1,190,790	1,187,330	1,135,704	1,135,861	3
Loans held for sale	2,949	2,949	6,575	6,575	3
Accrued interest receivable	3,878	3,878	3,793	3,793	2
Loan servicing rights	9,047	13,198	8,950	12,194	3
Financial liabilities:					

Deposits:					
Time	805,240	801,267	706,500	709,219	2
Other deposits	418,107	418,107	403,577	401,503	1
Other borrowings	827	827	1,299	1,299	3
Advances from FHLB	89,400	88,725	121,500	121,793	2
Subordinated debentures	44,703	44,703	15,523	15,523	3
Accrued interest payable	4,013	4,013	2,389	2,389	2
Derivative instruments, interest rate swaps	179	179	—	—	2

NOTE 21—EARNINGS PER SHARE

Earnings per common share (“EPS”) was computed based on the following:

	For the Year Ended December 31,	
	2018	2017
	(dollars in thousands except share data)	
Net income from continuing operations	$14,251	$10,425
Less: preferred stock dividends	413	353
Income available to common shareholders for basic EPS	$13,838	$10,072
Average number of common shares issued	7,177,212	7,334,307
Less: weighted average treasury shares	442,206	433,976
Less: weighted average nonvested equity incentive plan shares	30,955	264,948
Weighted average number of common shares outstanding	6,704,051	6,635,383
Effect of dilutive options	68,876	111,463
Weighted average number of common shares outstanding used to calculate diluted earnings per common share	6,772,927	6,746,846

NOTE 22—DIVIDEND AND CAPITAL RESTRICTIONS

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Company. In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank’s capital to be reduced below applicable minimum capital requirements. Cash dividends paid to the Company by the Bank were $2.0 million and $1.1 million for the years ended December 31, 2018 and 2017, respectively.

NOTE 23—SUBSEQUENT EVENTS

Management evaluated subsequent events through the date the financial statements were issued. Events or transactions occurring after December 31, 2018, but prior to issuance that provided additional evidence about conditions that existed at December 31, 2018, have been recognized in the financial statements for the year ended December 31, 2018. Events or transactions that provided evidence about conditions that did not exist at December 31, 2018, but arose before the consolidated financial statements were issued have not been recognized in the consolidated financial statements for the year ended December 31, 2018.

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NOTE 24 – UNAUDITED INTERIM FINANCIAL DATA

Unaudited quarterly financial data for the periods indicated is summarized below:

	2018			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(dollars in thousands, except share data)			
Interest income	$17,110	$16,651	$15,763	$14,693
Interest expense	6,367	6,047	5,425	4,423
Net interest income	10,743	10,604	10,338	10,270
Provision for loan losses	1,572	993	533	97
Net interest income after provision for loan losses	9,171	9,611	9,805	10,173
Non-interest income	2,320	2,157	2,316	2,040
Non-interest expense	7,538	7,023	6,937	6,785
Income tax expense	1,123	1,228	1,334	1,374
Net income	$2,830	$3,517	$3,850	$4,054
Basic earnings per share	$0.41	$0.51	$0.56	$0.59
Diluted earnings per share	$0.40	$0.50	$0.55	$0.58
Dividends declared per share	$0.07	$0.07	$0.07	$0.07

	2017			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(dollars in thousands, except share data)			
Interest income	$14,249	$13,715	$12,952	$12,136
Interest expense	4,080	3,754	3,395	2,938
Net interest income	10,169	9,961	9,557	9,198
Provision for loan losses	12	33	1,524	761
Net interest income after provision for loan losses	10,157	9,928	8,033	8,437
Non-interest income	1,994	2,087	1,856	1,716
Non-interest expense	7,165	6,291	6,641	5,895
Income tax expense	2,855	2,120	1,190	1,626
Net income	$2,131	$3,604	$2,058	$2,632
Basic earnings per share	$0.31	$0.53	$0.30	$0.39
Diluted earnings per share	$0.30	$0.52	$0.29	$0.38
Dividends declared per share	$0.06	$0.06	$0.06	$0.06

NOTE 25 – COUNTY BANCORP, INC. (PARENT COMPANY ONLY) CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS

	December 31, 2018	December 31, 2017
	(dollars in thousands)	
ASSETS		
Cash and cash equivalents	$4,490	$ 87
Investment in bank subsidiary	185,458	146,937
Goodwill	5,038	5,038
Other assets	2,344	4,667
Total assets	$197,330	$ 156,729
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities	$343	$ 221
Subordinated debentures	44,703	15,523
Shareholders' equity	152,284	140,985
Total liabilities and shareholders' equity	$197,330	$ 156,729

CONDENSED STATEMENTS OF OPERATIONS

	December 31, 2018	December 31, 2017
	(dollars in thousands)	
INTEREST AND DIVIDEND INCOME	$2,112	$ 1,135
EXPENSES		
Interest expense	1,804	515
Other operating expenses	1,409	1,609
Total expenses	3,213	2,124
Income before income taxes and equity in undistributed net income of subsidiary	(1,101)	(989)
Income tax benefit	837	553
Equity in undistributed net income of subsidiary	14,515	10,861
NET INCOME	$14,251	$ 10,425

CONDENSED STATEMENT OF CASH FLOWS

	For the year ended December 31, 2018	December 31, 2017
	(dollars in thousands)	
Cash flows from operating activities		
Net income	$14,251	$ 10,425
Adjustments to reconcile net income to cash provided by operating activities:		
Equity in undistributed net income of subsidiary	(14,515)	(10,861)
Amortization of core deposit intangible	406	522
Amortization of subordinated debenture costs	122	—
Other assets	1,967	(992)
Other liabilities	(58)	735
Net cash provided by (used in) operating activities	2,173	(171)
Cash flows from investing activities		
Investment in subsidiary	(25,000)	—
Net cash used in investing activities	(25,000)	—
Cash flows from financing activities		
Payments to acquire treasury stock	—	(202)
Proceeds from issuance of common stock	459	1,123
Increase in subordinated debentures	29,058	72
Dividends paid on preferred stock	(413)	(353)
Dividends paid on common stock	(1,874)	(1,594)
Net cash provided by (used in) financing activities	27,230	(954)
Net change in cash and cash equivalents	4,403	(1,125)
Cash and cash equivalents, beginning of period	87	1,212
Cash and cash equivalents, end of period	$4,490	$ 87

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosures 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 Exchange Act) as of December 31, 2018. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2018, our disclosure controls and procedures were 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.

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 December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting

REPORT BY COUNTY BANCORP, INC.'S MANAGEMENT

ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining an effective system of internal control over financial reporting, as such term is defined in Section 13a-15(f) of the Exchange Act. The Company's system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. There are inherent limitations in the effectiveness of any system of internal control over financial reporting, including the possibility of human error and circumvention or overriding of controls. Accordingly, even an effective system of internal control over financial reporting 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.

Management maintains a comprehensive system of internal controls intended to ensure that transactions are executed in accordance with management's authorization, assets are safeguarded and financial records are reliable. Management also takes steps to see that information and communication flows are effective and to monitor performance, including performance of internal control procedures.

Management assessed the Company's systems of internal control over financial reporting as of December 31, 2018. This assessment was based on criteria for effective internal control over financial reporting described in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believed that as of December 31, 2018, the Company maintained effective internal control over financial reporting based on those criteria. Our auditors will not be required to formally opine on the effectiveness of our internal control over financial reporting until we are no longer an "emerging growth company" as defined in the JOBS Act as we availed ourselves of the exemptions available to us under the JOBS Act.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this Item 10 will be included in the Company's definitive Proxy Statement for the 2019 Annual Meeting of Shareholders under the captions "Proposal 1: Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," and "Corporate Governance Matters" and is incorporated herein by reference. The definitive Proxy Statement will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the Company's 2018 fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item 11 will be included in the Company's definitive Proxy Statement for the 2019 Annual Meeting of Shareholders under the captions "Executive Compensation," "Proposal 1: Election of Directors" and "Corporate Governance Matters" and is incorporated herein by reference. The definitive Proxy Statement will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the Company's 2018 fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Information required by this Item 12 will be included in the Company's definitive Proxy Statement for the 2019 Annual Meeting of Shareholders under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Executive Compensation" and is incorporated herein by reference. The definitive Proxy Statement will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the Company's 2018 fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this Item 13 will be included in the Company's definitive Proxy Statement for the 2019 Annual Meeting of Shareholders under the captions "Corporate Governance Matters" and "Certain Relationships and Related Party Transactions" and is incorporated herein by reference. The definitive Proxy Statement will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the Company's 2018 fiscal year.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this Item 14 will be included in the Company's definitive Proxy Statement for the 2019 Annual Meeting of Shareholders under the caption "Proposal 2: Ratification of Appointment of Independent Registered Public Accounting Firm" and is incorporated herein by reference. The definitive Proxy Statement will be filed with the SEC pursuant to Regulation 14A within 120 days of the end of the Company's 2018 fiscal year.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The Consolidated Financial Statements listed on the Index included under "Item 8. Financial Statements and Supplementary Data" are filed as a part of this Form 10-K. All financial statement schedules have been included in the Consolidated Financial Statements or are either not applicable or not significant.

Exhibit Number	Exhibit Description
3.1	Third Amended and Restated Articles of Incorporation of County Bancorp, Inc. (Incorporated by reference to Exhibit 3.1 of County Bancorp, Inc.'s annual report on Form 10-K filed on March 15, 2018)
3.2	Third Amended and Restated Bylaws of County Bancorp, Inc. as of November 20, 2018 (Incorporated by reference to Exhibit 3.1 of County Bancorp, Inc.'s current report on Form 8-K filed on November 27, 2018)
4.1	Instruments Definition the Rights of Security Holders, Including Indentures.
	County Bancorp, Inc., agrees to furnish the SEC, upon its request, a copy of any instrument that defines the rights of holders of long-term debt of County Bancorp, Inc. and its consolidated and unconsolidated subsidiaries for which consolidated or unconsolidated financial statements are required to be filed and that authorizes total amount of securities not in excess of 10% of the total assets of County Bancorp, Inc. on a consolidated basis.
4.2	Form of Common Stock Certificate of County Bancorp, Inc. (Incorporated by reference to Exhibit 4.2 of County Bancorp, Inc.'s Registration Statement on Form S-1 (File No. 333-200081) filed on November 10, 2014)
4.3	Indenture, dated May 30, 2018, by and between County Bancorp, Inc. and U.S. Bank National Association, as trustee (Incorporated by reference to Exhibit 4.1 of County Bancorp, Inc.'s current report on Form 8-K filed on May 30, 2018)
4.4	Forms of 5.875% Fixed to Floating Rate Subordinated Note due June 1, 2028 (included as Exhibit A-1 and Exhibit A-2 to the Indenture filed as Exhibit 4.1 of County Bancorp, Inc.'s current report on Form 8-K filed on May 30, 2018)
10.1+	Employment Agreement among County Bancorp, Inc., Investors Community Bank and Timothy J. Schneider, dated as of August 7, 2017 (Incorporated by reference to Exhibit 10.2 of County Bancorp, Inc.'s quarterly report on From 10-Q filed on August 8, 2017)
10.2+	Employment Agreement among County Bancorp, Inc., Investors Community Bank and Mark R. Binversie, dated as of August 7, 2017 (Incorporated by reference to Exhibit 10.3 of County Bancorp, Inc. quarterly report on Form 10-Q filed on August 8, 2017)
10.3+	Transition Plan of Wayne Mueller (Incorporated by reference to Exhibit 10.5 of County Bancorp, Inc.'s Registration Statement on Form S-1 (File No. 333-200081) filed on November 10, 2014)
10.4+	Form of Investors Community Bank Salary Continuation Agreement (Incorporated by reference to Exhibit 10.6 of County Bancorp, Inc.'s Registration Statement on Form S-1 (File No. 333-200081) filed on November 10, 2014)

10.5+	County Bancorp, Inc. Investors Community Bank Management Employees' Elective Deferred Compensation Plan, as amended and restated April 18, 2017 (Incorporated by reference to Exhibit 10.1 of County Bancorp, Inc.'s current report on Form 8-K filed on April 24, 2017)
10.6+	County Bancorp, Inc. 2016 Long Term Incentive Plan (Incorporated by reference to Exhibit 4.4 of County Bancorp, Inc.'s Registration Statement on Form S-8 (File No. 333-213536) filed on September 8, 2016)
10.7+	Form of County Bancorp, Inc. 2016 Long Term Incentive Plan Stock Appreciation Right Award Agreement (Incorporated by reference to Exhibit 4.5 of County Bancorp, Inc.'s Registration Statement on Form S-8 (File No. 333-213536) filed on September 8, 2016)
10.8+	Form of County Bancorp, Inc. 2016 Long Term Incentive Plan Incentive Stock Option Award Agreement (Incorporated by reference to Exhibit 4.6 of County Bancorp, Inc.'s Registration Statement on Form S-8 (File No. 333-213536) filed on September 8, 2016)
10.9+	Form of County Bancorp, Inc. 2016 Long Term Incentive Plan Restricted Stock Award Agreement (Incorporated by reference to Exhibit 4.7 of County Bancorp, Inc.'s Registration Statement on Form S-8 (File No. 333-213536) filed on September 8, 2016)
10.10+	Form of County Bancorp, Inc. 2016 Long Term Incentive Plan Restricted Stock Unit Award Agreement (Incorporated by reference to Exhibit 4.8 of County Bancorp, Inc.'s Registration Statement on Form S-8 (File No. 333-213536) filed on September 8, 2016)
10.11+	Form of County Bancorp, Inc. 2016 Long Term Incentive Plan Nonqualified Stock Option Award Agreement (Incorporated by reference to Exhibit 4.9 of County Bancorp, Inc.'s Registration Statement on Form S-8 (File No. 333-213536) filed on September 8, 2016)

Exhibit Number	Exhibit Description
10.12+	Form of County Bancorp, Inc. 2016 Long Term Incentive Plan Deferred Restricted Stock Unit Award Agreement (Incorporated by reference to Exhibit 10.1 of County Bancorp, Inc.'s current report on Form 8-K filed on February 24, 2017)
10.13+	First Amendment to the County Bancorp, Inc. 2016 Long Term Incentive Plan, effective November 15, 2016 (Incorporated by reference to Exhibit 10.16 of County Bancorp, Inc.'s annual report on Form 10-K filed on March 23, 2017)
10.14+	Employment Agreement among County Bancorp, Inc., Investors Community Bank and David A. Coggins, dated as of August 7, 2017 (Incorporated by reference to Exhibit 10.4 of County Bancorp, Inc.'s quarterly report on Form 10-Q filed on August 8, 2017)
10.15+	Employment Agreement among County Bancorp, Inc., Investors Community Bank and Glen L. Stiteley, dated as of August 15, 2017 (Incorporated by reference to Exhibit 10.1 of County Bancorp, Inc.'s current report on Form 8-K filed on July 20, 2017)
10.16	Real Estate Purchase and Sale Agreement, dated as of December 8, 2017, by and between The Manitowoc Company, Inc. and Investors Community Bank (Incorporated by reference to Exhibit 10.1 of County Bancorp, Inc.'s current report on Form 8-K filed on January 16, 2018)
10.17	First Amendment to Real Estate Purchase and Sale Agreement, dated as of December 19, 2017, by and between The Manitowoc Company, Inc. and Investors Community Bank (Incorporated by reference to Exhibit 10.2 of County Bancorp, Inc.'s current report on Form 8-K filed on January 16, 2018)
10.18	Credit Agreement, dated as of September 14, 2017, by and between County Bancorp, Inc. and U.S. Bank National Association (Incorporated by reference to Exhibit 10.1 of County Bancorp, Inc.'s current report on Form 8-K filed on September 18, 2017)
10.19	Form of Subordinated Note Purchase Agreement, dated May 30, 2018, by and among County Bancorp, Inc. and the purchasers identified therein (Incorporated by reference to Exhibit 10.1 of County Bancorp, Inc.'s current report on Form 8-K filed on May 30, 2018)
10.20	Form of Registration Rights Agreement, dated May 30, 2018, by and among County Bancorp, Inc. and the purchasers identified therein (Incorporated by reference to Exhibit 10.2 of County Bancorp, Inc.'s current report on Form 8-K filed on May 30, 2018)
21.1	Subsidiaries (Filed herewith)
23.1	Consent of Plante Moran PLLC (Filed herewith)
23.2	Consent of CliftonLarsonAllen LLP (Filed herewith)
31.1	Certification of the President pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (Filed herewith)
31.2	

	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended (Filed herewith)
32.1	Certification of the President pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended and 18 U.S.C. Section 1350 (Filed herewith)
32.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended and 18 U.S.C. Section 1350 (Filed herewith)
101.INS	XBRL Instance Document (Filed herewith)
101.SCH	XBRL Taxonomy Extension Schena Document (Filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (Filed herewith)
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document (Filed herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (Filed herewith)

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Exhibit Number	Exhibit Description
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (Filed herewith)

+Indicates a management contract or compensation plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) 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: March 14, 2019 By: /s/ Timothy J. Schneider
Timothy J. Schneider
President

(principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Timothy J. Schneider Timothy J. Schneider	President (principal executive officer) and Director	March 14, 2019
/s/ Glen L. Stiteley Glen L. Stiteley	Chief Financial Officer and Treasurer (principal financial officer and principal accounting officer)	March 14, 2019
/s/ William C. Censky William C. Censky	Chairman of the Board and Director	March 14, 2019
Mark R. Binversie	Director	March 14, 2019

/s/ Lynn D. Davis	Director	March 14, 2019
Lynn D. Davis		
/s/ Edson P. Foster, Jr.	Director	March 14, 2019
Edson P. Foster, Jr.		
/s/ Vicki L. Leinbach	Director	March 14, 2019
Vicki L. Leinbach		
/s/ Robert E. Matzke	Director	March 14, 2019
Robert E. Matzke		
/s/ Wayne D. Mueller	Director	March 14, 2019
Wayne D. Mueller		
/s/ Patrick J. Roe	Director	March 14, 2019
Patrick J. Roe		
/s/ Kathi P. Seifert	Director	March 14, 2019
Kathi P. Seifert		
/s/ Andrew J. Steimle	Director	March 14, 2019
Andrew J. Steimle		
	Director	March 14, 2019
Gary Ziegelbauer		