Section 1: 10-Q (10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2019

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 South 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	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $0.01 par value	**ICBK**	**Nasdaq Global Market**

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
Emerging growth company	☒		

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

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

As of August 8, 2019, the registrant had 6,727,908 shares of common stock, $0.01 par value per share, outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

COUNTY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 30, 2019 and December 31, 2018

	June 30, 2019	December 31, 2018
	(unaudited)	
	(dollars in thousands except per share data)	
ASSETS		
Cash and cash equivalents	$ 116,251	$ 61,087
Securities available-for-sale, at fair value	158,561	195,945
FHLB Stock	2,178	2,978
Loans held for sale	7,448	2,949
Loans, net of allowance for loan losses of $16,258 as of June 30, 2019; $16,505 as of December 31, 2018	1,131,574	1,190,790
Premises and equipment, net	15,713	16,075
Loan servicing rights	9,621	9,047
Other real estate owned, net	8,693	6,568
Cash surrender value of bank owned life insurance	18,067	17,842
Deferred tax asset, net	1,942	4,346
Goodwill	5,038	5,038
Core deposit intangible, net of accumulated amortization of $1,447 as of June 30, 2019; $1,288 as of December 31, 2018	354	513
Accrued interest receivable and other assets	9,206	7,849
Total assets	$ 1,484,646	$ 1,521,027
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 111,022	$ 121,436
Interest-bearing	1,094,155	1,101,911
Total deposits	1,205,177	1,223,347
Other borrowings	809	827
Advances from FHLB	59,400	89,400
Subordinated debentures	44,781	44,703
Accrued interest payable and other liabilities	11,755	10,466
Total liabilities	1,321,922	1,368,743
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; 7,161,828 shares issued and 6,717,908 shares outstanding at June 30, 2019; 7,153,174 shares issued and 6,709,480 shares outstanding as of December 31, 2018	28	28
Surplus	53,484	53,162
Retained earnings	105,035	98,475
Treasury stock, at cost; 443,920 shares at June 30, 2019; 443,694 shares at December 31, 2018	(5,030)	(5,030)
Accumulated other comprehensive gain (loss)	1,207	(2,351)
Total shareholders' equity	162,724	152,284
Total liabilities and shareholders' equity	$ 1,484,646	$ 1,521,027

See accompanying notes to unaudited consolidated financial statements.

COUNTY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Six Months Ended June 30, 2019 and 2018
(Unaudited)

	For the Three Months Ended June 30, 2019	For the Three Months Ended June 30, 2018	For the Six Months Ended June 30, 2019	For the Six Months Ended June 30, 2018
	(dollars in thousands except per share data)			
INTEREST AND DIVIDEND INCOME				
Loans, including fees	$ 15,484	$ 14,366	$ 30,985	$ 28,057
Taxable securities	1,177	982	2,363	1,614
Tax-exempt securities	82	14	257	171
Federal funds sold and other	465	401	729	614
Total interest and dividend income	17,208	15,763	34,334	30,456
INTEREST EXPENSE				
Deposits	5,678	4,600	11,102	8,396
FHLB advances and other borrowed funds	415	487	879	971
Subordinated debentures	683	338	1,361	481
Total interest expense	6,776	5,425	13,342	9,848
Net interest income	10,432	10,338	20,992	20,608
Provision for loan losses	876	533	1,628	630
Net interest income after provision for loan losses	9,556	9,805	19,364	19,978
NON-INTEREST INCOME				
Services charges	407	445	760	810
Gain on sale of loans, net	26	45	25	77
Loan servicing fees	1,909	1,613	3,656	3,075
Other	545	213	1,196	394
Total non-interest income	2,887	2,316	5,637	4,356
NON-INTEREST EXPENSE				
Employee compensation and benefits	4,199	4,114	8,681	8,332
Occupancy	283	278	672	482
Information processing	591	529	1,154	994
Write-down of other real estate owned	250	104	250	104
Other	2,123	1,912	3,994	3,810
Total non-interest expense	7,446	6,937	14,751	13,722
Income before income taxes	4,997	5,184	10,250	10,612
Income tax expense	1,293	1,334	2,784	2,708
NET INCOME	$ 3,704	$ 3,850	$ 7,466	$ 7,904
NET INCOME PER SHARE:				
Basic	$ 0.53	$ 0.56	$ 1.07	$ 1.15
Diluted	$ 0.53	$ 0.55	$ 1.07	$ 1.14
Dividends paid per share	$ 0.05	$ 0.07	$ 0.10	$ 0.14

See accompanying notes to unaudited consolidated financial statements.

COUNTY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three and Six Months Ended June 30, 2019 and 2018
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
	(dollars in thousands)			
Net income	$ 3,704	$ 3,850	$ 7,466	$ 7,904
Other comprehensive income:				
Unrealized gain (loss) on securities available-for-sale	2,717	(373)	6,369	(2,772)
Income tax benefit (expense)	(740)	80	(1,735)	594
Reclassification for realized gains on securities	(341)	—	(341)	—
Income tax benefit (expense)	93	—	93	—
Total other comprehensive income (loss) on securities available-for-sale	1,729	(293)	4,386	(2,178)
Unrealized gain (loss) on derivatives arising during the period	(653)	51	(1,137)	51
Income tax benefit (expense)	180	(14)	309	(14)
Total other comprehensive income (loss) on derivatives	(476)	37	(828)	37
Total other comprehensive income (loss)	1,253	(256)	3,558	(2,141)
Comprehensive income	$ 4,957	$ 3,594	$ 11,024	$ 5,763

See accompanying notes to unaudited consolidated financial statements.

COUNTY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Six Months Ended June 30, 2019 and 2018
(Unaudited)

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
			(dollars in thousands except share data)				
Balance at December 31, 2017	$ 8,000	$ 28	$ 52,230	$ 86,385	$ (5,030)	$ (627)	$ 140,986
Net income	—	—	—	4,054	—	—	4,054
Other comprehensive loss	—	—	—	—	—	(1,885)	(1,885)
Stock compensation expense	—	—	117	—	—	—	117
Cash dividends declared on common stock	—	—	—	(468)	—	—	(468)
Cash dividends declared on preferred stock	—	—	—	(97)	—	—	(97)
Reclassification of par value to surplus	—	(21)	21	—	—	—	—
Reclassification of stranded tax effects of rate change	—	—	—	126	—	(126)	—
Proceeds from exercise of common stock options (2,952 shares)	—	—	107	—	—	—	107
Balance at March 31, 2018	$ 8,000	$ 7	$ 52,475	$ 90,000	$ (5,030)	$ (2,638)	$ 142,814
Net income	—	—	—	3,850	—	—	3,850
Other comprehensive loss	—	—	—	—	—	(256)	(256)
Stock compensation expense	—	—	142	—	—	—	142
Cash dividends declared on common stock	—	—	—	(469)	—	—	(469)
Cash dividends declared on preferred stock	—	—	—	(99)	—	—	(99)
Reclassification of par value from surplus	—	21	(21)	—	—	—	—
Proceeds from exercise of common stock options (9,640 shares)	—	—	100	—	—	—	100
Balance at June 30, 2018	$ 8,000	$ 28	$ 52,696	$ 93,282	$ (5,030)	$ (2,894)	146,082
Balance at December 31, 2018	$ 8,000	$ 28	$ 53,162	$ 98,475	$ (5,030)	$ (2,351)	$ 152,284
Net income	—	—	—	3,762	—	—	3,762
Other comprehensive income	—	—	—	—	—	2,305	2,305
Stock compensation expense	—	—	118	—	—	—	118
Cash dividends declared on common stock	—	—	—	(335)	—	—	(335)
Cash dividends declared on preferred stock	—	—	—	(117)	—	—	(117)
Balance at March 31, 2019	$ 8,000	$ 28	$ 53,280	$ 101,785	$ (5,030)	$ (46)	$ 158,017
Net income	—	—	—	3,704	—	—	3,704
Other comprehensive income	—	—	—	—	—	1,253	1,253
Stock compensation expense	—	—	144	—	—	—	144
Cash dividends declared on common stock	—	—	—	(336)	—	—	(336)
Cash dividends declared on preferred stock	—	—	—	(118)	—	—	(118)
Proceeds from exercise of common stock options (5,000 shares)	—	—	60	—	—	—	60
Balance at June 30, 2019	$ 8,000	$ 28	$ 53,484	$ 105,035	$ (5,030)	$ 1,207	$ 162,724

See accompanying notes to unaudited consolidated financial statements.

COUNTY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2019 and 2018
(Unaudited)

	For the Six Months Ended June 30, 2019	For the Six Months Ended June 30, 2018
	(dollars in thousands)	
Cash flows from operating activities		
Net income	$ 7,466	$ 7,904
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization of premises and equipment	687	560
Amortization of core deposit intangible	159	218
Amortization of subordinated debentures discount	78	34
Provision for loan losses	1,628	630
Realized gain on sales of securities available-for-sale	(341)	—
Realized gain on sales of other real estate owned	(127)	(149)
Write-down of other real estate owned	250	104
Realized gain on sales of premises and equipment	(2)	(1)
Increase in cash surrender value of bank owned life insurance	(225)	(225)
Deferred income tax expense (benefit)	762	(373)
Stock compensation expense, net	262	259
Net amortization of securities	243	445
Net change in:		
Accrued interest receivable and other assets	(1,357)	(1,057)
Loans held for sale	(4,499)	(4,893)
Loan servicing rights	(574)	(137)
Accrued interest payable and other liabilities	462	839
Net cash provided by operating activities	4,872	4,158
Cash flows from investing activities		
Proceeds from maturities, principal repayments, and call of securities available-for-sale	14,149	11,958
Purchases of securities available-for-sale	—	(76,684)
Proceeds from sales of securities available-for-sale	29,361	—
Redemption of FHLB stock	800	784
Loan originations and principal collections, net	52,295	(37,425)
Proceeds from sales of premises and equipment	4	—
Purchases of premises and equipment	(327)	(5,464)
Proceeds from sales of other real estate owned	3,044	2,107
Net cash provided by (used in) investing activities	99,326	(104,724)
Cash flows from financing activities		
Net increase (decrease) in demand and savings deposits	13,319	(27,247)
Net increase (decrease) in certificates of deposits	(31,489)	127,602
Net change in other borrowings	(18)	(458)
Proceeds from FHLB advances	115,000	63,000
Repayment of FHLB advances	(145,000)	(76,300)
Proceeds from issuance of subordinated debt	—	29,168
Proceeds from issuance of common stock	60	207
Dividends paid on common stock	(671)	(937)
Dividends paid on preferred stock	(235)	(196)
Net cash provided by (used for) financing activities	(49,034)	114,839
Net change in cash and cash equivalents	55,164	14,273
Cash and cash equivalents, beginning of period	61,087	66,771
Cash and cash equivalents, end of period	$ 116,251	$ 81,044
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 12,346	$ 9,538
Income taxes	$ —	$ 1,975
Noncash investing activities:		
Transfer from loans to other real estate owned	$ 5,292	$ 6,104
Loans charged off	$ 3,584	$ 42

See accompanying notes to unaudited consolidated financial statements.

NOTE 1 – BASIS OF PRESENTATION

The unaudited consolidated financial statements of County Bancorp, Inc. ("we," "us," "our," or the "Company") and its subsidiaries, including Investors Community Bank (the "Bank"), have been prepared, in the opinion of management, to reflect all adjustments necessary for a fair presentation of the financial position, results of operations, and cash flows as of and for the three and six months ended June 30, 2019. The results of operations for the three and six months ended June 30, 2019 may not necessarily be indicative of the results to be expected for the year ending December 31, 2019, or for any other period.

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

These unaudited interim financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP"). Certain information in footnote disclosure normally included in financial statements prepared in accordance with GAAP has been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

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

New Accounting Pronouncements

In 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 by 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 and is currently testing the model's methodology in parallel to current loss model calculations. At this time, the effect this ASU will have on its consolidated financial statements is still being quantified as the Company ensures data, assumptions, and methods all comply with the requirements of ASU 2016-13. In July 2019, the FASB made a tentative decision to delay the effective date for the credit losses standard to January 2023 for certain entities, including certain Securities and Exchange Commission filers, public business entities, and private companies. As a smaller reporting company, the Company would be eligible for the proposed delay. The Company is currently evaluating the impact of the proposed delay on its implementation project plan.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815)*, to permit entities to better portray the economic results of their hedging strategies in their financial statements. In addition, the amendments make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. The amendment is effective for fiscal years beginning after December 15, 2018, with early adoption permitted, including adoption in an interim period. The Company has chosen to early adopt this amendment in connection with the interest rate swap that commenced on June 15, 2018, and it had no material impact on the Company's results of operation, financial position, or liquidity.

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. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842) – Targeted Improvements*, which provided 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 became effective January 1, 2019, and was adopted by the Company retrospectively to the beginning of the adoption period. Since all of the Company's leases are operating leases, there was no impact to the consolidated statements of operations; however, a right-of-use asset of $0.2 million and a corresponding liability were recorded on the Company's balance sheet as of the effective date of the amendment.

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 – EARNINGS PER SHARE

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
	(dollars in thousands)			
Net income from continuing operations	$ 3,704	$ 3,850	$ 7,466	$ 7,904
Less: preferred stock dividends	118	99	235	196
Income available to common shareholders for basic earnings per common share	$ 3,586	$ 3,751	$ 7,231	$ 7,708
Weighted average number of common shares issued	7,159,072	7,351,985	7,156,139	7,349,923
Less: weighted average treasury shares	443,920	442,102	443,825	440,974
Plus: weighted average of participating restricted stock units	30,483	219,315	23,411	224,550
Weighted average number of common shares and participating securities outstanding	6,745,635	6,690,568	6,735,725	6,684,399
Effect of dilutive options	20,731	79,368	21,170	77,518
Weighted average number of common shares outstanding used to calculate diluted earnings per common share	6,766,366	6,769,936	6,756,895	6,761,917
Weighted average of anti-dilutive options	133,147	-	131,729	-

NOTE 3 – SECURITIES AVAILABLE-FOR-SALE

The amortized cost and fair value of securities available-for-sale as of June 30, 2019 and December 31, 2018 were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(dollars in thousands)			
June 30, 2019				
U.S. government and agency securities	$ 3,731	$ —	$ (32)	$ 3,699
U.S. treasury securities	2,498	9	—	2,507
Mortgage-backed securities	149,356	3,263	(264)	152,355
	$ 155,585	$ 3,272	$ (296)	$ 158,561
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

The amortized cost and fair value of securities at June 30, 2019 and December 31, 2018, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(dollars in thousands)	
June 30, 2019		
Due in one year or less	$ 2,498	$ 2,507
Due from one to five years	—	—
Due from five to ten years	3,731	3,699
Due after ten years	—	—
Mortgage-backed securities	149,356	152,355
	$ 155,585	$ 158,561
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

Proceeds from the sale of available-for-sale securities were $29.4 million which resulted in a gain of $0.3 million for the six months ended June 30, 2019. There were no security sales for the six months ended June 30, 2018.

At June 30, 2019 and December 31, 2018, no securities were pledged to secure the Federal Home Loan Bank ("FHLB") advances besides FHLB stock of $2.2 million and $3.0 million, respectively. There were no securities pledged to secure the Federal Reserve Bank line of credit at June 30, 2019 and December 31, 2018; however, there were $45.5 million and $53.4 million of securities pledged to secure municipal customer deposts at June 30, 2019 and December 31, 2018, respectively.

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temorarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2019 and December 31, 2018:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(dollars in thousands)			
June 30, 2019						
U.S. government and agency securities	$ —	$ —	$ 3,699	$ (32)	3,699	(32)
Mortgage-backed securities	—	—	29,945	(264)	29,945	(264)
	$ —	$ —	$ 33,644	$ (296)	$ 33,644	$ (296)
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)

The unrealized losses on the investments at June 30, 2019 and December 31, 2018 were due to market conditions as well as 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 June 30, 2019 and December 31, 2018.

NOTE 4 – LOANS

The components of loans were as follows:

	June 30, 2019	December 31, 2018
	(dollars in thousands)	
Agricultural loans	$ 713,602	$ 724,508
Commercial real estate loans	268,544	299,212
Commercial loans	114,998	116,460
Residential real estate loans	50,436	66,843
Installment and consumer other	252	272
Total gross loans	1,147,832	1,207,295
Allowance for loan losses	(16,258)	(16,505)
Net loans	$ 1,131,574	$ 1,190,790

Changes in the allowance for loan losses by portfolio segment for the six months ended June 30, 2019 and 2018 were as follows:

	Agricultural	Commercial Real Estate	Commercial	Residential Real Estate	Installment and Consumer Other	Total
			(dollars in thousands)			
For the Three Months Ended June 30, 2019						
Balance, beginning of period	$ 12,123	$ 4,152	$ 1,201	$ 16	$ 1	$ 17,493
Provision for loan losses	1,509	(1,003)	367	3	—	876
Loans charged off	—	(2,234)	(960)	—	—	(3,194)
Recoveries	15	967	101	—	—	1,083
Balance, end of period	$ 13,647	$ 1,882	$ 709	$ 19	$ 1	$ 16,258
For the Six Months Ended June 30,2019						
Balance, beginning of year	$ 12,258	$ 2,779	$ 1,414	$ 53	$ 1	$ 16,505
Provision for loan losses	1,374	135	153	(34)	—	1,628
Loans charged off	—	(2,624)	(960)	—	—	(3,584)
Recoveries	15	1,592	102	—	—	1,709
Balance, end of period	$ 13,647	$ 1,882	$ 709	$ 19	$ 1	$ 16,258
For the Three Months Ended June 30, 2018						
Balance, beginning of period	$ 11,250	$ 2,058	$ 1,257	$ 45	$ 2	$ 14,612
Provision for loan losses	378	(166)	322	(1)	—	533
Loans charged off	—	—	—	—	—	—
Recoveries	—	11	(27)	—	—	(16)
Balance, end of period	$ 11,628	$ 1,903	$ 1,552	$ 44	$ 2	$ 15,129
For the Six Months Ended June 30,2018						
Balance, beginning of year	$ 9,712	$ 1,978	$ 1,508	$ 47	$ 2	$ 13,247
Provision for loan losses	1,915	(1,284)	3	(3)	(1)	630
Loans charged off	—	(42)	—	—	—	(42)
Recoveries	1	1,251	41	—	1	1,294
Balance, end of period	$ 11,628	$ 1,903	$ 1,552	$ 44	$ 2	$ 15,129

The following tables present the balances in the allowance for loan losses and the recorded balance in loans by portfolio segment and based on impairment method as of June 30, 2019 and December 31, 2018:

	June 30, 2019		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
		(dollars in thousands)	
Allowance for loan losses:			
Agricultural loans	$ 3,415	$ 10,232	$ 13,647
Commercial real estate loans	5	1,877	1,882
Commercial loans	290	419	709
Residential real estate loans	—	19	19
Installment and consumer other	—	1	1
Total ending allowance for loan losses	3,710	12,548	16,258
Loans:			
Agricultural loans	59,876	653,726	713,602
Commercial real estate loans	1,022	267,522	268,544
Commercial loans	532	114,466	114,998
Residential real estate loans	—	50,436	50,436
Installment and consumer other	—	252	252
Total loans	61,430	1,086,402	1,147,832
Net loans	$ 57,720	$ 1,073,854	$ 1,131,574

	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

The following table presents loans individually evaluated for impairment by class of loans at June 30, 2019 and December 31, 2018:

	June 30, 2019		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
		(dollars in thousands)	
With no related allowance:			
Agricultural loans	$ 20,020	$ 19,986	$ —
Commercial real estate loans	—	—	—
Commercial loans	—	—	—
Residential real estate loans	—	—	—
	$ 20,020	$ 19,986	$ —
With an allowance recorded			
Agricultural loans	$ 42,251	$ 39,890	$ 3,415
Commercial real estate loans	1,022	1,022	5
Commercial loans	539	532	290
Residential real estate loans	—	—	—
	43,812	41,444	—
Total	$ 63,832	$ 61,430	$ 3,710

	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

The following table presents the aging of the recorded investment in past due loans at June 30, 2019 and December 31, 2018:

	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)					
June 30, 2019						
Agricultural loans	$ 1,221	$ 580	$ 5,959	$ 7,760	$ 705,842	$ 713,602
Commercial real estate loans	2,823	—	—	2,823	265,721	268,544
Commercial loans	28	155	446	629	114,369	114,998
Residential real estate loans	63	—	—	63	50,373	50,436
Installment and consumer other	—	—	—	—	252	252
Total	$ 4,135	$ 735	$ 6,405	$ 11,275	$ 1,136,557	$ 1,147,832
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

The following table lists information on nonaccrual, troubled debt restructured, and loans 90 days or more past due and still accruing at June 30, 2019 and December 31, 2018:

	June 30, 2019	December 31, 2018
	(dollars in thousands)	
Nonaccrual loans, 90 days or more past due	$ 6,405	$ 10,605
Nonaccrual loans 30-89 days past due	549	868
Nonaccrual loans, less than 30 days past due	13,143	11,510
Troubled debt restructured loans not on nonaccrual status	28,892	19,389
90 days or more past due and still accruing	—	—
Total	$ 48,989	$ 42,372

The following table presents the recorded investment in nonaccrual loans and loans 90 days or more past due and still accruing by class of loan:

	June 30, 2019	December 31, 2018
	(dollars in thousands)	
Agricultural loans	$ 19,565	$ 19,173
Commercial real estate loans	-	2,037
Commercial loans	532	1,773
Total	$ 20,097	$ 22,983

The following table presents the average recorded investment and interest income recognized on impaired loans by portfolio segment for the six months ended June 30, 2019 and 2018:

	As of and for the Three Months Ended June 30, 2019				
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
	(dollars in thousands)				
Agricultural loans	$ 62,271	$ 59,876	$ 3,415	$ 57,064	$ 1,531
Commercial real estate loans	539	1,022	5	3,527	7
Commercial loans	1,022	532	290	834	1
Total	$ 63,832	$ 61,430	$ 3,710	$ 61,425	$ 1,539

	As of and for the Six Months Ended June 30, 2019				
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
	(dollars in thousands)				
Agricultural loans	$ 62,271	$ 59,876	$ 3,415	$ 56,412	$ 2,704
Commercial real estate loans	539	1,022	5	1,530	31
Commercial loans	1,022	532	290	1,153	3
Total	$ 63,832	$ 61,430	$ 3,710	$ 59,095	$ 2,738

	As of and for the Three Months Ended June 30, 2018				
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
	(dollars in thousands)				
Agricultural loans	$ 43,374	$ 42,838	$ 2,855	$ 39,192	$ 771
Commercial real estate loans	2,372	2,366	10	1,470	6
Commercial loans	1,883	1,878	781	1,516	24
Total	$ 47,629	$ 47,082	$ 3,646	$ 42,178	$ 801

	As of and for the Six Months Ended June 30, 2018				
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
	(dollars in thousands)				
Agricultural loans	$ 43,374	$ 42,838	$ 2,855	$ 35,791	$ 1,416
Commercial real estate loans	2,372	2,366	10	2,416	6
Commercial loans	1,883	1,878	781	1,836	25
Residential real estate loans	—	—	—	—	1
Total	$ 47,629	$ 47,082	$ 3,646	$ 40,043	$ 1,448

Impaired loans include nonaccrual loans, troubled debt restructured loans, and loans that are 90 days or more past due and still accruing. 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 $1.0 million for the six months ended June 30, 2019 and 2018.

Troubled Debt Restructurings

The Company allocated approximately $3.0 million and $2.0 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings ("TDR") at June 30, 2019 and December 31, 2018, respectively. The Company had no additional lending commitments at June 30, 2019 or December 31, 2018 to customers with outstanding loans that were classified as TDRs.

A TDR on nonaccrual status is classified as a nonaccrual loan until evaluation supports reasonable assurance of repayment and there has been a satisfactory period of performance according to the modified terms of the loan. Once this assurance is reached, the TDR is classified as a restructured loan. The following table presents the TDRs by loan class at June 30, 2019 and December 31, 2018:

	Non-Accrual		Restructured and Accruing		Total	
			(dollars in thousands)			
June 30, 2019						
Agricultural loans	$	9,839	$	27,870	$	37,709
Commercial real estate loans		—		1,022		1,022
Commercial loans		532		—		532
Total	$	10,371	$	28,892	$	39,263
December 31, 2018						
Agricultural loans	$	12,034	$	19,389	$	31,423
Commercial loans		92		—		92
Total	$	12,126	$	19,389	$	31,515

The following table provides the number of loans modified in a troubled debt restructuring investment by class for the six months ended June 30, 2019 and 2018:

	For the Six Months Ended					
	June 30, 2019			June 30, 2018		
	Number of Loans	Recorded Investment		Number of Loans	Recorded Investment	
		(dollars in thousands)				
Troubled debt restructurings:						
Agricultural loans	33	$	13,784	15	$	5,375
Commercial real estate loans	1		1,022	—		—
Commercial loans	1		446	—		—
Total	35	$	15,252	15	$	5,375

The following table provides the troubled debt restructurings for the six months ended June 30, 2019 and 2018 grouped by type of concession:

	For the Six Months Ended					
	June 30, 2019			June 30, 2018		
	Number of Loans	Recorded Investment		Number of Loans	Recorded Investment	
		(dollars in thousands)				
Agricultural loans						
Payment concessions	5	$	777	9	$	3,744
Term concessions	2		453	—		—
Rate concessions	1		85	—		—
Extension of interest-only payments	24		12,317	6		1,631
Capitalized interest	1		152	—		—
Commercial real estate loans						
Payment concessions	1		1,022	—		—
Commercial loans						
Combination of extension of term and interest rate concessions	1		446	—		—
Total	35	$	15,252	15	$	5,375

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 $300,000. The Company uses the following definitions for credit risk ratings:

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

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

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

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

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

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

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

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

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

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

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

Based on the most recent analysis performed by management, the risk category of loans by class of loans was as follows as of June 30, 2019 and December 31, 2018:

	As of June 30, 2019					
	Sound/ Acceptable/ Satisfactory/ Low Satisfactory	Watch	Special Mention	Substandard Performing	Substandard Impaired	Total Loans
	(dollars in thousands)					
Agricultural loans	$ 440,222	$ 147,155	$ 24,939	$ 41,410	$ 59,876	$ 713,602
Commercial real estate loans	244,942	11,103	206	11,271	1,022	268,544
Commercial loans	101,626	9,309	110	3,421	532	114,998
Residential real estate loans	49,945	257	—	234	—	50,436
Installment and consumer other	252	—	—	—	—	252
Total	$ 836,987	$ 167,824	$ 25,255	$ 56,336	$ 61,430	$ 1,147,832

	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

NOTE 5 – LOAN SERVICING RIGHTS

Loans serviced for others are not included in the accompanying consolidated balance sheets. The risks inherent in servicing assets relate primarily to changes in prepayments that result from shifts in interest rates. The unpaid principal balances of mortgage and other loans serviced for others were approximately $695.6 million and $661.3 million at June 30, 2019 and December 31, 2018, respectively. The fair value of these rights were approximately $14.1 million and $13.2 million at June 30, 2019 and December 31, 2018. The fair value of servicing rights was determined using an assumed discount rate of 20 percent and prepayment speeds primarily ranging from 4 percent to 9 percent, depending upon the stratification of the specific right, and nominal credit losses.

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

	June 30, 2019	December 31, 2018
	(dollars in thousands)	
Loan servicing rights:		
Balance, beginning of period	$ 9,047	$ 8,950
Additions	1,941	2,879
Impairment	(263)	(597)
Amortization	(1,104)	(2,185)
Balance, end of period	$ 9,621	$ 9,047

NOTE 6 – GOODWILL AND CORE DEPOSIT INTANGIBLE

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

Management will periodically review the carrying value of its long-lived and intangible assets to determine if any impairment has occurred, in which case an impairment charge would be recorded as an expense in the period of impairment, or whether changes in circumstances have occurred that would require a revision to the remaining useful life which would impact expense prospectively. In making such determination, management evaluates whether there are any adverse qualitative factors indicating that an impairment may exist, as well as the performance, on an undiscounted basis, of the underlying operations or assets which give rise to the intangible.

Goodwill: Goodwill resulted from the acquisition of Fox River Valley Bancorp, Inc. ("Fox River Valley") on May 13, 2016. The carrying amount of goodwill was $5.0 million at June 30, 2019 and December 31, 2018.

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.

	June 30, 2019	December 31, 2018
	(dollars in thousands)	
Core deposit intangible:		
Gross carrying amount	$ 1,801	$ 1,801
Accumulated amortization	(1,447)	(1,288)
Net book value	$ 354	$ 513

NOTE 7 – DEPOSITS

Deposits are summarized as follows at June 30, 2019 and December 31, 2018:

	June 30, 2019	December 31, 2018
	(dollars in thousands)	
Demand deposits	$ 111,022	$ 121,436
NOW and interest checking	54,253	51,779
Savings	6,621	5,770
Money market accounts	239,337	218,929
Certificates of deposit	387,899	356,484
National time deposits	149,570	160,445
Brokered deposits	256,475	308,504
Total deposits	$ 1,205,177	$ 1,223,347

NOTE 8—ADVANCES FROM FHLB AND OTHER BORROWINGS

The Bank had advances outstanding from the FHLB in the amount of $59.4 million and $89.4 million on June 30, 2019 and December 31, 2018, respectively. These advances, rates, and maturities were as follows:

	Maturity	Rate	June 30, 2019	December 31, 2018
			(dollars in thousands)	
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
Fixed rate, fixed term	03/08/2019	1.54%	—	10,000
Fixed rate, fixed term	07/15/2019	1.11%	8,000	8,000
Fixed rate, fixed term	08/12/2019	2.24%	5,000	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	8,000
			$ 59,400	$ 89,400

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 June 30, 2019 and December 31, 2018, the Bank had pledged qualifying mortgage loans of $431.5 million and $453.8 million, respectively.

The Bank had no irrevocable letters of credit with the FHLB as of June 30, 2019 and December 31, 2018.

Future maturities of FHLB borrowings as of June 30, 2019 and December 31, 2018 were as follows:

	June 30, 2019	December 31, 2018
	(dollars in thousands)	
1 year or less	$ 20,000	$ 45,000
1 to 2 years	26,400	18,400
2 to 3 years	5,000	18,000
3 to 4 years	8,000	8,000
	$ 59,400	$ 89,400

As of June 30, 2019 and December 31, 2018, 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 collateral pledged by the Bank, which totaled $145.7 million and $143.4 million in loans at June 30, 2019 and December 31, 2018, respectively. There were no outstanding advances included in other borrowings at June 30, 2019 and December 31, 2018.

As of June 30, 2019 and December 31, 2018, the Company had a credit agreement with U.S. Bank National Association for a $15.0 million revolving line of credit with an interest rate of the one-month LIBOR rate plus 2.25%. The line also bears a non-usage fee of 0.275% per annum. The line did not have an outstanding balance as of June 30, 2019 and December 31, 2018.

Other borrowings are borrowings as a result of sold loans that do not qualify for sale accounting. These agreements are recorded as financing transactions as the Bank maintains effective control over the transferred loans. The dollar amount of the loans underlying the sale agreements continues to be carried in the Bank's loan portfolio, and the transfer is reported as a secured borrowing with pledge of collateral. At June 30, 2019 and December 31, 2018, the amounts of these borrowings was $0.8 million.

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

	June 30, 2019	December 31, 2018
	(dollars in thousands)	
Balance outstanding at end of period	$ 809	$ 827
Average amount outstanding during the period	1,204	1,027
Maximum amount outstanding at any month end	1,412	1,278
Weighted average interest rate during the period	4.47%	4.81%
Weighted average interest rate at end of period	4.51%	4.51%

NOTE 9 – EQUITY INCENTIVE PLAN

Under the Company's 2016 Long Term Incentive Plan (the "Plan"), the Company may grant options to purchase shares of common stock and issue restricted stock to its directors, officers, and employees. Both qualified and non-qualified stock options and restricted stock may be granted and issued, respectively, under the Plan. As of June 30, 2019, 175,703 options or shares of restricted stock remained available under the Plan.

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

The status of the Plan as of June 30, 2019 and changes in the Plan during the six months ended June 30, 2019 were as follows:

	June 30, 2019		
	Number of Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value (1)
	(dollars in thousands except option and per share data)		
Outstanding, beginning of year	208,988	$ 18.15	
Granted	14,237	18.06	
Exercised	(5,000)	12.00	
Forfeited/expired	(3,355)	19.88	
Outstanding, end of period	214,870	$ 18.26	$ 847
Options exercisable at period-end	173,836	$ 17.27	$ 713
Weighted-average fair value of options granted during the period (2)		$ 6.31	

(1) The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on June 30, 2019. This amount changes based on changes in the market value of the Company's stock.

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

Activity in restricted stock awards and restricted stock units for the six months ended June 30, 2019 was as follows:

	June 30, 2019	
	Restricted Stock Awards	Weighted Average Grant Price
Outstanding, beginning of year	28,701	$ 21.02
Granted	—	—
Vested	(11,552)	19.19
Forfeited/expired	(226)	27.15
Outstanding, end of period	16,923	$ 22.19

	June 30, 2019	
	Restricted Stock Units	Weighted Average Grant Price
Outstanding, beginning of year	11,772	$ 27.15
Granted	24,382	17.54
Vested and common shares issued	(3,654)	27.42
Forfeited/expired	(375)	18.11
Outstanding, end of period	32,125	$ 21.91

For the six months ended June 30, 2019 and 2018, share-based compensation expense, including options and restricted stock awards, applicable to the Plan was $262 thousand and $259 thousand, respectively.

As of June 30, 2019, unrecognized share-based compensation expense related to nonvested options and restricted stock awards amounted to $0.7 million and is expected to be recognized over a weighted average period of 1.98 years.

NOTE 10 – REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier 1 and Tier 1 Common Equity capital to risk-weighted assets, and of Tier 1 capital to average assets, as such terms are defined in the regulations. Management believed, as of June 30, 2019 and December 31, 2018, that the Bank met all capital adequacy requirements to which they were subject.

As a result of the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies are required to develop a "Community Bank Leverage Ratio" (the ratio of a bank's tangible equity capital to average total consolidated assets) for financial institutions with assets of less than $10 billion. A "qualifying community bank" that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered "well capitalized" under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution's risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies must set the minimum capital for the new Community Bank Leverage Ratio at not less than 8% and not more than 10%. The Bank has not elected to be subject to this new definition.

As of June 30, 2019, the Bank's capital ratios met those required to be considered as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, Tier 1 Common Equity risk-based, and Tier 1 leverage ratios as set forth in the following table.

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

	Actual		Minimum For Capital Adequacy Purposes [a]:		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
June 30, 2019						
Total Capital (to risk weighted assets)	$ 209,648	16.62%	$ 132,462	10.50%	$ 126,154	10.00%
Tier 1 Capital (to risk weighted assets)	193,871	15.37%	107,231	8.50%	100,923	8.00%
Tier 1 Capital (to average assets)	193,871	13.12%	59,124	4.00%	73,905	5.00%
Tier 1 Common Equity Ratio (to risk weighted assets)	193,871	15.37%	88,308	7.00%	82,000	6.50%
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 Ratio (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%

(a) The ratios for June 30, 2019 and December 31, 2018 include a capital conservation buffer of 2.5% and 1.875%, respectively.

The rules of the Basel III regulatory capital framework implemented a capital conservation buffer that is added to the minimum requirements for capital adequacy purposes. The capital conservation buffer 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 ratios for the Bank are sufficient to meet the conservation buffer.

NOTE 11 – FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

The following methods and assumptions were used by the Company in estimating the fair value disclosures for financial instruments recorded at fair value on a recurring basis:

Securities Available for Sale

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

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

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

Derivative Instruments

The Company's derivative instruments consist of interest rate swaps, which are accounted for as cash flow hedges. The Company's derivative positions are classified within Level 2 of the fair value hierarchy and are valued using models generally accepted in the financial services industry and that use actively quoted or observable market input values from external market data providers and/or non-binding broker-dealer quotations. The fair value of the derivatives is determined using discounted cash flow models. These models' key assumptions include the contractual terms of the respective contract along with significant observable inputs, including interest rates, yield curves, nonperformance risk and volatility.

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)		
June 30, 2019				
Securities available for sale:				
U.S. government and agency securities	$ —	$ 3,699	$ —	$ 3,699
U.S. treasury securities	—	2,507	—	2,507
Mortgage-backed securities	—	152,355	—	$ 152,355
Total assets at fair value	$ —	$ 158,561	$ —	$ 158,561
Derivative instruments, interest rate swaps	—	1,316	—	$ 1,316
Total liabilities at fair value	$ —	$ 1,316	$ —	$ 1,316
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

Certain assets 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)	
June 30, 2019			
Impaired loans	$ —	$ —	$ 57,720
Other real estate owned	—	—	8,693
Total assets at fair value	$ —	$ —	$ 66,413
December 31, 2018			
Impaired loans	$ —	$ —	$ 30,995
Other real estate owned	—	—	6,568
Total assets at fair value	$ —	$ —	$ 37,563

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

June 30, 2019	Valuation Techniques	Unobservable Inputs	Range (Average)
Impaired loans	Evaluation of collateral	Estimation of value	NM*
Other real estate owned	Appraisal	Appraisal adjustment	8%-61% (25%)

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%)

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

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

	June 30, 2019		December 31, 2018		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Input Level
	(dollars in thousands)				
Financial assets:					
Cash and cash equivalents	$ 116,251	$ 116,251	$ 61,087	$ 61,087	1
Securities available for sale	158,561	158,561	195,945	195,945	2
FHLB Stock	2,178	2,178	2,978	2,978	2
Loans, net of allowance for loan losses	1,131,574	1,136,362	1,190,790	1,187,330	3
Loans held for sale	7,448	7,448	2,949	2,949	3
Accrued interest receivable	3,821	3,821	3,878	3,878	2
Loan servicing rights	9,621	14,057	9,047	13,198	3
Financial liabilities:					
Deposits:					
Time	773,843	778,769	805,240	801,267	2
Other deposits	431,334	431,334	418,107	418,107	1
Other borrowings	809	809	827	827	3
Advances from FHLB	59,400	59,537	89,400	88,725	2
Subordinated debentures	44,781	44,781	44,703	44,703	3
Accrued interest payable	5,026	5,026	4,013	4,013	2
Derivative instruments, interest rate swaps	1,316	1,316	179	179	2

NOTE 12 – OTHER REAL ESTATE OWNED

Changes in other real estate owned were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
	(dollars in thousands)			
Balance, beginning of period	$ 5,019	$ 9,379	$ 6,568	$ 4,962
Assets foreclosed	4,145	1,687	5,292	6,104
Write-down of other real estate owned	(250)	(104)	(250)	(104)
Net gain on sales of other real estate owned	(9)	149	127	149
Proceeds from sale of other real estate owned	(212)	(2,107)	(3,044)	(2,107)
Balance, end of period	$ 8,693	$ 9,004	$ 8,693	$ 9,004

Income (expenses) applicable to other real estate owned included in non-interest expense included the following:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
	(dollars in thousands)			
Net gain (loss) on sales of other real estate owned	$ (9)	$ 149	$ 127	$ 149
Write-down of other real estate owned	(250)	(104)	(250)	(104)
Operating expenses, net of rental income	(85)	(108)	(110)	(216)
	$ (344)	$ (63)	$ (233)	$ (171)

NOTE 13 – DERIVATIVE FINANCIAL INSTRUMENTS

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.

The Company had two outstanding interest rate swaps designated as a cash flow hedge each with an aggregate notional value of $6.0 million at June 30, 2019 and December 31, 2018. Both interest rate swaps mature on June 15, 2028. A pre-tax unrealized loss (gain) of $1.1 and ($0.1) million was recognized in accumulated other comprehensive income for the six months ended June 30, 2019 and 2018, respectively and there was no ineffective portion of this hedge.

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 $1.0 million of cash as collateral to the counterparty as of June 30, 2019.

NOTE 14 – SUBSEQUENT EVENTS

Management evaluated subsequent events through the date the financial statements were issued. There were no significant events or transactions occurring after June 30, 2019, but prior to August 8, 2019, that provided additional evidence about conditions that existed at June 30, 2019.

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

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

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

- *adverse changes in 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.

Overview

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

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

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

Operational Overview

- Net income for the three months ended June 30, 2019 was $3.7 million compared to $3.9 million for the three months ended June 30, 2018, and $7.5 million for the six months ended June 30, 2019 compared to $7.9 million for the six months ended June 30, 2018.
- Net interest income increased by $0.4 million from $20.6 million for the six months ended June 30, 2018, to $21.0 million for the six months ended June 30, 2019.
- Total loans decreased $59.5 million, or 4.9%, from December 31, 2018 to $1.1 billion at June 30, 2019, and decreased $33.7 million, or 2.9%, from June 30, 2018.
- Participated loans that we continue to service totaled $695.6 million at June 30, 2019, an increase of $34.3 million, or 5.2%, since December 31, 2018, and an increase of $67.2 million, or 10.7%, since June 30, 2018.
- Non-performing assets decreased $0.8 million since December 31, 2018 to $28.8 million at June 30, 2019, a decrease of 2.6%, and decreased $6.1 million, or 17.5%, since June 30, 2018.
- Client deposits (demand, NOW accounts and interest checking, savings, money market accounts, and certificates of deposit) increased $44.7 million, or 5.9%, since December 31, 2018 to $799.1 million at June 30, 2019, and increased $96.2 million, or 13.7%, since June 30, 2018.
- Our reliance on wholesale funding (brokered deposits, national time deposits, and FHLB borrowings) decreased $92.9 million, or 16.6%, since December 31, 2018 to $465.4 million at June 30, 2019, and decreased $150.3 million, or 24.4%, since June 30, 2018.

Selected Financial Data

	As of and for Three Months Ended June 30, 2019	As of and for Three Months Ended June 30, 2018	As of and for Six Months Ended June 30, 2019	As of and for Six Months Ended June 30, 2018	As of and for Year Ended December 31, 2018
	(unaudited)		(unaudited)		
	(Dollars in thousands, except per share data)				
Selected Income Statement Data:					
Interest income	$ 17,208	$ 15,763	$ 34,334	$ 30,456	$ 64,217
Interest expense	6,776	5,425	13,342	9,848	22,262
Net interest income	10,432	10,338	20,992	20,608	41,955
Provision for loan losses	876	533	1,628	630	3,195
Net interest income after provision for loan losses	9,556	9,805	19,364	19,978	38,760
Non-interest income	2,887	2,316	5,637	4,356	8,833
Non-interest expense	7,446	6,937	14,751	13,722	28,283
Income tax expense	1,293	1,334	2,784	2,708	5,059
Net income	$ 3,704	$ 3,850	$ 7,466	$ 7,904	$ 14,251
Per Common Share Data:					
Basic earnings per common share	$ 0.53	$ 0.56	$ 1.07	$ 1.15	$ 2.06
Diluted earnings per common share	$ 0.53	$ 0.55	$ 1.07	$ 1.14	$ 2.04
Cash dividends per common share	$ 0.05	$ 0.07	$ 0.10	$ 0.14	$ 0.28
Book value per share, end of period	$ 23.03	$ 20.63	$ 23.03	$ 20.63	$ 21.50
Tangible book value per share, end of period (1)	$ 22.23	$ 19.77	$ 22.23	$ 19.77	$ 20.65
Weighted average common shares - basic	6,745,635	6,690,568	6,735,725	6,684,399	6,712,551
Weighted average common shares - diluted	6,766,366	6,769,936	6,756,895	6,961,917	6,757,667
Common shares outstanding, end of period	6,717,908	6,693,447	6,717,908	6,693,447	6,709,480
Selected Balance Sheet Data:					
Total assets	$ 1,484,646	$ 1,518,877	$ 1,484,646	$ 1,518,877	$ 1,521,027
Securities available-for-sale	158,561	187,505	158,561	187,505	195,945
Total loans	1,147,832	1,181,524	1,147,832	1,181,524	1,207,295
Allowance for loan losses	(16,258)	(15,129)	(16,258)	(15,129)	(16,505)
Total deposits	1,205,177	1,210,431	1,205,177	1,210,431	1,223,347
Other borrowings and FHLB advances	60,209	109,041	60,209	109,041	90,227
Subordinated debentures	44,781	44,725	44,781	44,725	44,703
Total shareholders' equity	162,724	146,082	162,724	146,082	152,284
Performance Ratios:					
Return on average assets (annualized)	1.00%	1.04%	1.00%	1.09%	0.96%
Return on average shareholders' equity (annualized)	9.24%	10.96%	9.48%	11.39%	7.58%
Return on average common shareholders' equity (1)	9.41%	10.96%	9.68%	11.39%	9.74%
Equity to assets ratio	10.96%	9.62%	10.96%	9.62%	10.00%
Net interest margin	2.92%	2.87%	2.93%	2.91%	2.91%
Interest rate spread	2.59%	2.61%	2.61%	2.67%	2.62%
Non-interest income to average assets (annualized)	0.78%	0.62%	0.76%	0.60%	0.58%
Non-interest expense to average assets (annualized)	2.01%	1.86%	1.99%	1.89%	1.87%
Net overhead ratio (annualized) (2)	1.23%	1.24%	1.22%	1.29%	1.29%
Efficiency ratio (1)	55.38%	55.18%	55.65%	55.15%	54.42%
Dividend payout ratio	9.43%	12.73%	9.35%	12.28%	13.73%
Asset Quality Ratios:					
Adverse classified asset ratio (1)	53.21%	47.34%	53.21%	47.34%	57.12%
Non-performing loans to total loans (3)	1.75%	2.23%	1.75%	2.23%	1.90%
Allowance for loan losses to:					
Total loans	1.42%	1.28%	1.42%	1.28%	1.37%
Non-performing loans	80.90%	57.51%	80.90%	57.51%	71.81%
Net charge-offs (recoveries) to average loans	0.18%	0.00%	0.16%	(0.11)%	(0.01)%
Non-performing assets to total assets (3)	1.94%	2.30%	1.94%	2.30%	1.94%

	June 30, 2019	June 30, 2018	December 31, 2018
	(unaudited)		
Capital Ratios:			
Shareholders' common equity to assets	10.42%	9.09%	9.49%
Total capital to risk-weighted assets (Bank)	15.35%	15.57%	15.35%
Tangible common equity to tangible assets (1)	10.10%	8.75%	9.15%

(1) Tangible book value per share, return on average common shareholders' equity, the efficiency ratio, tangible common equity to tangible assets, and adverse classified asset ratio are not recognized under GAAP and are therefore considered to be non-GAAP financial measures. See below for reconciliations of these financial measures to their most comparable GAAP measures.

(2) Net overhead ratio represents the difference between noninterest expense and noninterest income, divided by average assets.

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

Non-GAAP Financial Measures

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

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Year Ended December 31, 2018
			(dollars in thousands)		
Efficiency Ratio GAAP to Non-GAAP reconciliation:					
Non-interest expense	$ 7,446	$ 6,937	$ 14,751	$ 13,722	$ 28,283
Plus (less): net gain (loss) on sales and write-downs of OREO	(259)	45	(123)	45	(642)
Adjusted non-interest expense (non-GAAP)	$ 7,187	$ 6,982	$ 14,628	$ 13,767	$ 27,641
Net interest income	$ 10,432	$ 10,338	$ 20,992	$ 20,608	$ 41,955
Non-interest income	2,887	2,316	5,637	4,356	8,833
Less: net loss (gain) on sales of securities	(341)	—	(341)	—	—
Operating revenue	$ 12,978	$ 12,654	$ 26,288	$ 24,964	$ 50,788
Efficiency ratio	55.38%	55.18%	55.65%	55.15%	54.42%

Return on average common shareholders' equity is a non-GAAP based financial measure calculated using non-GAAP based amounts. The most directly comparable GAAP based measure is return on average shareholders' equity. We calculate return on average common shareholders' equity by excluding the average preferred shareholders' equity and the related dividends. Management uses the return on average common shareholders' equity in order to review our core operating results and our performance.

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Year Ended December 31, 2018
Return on Average Common Shareholders' Equity GAAP to Non-GAAP reconciliation:					
Return on average shareholders' equity	9.24%	10.63%	9.48%	11.02%	9.50%
Effect of excluding average preferred shareholders' equity	0.17%	0.33%	0.20%	0.37%	0.24%
Return on average common shareholders' equity	9.41%	10.96%	9.68%	11.39%	9.74%

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

	June 30, 2019	June 30, 2018	December 31, 2018
	(dollars in thousands, except per share data)		
Tangible book value per share and tangible common equity to tangible assets reconciliation:			
Common equity	$ 154,724	$ 138,082	$ 144,284
Less: Goodwill	5,038	5,038	5,038
Less: Core deposit intangible, net of amortization	354	701	513
Tangible common equity	$ 149,332	$ 132,343	$ 138,733
Common shares outstanding	6,717,908	6,693,447	6,673,381
Tangible book value per share	$ 22.23	$ 19.77	$ 20.79
Total assets	$ 1,484,646	$ 1,518,877	$ 1,521,027
Less: Goodwill	5,038	5,038	5,038
Less: Core deposit intangible, net of amortization	354	701	513
Tangible assets	$ 1,479,254	$ 1,513,138	$ 1,515,476
Tangible common equity to tangible assets	10.10%	8.75%	9.15%

Adverse classified asset ratio is a non-GAAP financial measure based on GAAP amounts. In our judgment, the adjustments made to non-performing assets allow management to better assess asset quality and monitor the amount of capital coverage necessary for non-performing assets.

	June 30, 2019	June 30, 2018	December 31, 2018
	(dollars in thousands, except per share data)		
Adverse classified asset ratio:			
Substandard loans	$ 117,766	$ 93,833	$ 120,887
Less: Impaired performing restructured loans	(8,277)	(2,081)	(5,078)
Net substandard loans	109,489	91,752	115,809
Other real estate owned	8,093	8,607	6,568
Substandard unused commitments	1,458	959	1,625
Less: Substandard government guarantees	(7,821)	(8,356)	(7,111)
Total adverse classified assets (non-GAAP)	$ 111,219	$ 92,962	$ 116,891
Total equity (Bank)	$ 196,036	$ 177,911	$ 185,458
Accumulated other comprehensive loss (gain) on available-for-sale securities	(2,166)	2,795	2,221
Allowance for loan losses	16,258	15,129	16,505
Allowance for unused commitments	—	522	475
Adjusted total equity (non-GAAP)	$ 210,128	$ 196,357	$ 204,659
Adverse classified asset ratio	52.93%	47.34%	57.12%

Results of Operations

Our operating revenue is comprised of interest income and non-interest income. Net interest income increased by 0.9% to $10.4 million for the three months ended June 30, 2019 compared to the three months ended June 30, 2018, primarily attributable to a 34 basis point improvement in average yield of securities available-for-sale. Year-over-year average loan yields improved by 42 basis points; however this was partially offset by a 42 basis point increase in the average rate paid on interest-bearing deposits.

Interest income increased to $17.2 million for the second quarter of 2019 compared to $15.8 million for the second quarter of 2018. Despite a decline in average loan balance, the increase in interest income was primarily as the result of an increase in loan yield from 4.84% for the second quarter of 2018 to 5.26% for the second quarter of 2019. In addition, dividend income from the securities portfolio and interest income due from other banks increased $0.3 million year-over-year. The increase in interest income was partially offset by an increase in interest expense from $5.4 million for the second quarter of 2018 to $6.8 million for the second quarter of 2019, which was primarily the result of increases in rates paid on deposits and interest paid on the $30.0 million of subordinated notes that the Company entered into on May 30, 2018.

Non-interest income for the three months ended June 30, 2019 increased 24.7% to $2.9 million from $2.3 million for the three months ended June 30, 2018, primarily due to the gain realized on the sale of securities available-for-sale during the second quarter of 2019 (included in other non-interest income) and a $0.3 million increase in loan servicing fees and rights as the result of higher volumes of loans being serviced.

Non-interest expense increased 7.3% to $7.4 million for the three months ended June 30, 2019 compared to $6.9 million for the same period in 2018. This increase was primarily the result of a $0.3 million writedown of other real estate owned that took place during the second quarter of 2019 along with small increases in information processing, professional fees, and business development.

For the six months ended June 30, 2019, net interest income was $21.0 million, an increase of $0.4 million, or 1.9%, from the six months ended June 30, 2018. Interest income increased to $34.3 million for the first two quarters of 2019, compared to $30.5 million from the first two quarters of 2018, primarily due to improved yields on both loans and securities available-for-sale and increase average balances of investment securities. Interest expense increased to $13.3 million for the six month ended June 30, 2019 from $9.8 million for the six months ended June 30, 2018. The $3.5 million increase is primarily the result of increased rates paid on deposit balances and $0.9 million increase in interest paid on the subordinated debentures.

Non-interest income increased $1.2 million, or 29.4%, for the six months ended June 30, 2019 to $5.6 million compared to the six months ended June 30, 2018, primarily due to the previously discussed increase in secondary market loan sales, as well as a reduction to the allowance for unused commitments of $0.5 million that took place during the first quarter of 2019, which increased other non-interest income. The Company evaluated the need for this allowance and concluded that there was no sufficient evidence that represented credit loss inherent in these commitments to substantiate this reserve. The Company will continue to evaluate credit risk on these off-balance sheet commitments going forward.

Non-interest expense increased $1.0 million, or 7.5%, for the six months ended June 30, 2019 to $14.8 million compared to the six months ended June 30, 2018. In addition to previously discussed other real estate owned writedown, the year-over-year increase was primarily due to the increased occupancy costs related to our new headquarters that was purchased in in May 2018 and increased employee compensation and benefits, which was primarily the result of a 24.1% increase in the premium cost of employee benefits.

Analysis of Net Interest Income

Net interest income is the largest component of our income and is dependent on the volumes of and yields on interest-earning assets as compared to the volumes of and rates paid on interest-bearing liabilities. The following tables reflect the components of net interest income for the three and six months ended June 30, 2019 and 2018:

	Three Months Ended					
	June 30, 2019			June 30, 2018		
	Average Balance (1)	Income/ Expense	Yields/ Rates	Average Balance (1)	Income/ Expense	Yields/ Rates
	(dollars in thousands)					
Assets						
Investment securities	$ 176,237	$ 1,259	2.86%	$ 158,260	$ 996	2.52%
Loans (2)	1,177,071	15,484	5.26%	1,187,719	14,366	4.84%
Interest bearing deposits due from other banks	73,769	465	2.52%	100,646	401	1.59%
Total interest-earning assets	$ 1,427,077	$ 17,208	4.82%	$ 1,446,625	$ 15,763	4.36%
Allowance for loan losses	(17,782)			(14,918)		
Other assets	76,806			57,878		
Total assets	$ 1,486,101			$ 1,489,585		
Liabilities						
Savings, NOW, money market, interest checking	$ 315,940	$ 1,316	1.67%	$ 279,958	$ 789	1.13%
Time deposits	770,554	4,362	2.26%	819,037	3,811	1.86%
Total interest-bearing deposits	$ 1,086,494	$ 5,678	2.09%	$ 1,098,995	$ 4,600	1.67%
Other borrowings	1,204	13	4.47%	1,167	14	4.79%
FHLB advances	78,653	402	2.04%	117,327	473	1.61%
Junior subordinated debentures	44,762	683	6.10%	25,547	338	5.29%
Total interest-bearing liabilities	$ 1,211,113	$ 6,776	2.24%	$ 1,243,036	$ 5,425	1.75%
Non-interest bearing deposits	102,432			93,876		
Other liabilities	12,154			7,829		
Total liabilities	$ 1,325,699			$ 1,344,741		
Shareholders' equity	160,402			144,844		
Total liabilities and equity	$ 1,486,101			$ 1,489,585		
Net interest income		$ 10,432			$ 10,338	
Interest rate spread (3)			2.58%			2.61%
Net interest margin (4)			2.92%			2.87%
Ratio of interest-earning assets to interest-bearing liabilities	1.18			1.16		

(1) Average balances are calculated on amortized cost.
(2) Includes loan fee income, nonaccruing loan balances, and interest received on such loans.
(3) Interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(4) Net interest margin represents net interest income divided by average total interest-earning assets.

	Six Months Ended					
	June 30, 2019			June 30, 2018		
	Average Balance (1)	Income/ Expense	Yields/ Rates	Average Balance (1)	Income/ Expense	Yields/ Rates
	(dollars in thousands)					
Assets						
Investment securities	$ 186,076	$ 2,620	2.82%	$ 147,553	$ 1,785	2.42%
Loans (2)	1,192,073	30,985	5.20%	1,180,294	28,057	4.75%
Interest bearing deposits due from other banks	55,102	729	2.65%	87,012	614	1.41%
Total interest-earning assets	$ 1,433,251	$ 34,334	4.79%	$ 1,414,859	$ 30,456	4.31%
Allowance for loan losses	(17,396)			(14,323)		
Other assets	76,613			52,395		
Total assets	$ 1,492,468			$ 1,452,931		
Liabilities						
Savings, NOW, money market, interest checking	$ 307,903	$ 2,500	1.62%	$ 278,889	$ 1,448	1.04%
Time deposits	781,672	8,602	2.20%	783,202	6,948	1.77%
Total interest-bearing deposits	$ 1,089,575	$ 11,102	2.04%	$ 1,062,091	$ 8,396	1.58%
Other borrowings	1,025	25	4.80%	1,226	30	4.94%
FHLB advances	85,737	854	1.99%	119,187	941	1.58%
Junior subordinated debentures	44,742	1,361	6.09%	20,566	481	4.68%
Total interest-bearing liabilities	$ 1,221,079	$ 13,342	2.19%	$ 1,203,070	$ 9,848	1.64%
Non-interest bearing deposits	102,050			98,728		
Other liabilities	11,797			7,698		
Total liabilities	$ 1,334,926			$ 1,309,496		
Shareholders' equity	157,542			143,435		
Total liabilities and equity	$ 1,492,468			$ 1,452,931		
Net interest income		$ 20,992			$ 20,608	
Interest rate spread (3)			2.60%			2.67%
Net interest margin (4)			2.93%			2.91%
Ratio of interest-earning assets to interest -bearing liabilities	1.17			1.18		

(1) Average balances are calculated on amortized cost.
(2) Includes loan fee income, nonaccruing loan balances, and interest received on such loans.
(3) Interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(4) 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 between the periods indicated. The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The net column represents the sum of the volume and rate columns. For purposes of this table, changes attributable to both rate and volume which cannot be segregated have been allocated proportionately based on the changes due to rate and the changes due to volume.

	Three Months Ended June 30, 2019 v. 2018		
	Increase (Decrease) Due to Change in Average		
	Rate	Volume	Net
	(dollars in thousands)		
Interest Income:			
Investment securities	$ 143	$ 120	$ 263
Loans	1,246	(128)	1,118
Federal funds sold and interest-bearing deposits with banks	118	(54)	64
Total interest income	1,507	(62)	1,445
Interest Expense:			
Savings, NOW, money market and interest checking	415	112	527
Time deposits	757	(206)	551
Other borrowings	(1)	—	(1)
FHLB advances	292	(363)	(71)
Junior subordinated debentures	59	286	345
Total interest expense	1,522	(171)	1,351
Net interest income	$ (15)	$ 109	$ 94

	Six Months Ended June 30, 2019 v. 2018		
	Increase (Decrease) Due to Change in Average		
	Rate	Volume	Net
	(dollars in thousands)		
Interest Income:			
Investment securities	$ 322	$ 513	$ 835
Loans	2,645	283	2,928
Federal funds sold and interest-bearing deposits with banks	198	(83)	115
Total interest income	3,165	713	3,878
Interest Expense:			
Savings, NOW, money market and interest checking	888	164	1,052
Time deposits	1,668	(14)	1,654
Other borrowings	(1)	(4)	(5)
FHLB advances	1,253	(1,340)	(87)
Junior subordinated debentures	180	700	880
Total interest expense	3,988	(494)	3,494
Net interest income	$ (823)	$ 1,207	$ 384

Provision for Loan Losses

Based on our analysis of the components of the allowance for loan losses, management recorded a provision for loan losses of $0.9 million for the three months ended June 30, 2019 compared to a provision of $0.5 million for the three months ended June 30, 2018. The increased provision is directly related to the $2.1 million in net charge-offs that took place during the second quarter of 2019 which related to a commercial real estate relationship that lost its primary tenant, as well as an increase in special mention and substandard loans during the second quarter of 2019.

For the six months ended June 30, 2019, the provision for loan losses was $1.6 million compared to $0.6 million for the six months ended June 30, 2018, as the result of $1.9 million in net charge-offs during the first six months of 2019 compared to $1.3 million in net recoveries during the first six months of 2018.

The specific reserve related to impaired loans was $3.7 million at June 30, 2019, which was an increase of $0.1 million, or 1.7%, from June 30, 2018, due to a 30.5% increase in substandard impaired loans from $47.1 million at June 30, 2018 to $61.4 million at June 30, 2019. Non-performing assets decreased $6.1 million since June 30, 2018 to $28.8 million at June 30, 2019. The increase in substandard loans was the result of the prolonged strain of Wisconsin's agricultural economy; however, we are actively managing these credits, and we are optimistic about the industry's outlook as there was a 6.5% increase in the 12-month future price of class III milk on the Chicago Mercantile Exchange during the second quarter of 2019. Despite the recent increase in class III milk prices, we anticipate some additional stress in our agricultural portfolio will continue throughout 2019 due to the length of the depressed prices that our agricultural borrowers endured; however, management believes this increased risk is adequately captured by the existing agriculture qualitative factors in our allowance for loan losses methodology.

There have been no substantive changes to our methodology for estimating the appropriate level of allowance for loan losses from what was previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018. Based upon this methodology, which includes actively monitoring the asset quality and inherent risks within the loan and lease portfolio, management concluded that an allowance for loan losses of $16.3 million, or 1.42% of total loans, was appropriate as of June 30, 2019. This is compared to an allowance for loan losses of $15.1 million, or 1.28% of total loans, at June 30, 2018, and $16.5 million, or 1.37% of total loans, at December 31, 2018.

Non-Interest Income

Non-interest income for the three months ended June 30, 2019 increased by 24.7% to $2.9 million from $2.3 million for the three months ended June 30, 2018. The $0.6 million increase was primarily the result of continued reduction in the valuation allowance on its loan servicing rights portfolio which resulted in an increase of $0.1 million of loan servicing rights, which are included in loan servicing fees in our consolidated statement of operations. The reduction of the valuation allowance is expected to continue throughout the remaining quarters of 2019. In addition, loan servicing fees increased by $0.1 million in the second quarter of 2019 as a result of higher volumes of loans being serviced, and the sale of securities available-for-sale resulted in a $0.3 million gain during the second quarter of 2019.

For the six months ended June 30, 2019, non-interest income increased $1.2 million, or 29.4%, to $5.6 million from $4.4 million for the six months ended June 30, 2018, primarily to the result of the reduction to valuation allowance in the loan servicing rights portfolio discussed above. Also during the first quarter of 2019, the Company eliminated the allowance for unused commitments of $0.5 million after concluding that there was no longer sufficient evidence of credit loss inherent in these commitments to substantiate the necessity of this reserve. The elimination of this reserve resulted in an increase of other non-interest income. The Company will continue to evaluate credit risk on these off-balance sheet commitments going forward and make appropriate adjustments to an allowance as necessary.

The following table reflects the components of non-interest income for the three and six months ended June 30, 2019 and 2018:

	Three Months Ended		Six Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	(dollars in thousands)			
Service charges	$ 407	$ 445	$ 760	$ 810
Gain on sale of loans, net	26	45	25	77
Loan servicing fees	1,563	1,486	3,082	2,938
Loan servicing right origination	346	127	574	137
Income on other real estate owned	40	45	66	77
Gain on sale of securities	341	—	341	—
Other	164	168	789	317
Total non-interest income	$ 2,887	$ 2,316	$ 5,637	$ 4,356

Non-Interest Expense

Non-interest expense increased 7.3% for the three months ended June 30, 2019 to $7.4 million compared to $6.9 million for the three months ended June 30, 2018. The increase is primarily the result of a $0.3 million writedown of other real estate owned that occurred during the second quarter of 2019. In addition, 2018 benefited from sales of other real estate owned that resulted in net gains, and 2019 was negatively impacted by a net loss on the sale of other real estate owned.

For the six months ended June 30, 2019, non-interest expense increased by $1.0 million, or 7.5% to $14.7 million from $13.7 million for the six months ended June 30, 2018. In addition to the items noted above, the year-over-year increase is primarily due to increased occupancy costs related to our new headquarters that was purchased in May 2018 and increased employee compensation and benefits which is primarily the result of a 24.1% increase in the premium cost of employee benefits.

The following table reflects the components of our non-interest expense for the three and six months ended June 30, 2019 and 2018:

	Three Months Ended		Six Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	(dollars in thousands)			
Employee compensation and benefits	$ 4,199	$ 4,114	$ 8,681	$ 8,332
Occupancy	283	278	672	482
Information processing	591	529	1,154	994
Professional fees	417	359	816	674
Business development	347	260	672	559
Other real estate owned expenses	121	152	172	292
Write-down of other real estate owned	250	104	250	104
Net loss (gain) on other real estate owned	9	(149)	(127)	(149)
Depreciation and amortization	328	324	665	638
Other	901	966	1,796	1,796
Total non-interest expense	$ 7,446	$ 6,937	$ 14,751	$ 13,722

Income taxes

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

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

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

The Company files income tax returns in the U.S. federal jurisdiction and in the state of Wisconsin. The Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2015.

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

Income tax expense for the three months ended June 30, 2019 and 2018, was $1.3 million, which represents an effective tax rate of 25.9% and 25.7%, respectively. Income tax expense for the six months ended June 30, 2019 and 2018, was $2.8 million and $2.7 million, respectively, which represents an effective tax rate of 27.2% and 25.5%, respectively. The increase in the effective tax rate year-over-year is primarily the result of the exercise of stock options that resulted in additional tax deductions in 2018. There were no stock option exercises resulting in additional tax deductions during 2019.

Financial Condition

Total assets decreased $36.3 million, or 2.4%, from December 31, 2018 to $1.5 billion at June 30, 2019. Total loans decreased by $59.5 million, or 4.9%, since December 31, 2018 as the result of normal pay-downs and an increase of $34.3 million in loan sales and participations.

Total liabilities decreased $46.8 million, or 3.4%, from $1.4 billion at December 31, 2018 to $1.3 billion at June 30, 2019. This decrease is primarily attributed to a decrease in brokered deposits and national certificates of deposits of $62.9 million and a pay-down of $30.0 million in FHLB borrowings in the first half of 2019. This decrease in wholesale funding was partially offset by an increase of $44.7 million, or 5.9%, in client deposits, defined as demand, NOW accounts and interest checking, savings, money market accounts, and certificates of deposit since December 31, 2018.

Shareholders' equity increased $10.4 million, or 6.9%, to $162.7 million at June 30, 2019 from $152.3 million at December 31, 2018. This increase was due primarily to net income for the six months ended June 30, 2019 of $7.5 million and a $4.4 million tax-effected increase to the fair market value of the investment portfolio, which was partially offset by the payment of $0.9 million of dividends on common and preferred stock during the six months ended June 30, 2019.

Net Loans

Total net loans decreased by $59.5 million, or 4.9%, to $1.1 billion at June 30, 2019 from December 31, 2018. This decrease was driven primarily by normal pay-downs and an increase of $34.3 million of loan sales and participations that took place during the first half of 2019. The proceeds from the loan sales and participations were used to pay-off some brokered and national time deposits and reduce our reliance on wholesale funding, which is a long-term strategy of the Company.

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

	June 30, 2019		December 31, 2018	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Agriculture loans	$ 713,602	62.2%	$ 724,508	60.0%
Commercial real estate loans	268,544	23.4%	299,212	24.8%
Commercial loans	114,998	10.0%	116,460	9.7%
Residential real estate loans	50,436	4.4%	66,843	5.5%
Installment and consumer other	252	0.0%	272	0.0%
Total gross loans	$ 1,147,832	100.0%	$ 1,207,295	100.0%
Allowance for loan losses	(16,258)		(16,505)	
Loans, net	$ 1,131,574		$ 1,190,790	

Allowance for Loan Losses

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

The provision for loan losses is the charge to operating earnings necessary to maintain an adequate allowance for loan losses. We have developed policies and procedures for evaluating the overall quality of our loan portfolio and the timely identification of problem credits. Management continuously reviews these policies and procedures and makes further improvements as needed. The adequacy of our allowance for loan losses and the effectiveness of our internal policies and procedures are also reviewed periodically by our regulators, our auditors, and external loan review personnel. Our regulators may advise us to recognize additions to the allowance based upon their judgments about information available to them at the time of their examination. Such regulatory guidance is taken under consideration by management, and we may recognize additions to the allowance as a result.

We continually refine our methodology for determining the allowance for loan losses by comparing historical loss ratios utilized to actual experience and by classifying loans for analysis based on similar risk characteristics. Cash receipts for accruing loans are applied to principal and interest under the contractual terms of the loan agreements; however, cash receipts on impaired and nonaccrual loans for which the accrual of interest has been discontinued are applied to principal and interest income depending upon the overall risk of principal loss to us. We mitigate this risk by actively using government guarantee programs. 15.1% of our substandard loans are partially guaranteed by the U.S. Farm Services Agency ("FSA") or the U.S. Small Business Administration ("SBA"). The amount of the guarantee can range from 80% to 95% of unpaid principal for FSA guaranteed loans and 50% - 85% for SBA guaranteed loans.

At June 30, 2019 and December 31, 2018, the allowance for loan losses was $16.3 million and $16.5 million, respectively, which resulted in a ratio of the allowance to total loans of 1.42% and 1.37%, respectively. The overall increase in the allowance for loan losses as a percentage of total loans was primarily a result of an $11.7 million increase in watch or lower rated loans since December 31, 2018. During the first six months of 2019, the Company charged off $3.6 million in loans which was offset in part by $1.7 million in recoveries of previously charged off loans. Of the $3.6 million in charge-offs during the first half of 2019, $2.2 million was a charge-off to a single commercial real estate customer in rural Wisconsin that its anchor tenant when a regional department store filed bankruptcy discontinued operations.

Charge-offs and recoveries by loan category for the three and six months ended June 30, 2019 and 2018 were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	(dollars in thousands)			
Balance, beginning of period	$ 17,493	$ 14,612	$ 16,505	$ 13,247
Loans charged off:				
Agriculture loans	—	—	—	—
Commercial real estate loans	2,234	—	2,624	42
Commercial loans	960	—	960	—
Residential real estate loans	—	—	—	—
Installment and consumer other	—	—	—	—
Total loans charged off	$ 3,194	$ —	$ 3,584	$ 42
Recoveries:				
Agriculture loans	15	—	15	1
Commercial real estate loans	967	11	1,592	1,251
Commercial loans	101	(27)	102	41
Residential real estate loans	—	—	—	—
Installment and consumer other	—	—	—	1
Total recoveries	1,083	(16)	1,709	1,294
Net loans charged off (recovered)	$ 2,111	$ 16	$ 1,875	$ (1,252)
Provision for loan losses	876	533	1,628	630
Allowance for loan losses, end of period	$ 16,258	$ 15,129	$ 16,258	$ 15,129
Selected loan quality ratios:				
Net charge offs (net recoveries) to average loans	0.18%	(0.00)%	0.16%	(0.11)%
Allowance for loan losses to total loans (end of period)	1.42%	1.28%	1.42%	1.28%
Allowance for loan losses to non-performing loans and performing troubled debt restructurings (end of period)	28.19%	32.83%	28.19%	32.83%

Loan Servicing Rights

As part of our growth and risk management strategy, we have actively developed a loan participation and loan sales network. Our ability to sell loan participations and whole loans benefits us by freeing up capital and funding to lend to new customers as well as to increase non-interest income through the recognition of loan sale and servicing revenue. Because we continue to service these loans, we are able to maintain a relationship with the customer. Additionally, we receive a servicing fee that offsets some of the cost of administering the loan, while maintaining the customer relationship.

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

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

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

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

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

Information about the loan servicing portfolio is shown below:

	June 30, 2019	December 31, 2018
	(dollars in thousands)	
Total loans	$ 1,147,832	$ 1,207,295
Less: Nonqualified loan sales included below	(809)	(827)
Loans serviced:		
Agricultural	639,378	623,725
Commercial	48,350	35,832
Commercial real estate	7,901	1,700
Total loans serviced	695,629	661,257
Total loans and loans serviced	$ 1,842,652	$ 1,867,725

Securities

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

Securities decreased to $158.6 million at June 30, 2019 from $195.9 million at December 31, 2018. During the six months ended June 30, 2019, we recognized unrealized holding gains of $4.4 million before income taxes through other comprehensive income.

During the six months ended June 30, 2019, $29.4 million of municipal securities were sold resulting in a pre-tax gain of $0.3 million. There were no security sales during the six months ended June 30, 2018.

The following table sets forth the amortized cost and fair values of our securities portfolio at June 30, 2019 and December 31, 2018:

	June 30, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(dollars in thousands)			
Available for sale:				
U.S. government and agency securities	$ 3,731	$ 3,699	$ 4,368	$ 4,331
U.S. treasury securities	2,498	2,507	2,497	2,491
Municipal securities	—	—	34,985	34,520
Mortgage-backed securities	149,356	152,355	157,147	154,603
Total available for sale	$ 155,585	$ 158,561	$ 198,997	$ 195,945

Deposits

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

Deposits decreased $18.2 million, or 1.5%, from December 31, 2018 to $1.2 billion at June 30, 2019, primarily as a result of a $62.9 million decrease in brokered deposits and national time deposits since December 31, 2018, partially offset by a $44.7 million increase in client deposit (demand, NOW accounts and interest checking, savings, money market accounts, and certificates of deposit) generation.

Reducing our reliance on wholesale funding is a key strategic focus for 2019. Brokered deposits and national certificates of deposit at June 30, 2019 were $406.0 million, which was a decrease of $62.9 million, or 13.4%, from December 31, 2018, and a decrease of $101.5 million, or 20.0%, from June 30, 2018. In addition to the reduction in brokered deposits and national certificates of deposit in the first half of 2019, we also decreased FHLB borrowings by $30.0 million since December 31, 2018.

As of June 30, 2019 and December 31, 2018, the distribution by type of deposit account was as follows:

	June 30, 2019		December 31, 2018	
	Amount	% of Deposits	Amount	% of Deposits
	(dollars in thousands)			
Demand, noninterest-bearing	$ 111,022	9.2%	$ 121,436	9.9%
NOW accounts and interest checking	54,253	4.5%	51,779	4.2%
Savings	6,621	0.5%	5,770	0.5%
Money market accounts	239,337	19.9%	218,929	18.0%
Certificates of deposit	387,899	32.2%	356,484	29.1%
Brokered deposits	256,475	21.3%	308,504	25.2%
National time deposits	149,570	12.4%	160,445	13.1%
Total deposits	$ 1,205,177	100.0%	$ 1,223,347	100.0%

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 June 30, 2019, 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 (gain) of $1.1 million and ($0.1) million was recognized in accumulated other comprehensive income during the six months ended June 30, 2019 and 2018, respectively, with a corresponding increase reported in accrued interest payable and other liabilities on the consolidated balance sheets. There was no ineffective portion of this hedge.

Liquidity Management and Capital Resources

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

At June 30, 2019, advances from the FHLB were $59.4 million compared to $89.4 million at December 31, 2018. There were no borrowings outstanding at the Federal Reserve Bank of Chicago. The Company also has 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 of credit also bears a non-usage fee of 0.275% per annum. The line of credit did not have an outstanding balance as of June 30, 2019.

On May 30, 2018, the Company entered into a subordinated note purchase agreement to sell and issue $30.0 million of notes to certain institutional investors. The notes carry a fixed interest rate of 5.875% until May 31, 2023, and have a stated maturity of June 1, 2028. As of June 1, 2023, the notes are redeemable in whole or in part, and bear an interest rate of 3-month LIBOR plus 288.4 basis points. The notes are unsecured, subordinated obligations of the Company and rate junior in right of payment to the Company’s current and future senior indebtedness.

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 $4.9 million and $4.2 million for the six months ended June 30, 2019 and 2018, respectively. Net cash provided by (used in) investing activities, which consists primarily of purchases of and proceeds from the sale, maturities, calls, and principal repayments of securities available for sale, as well as loan originations, net of repayments, was $99.3 million and ($104.7) million for the six months ended June 30, 2019 and 2018, respectively. Net cash provided by (used in) financing activities, consisting primarily of the activity in deposit accounts and FHLB advances, was ($49.0) million and $114.8 million for the six months ended June 30, 2019 and 2018, respectively.

At June 30, 2019, the Bank exceeded all of its regulatory capital requirements, with Tier 1 leverage capital of $193.9 million, or 13.12% of adjusted average total assets, which is above the minimum level to be well-capitalized of $73.9 million, or 5.0% of adjusted average total assets, and total risk-based capital of $209.6 million, or 16.62% of risk-weighted assets, which is above the minimum level to be well-capitalized of $126.2 million, or 10.0% of risk-weighted assets.

At the holding company level, our primary sources of liquidity are dividends from the Bank, investment income and net proceeds from investment sales, borrowings and capital offerings. The main uses of liquidity are the payment of interest to holders of our junior subordinated debentures and subordinated notes and the payment of interest or dividends to common and preferred shareholders. The Bank is subject to certain regulatory limitations regarding its ability to pay dividends to the Company; however, we do not believe that the Company will be adversely affected by these dividend limitations. At June 30, 2019, there were $106.4 million of retained earnings available for the payment of dividends by the Bank to the Company, but would be limited to the Bank maintaining minimum regulatory capital ratios. Management believed liquidity to be sufficient as of June 30, 2019.

Off-Balance Sheet Arrangements

As of June 30, 2019, there were no other significant changes to our contractual obligations and off-balance sheet arrangements disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018. We continue to believe that we have adequate capital and liquidity available from various sources to fund projected obligations and commitments.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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 June 30, 2019 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	Year 1 Change from Base	Net Interest Income Year 2 Forecast	Year 2 Change from Base
	(dollars in thousands)		(dollars in thousands)	
+400 bps	$ 59,400	30.00%	$ 57,300	24.10%
+200 bps	52,500	14.90%	51,700	11.80%
+100 bps	49,000	7.20%	48,900	5.70%
Base	45,700	0.00%	46,300	0.00%
-100 bps	42,000	(8.10)%	42,900	(7.40)%
-200 bps	37,600	(17.70)%	37,300	(19.70)%

As of June 30, 2019, 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.

Economic Value of Equity Analysis. We also analyze the sensitivity of our financial condition to changes in interest rates through our economic value of equity model. This analysis measures the difference between predicted changes in the present value of our assets and predicted changes in the present value of our liabilities assuming various changes in current interest rates. As with the net interest income simulation model, the estimates of changes in the economic value of our equity require certain assumptions to be made. These assumptions include 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 the economic value of our equity. Although our economic value of equity analysis 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 the economic value of our equity and will differ from actual results.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of June 30, 2019. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2019, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

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

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There are no material changes to the risk factors set forth in "Risk Factors" in Item 1A to Part I of our Annual Report on Form 10-K for the year ended December 31, 2018.

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

The Company did not issue any unregistered equity securities or repurchase any shares of its common stock during the quarter ended June 30, 2019.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

County Bancorp, Inc.

Date: August 8, 2019	By: /s/ Timothy J. Schneider **Timothy J. Schneider** **President** **(principal executive officer)**
Date: August 8, 2019	By: /s/ Glen L. Stiteley **Glen L. Stiteley** **Chief Financial Officer** **(principal financial and accounting officer)**

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Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Timothy J. Schneider, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of County Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2019 By: /s/ Timothy J. Schneider

Timothy J. Schneider
President

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Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Glen L. Stiteley, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of County Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2019 By: /s/ Glen L. Stiteley

Glen L. Stiteley
Chief Financial Officer

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Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of County Bancorp, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Timothy J. Schneider, as President of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 8, 2019

By: /s/ Timothy J. Schneider

Timothy J. Schneider
President

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Section 5: EX-32.2 (EX-32.2)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of County Bancorp, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Glen L. Stiteley, as Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 8, 2019

By: /s/ Glen L. Stiteley

Glen L. Stiteley
Chief Financial Officer

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