

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 September 30, 2020
OR

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

For the transition period from _____ to _____

Commission File Number: 001-36808

COUNTY BANCORP, INC.

(Exact Name of Registrant as Specified in its Charter)

Wisconsin
(State or other jurisdiction of
incorporation or organization)

39-1850431
(I.R.S. Employer
Identification No.)

2400 South 44th Street
Manitowoc, WI
(Address of principal executive offices)

54221
(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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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 November 6, 2020, the registrant had 6,270,297 shares of common stock, \$0.01 par value per share, outstanding.

Table of Contents

	<u>Page</u>
PART I.	<u>FINANCIAL INFORMATION</u>
Item 1.	<u>Financial Statements</u> 1
	<u>Consolidated Balance Sheets</u> 1
	<u>Consolidated Statements of Operations</u> 2
	<u>Consolidated Statements of Comprehensive Income</u> 3
	<u>Consolidated Statements of Shareholders' Equity</u> 4
	<u>Consolidated Statements of Cash Flows</u> 5
	<u>Notes to Unaudited Consolidated Financial Statements</u> 6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 30
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 49
Item 4.	<u>Controls and Procedures</u> 51
PART II.	<u>OTHER INFORMATION</u>
Item 1.	<u>Legal Proceedings</u> 52
Item 1A.	<u>Risk Factors</u> 52
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 53
Item 3.	<u>Defaults Upon Senior Securities</u> 53
Item 4.	<u>Mine Safety Disclosures</u> 53
Item 5.	<u>Other Information</u> 53
Item 6.	<u>Exhibits</u> 54
	<u>Signatures</u> 55

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

COUNTY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 2020 and December 31, 2019

	September 30, 2020 (unaudited)	December 31, 2019
	(dollars in thousands except per share data)	
ASSETS		
Cash and cash equivalents	\$ 52,867	\$ 108,457
Interest earning cash at other financial institutions	416	20,554
Securities available-for-sale, at fair value	298,476	158,733
FHLB Stock	5,758	1,628
Loans held for sale	2,593	2,151
Loans, net of allowance for loan losses of \$18,649 as of September 30, 2020; \$15,267 as of December 31, 2019	1,057,277	1,020,506
Premises and equipment, net	14,383	13,603
Loan servicing rights	17,203	12,509
Other real estate owned, net	3,064	5,521
Cash surrender value of bank owned life insurance	28,838	18,302
Deferred tax asset, net	—	1,453
Goodwill	—	5,038
Core deposit intangible, net	86	225
Accrued interest receivable and other assets	11,094	10,099
Total assets	<u>\$ 1,492,055</u>	<u>\$ 1,378,779</u>
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 158,798	\$ 138,489
Interest-bearing	891,373	962,953
Total deposits	1,050,171	1,101,442
Other borrowings	101,809	794
Advances from FHLB	84,600	44,400
Subordinated debentures	67,025	44,858
Deferred tax liability, net	571	—
Accrued interest payable and other liabilities	17,969	15,256
Total liabilities	<u>1,322,145</u>	<u>1,206,750</u>
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; 7,202,000 shares issued and 6,294,675 shares outstanding as of September 30, 2020; 7,178,052 shares issued and 6,734,132 shares outstanding as of December 31, 2019	28	28
Surplus	55,002	54,122
Retained earnings	114,902	113,111
Treasury stock, at cost; 907,325 shares at September 30, 2020; 443,920 shares at December 31, 2019	(15,114)	(5,030)
Accumulated other comprehensive income	7,092	1,798
Total shareholders' equity	<u>169,910</u>	<u>172,029</u>
Total liabilities and shareholders' equity	<u>\$ 1,492,055</u>	<u>\$ 1,378,779</u>

See accompanying notes to unaudited consolidated financial statements.

COUNTY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Months Ended September 30, 2020 and 2019
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019*	2020	2019*
	(dollars in thousands except per share data)			
INTEREST AND DIVIDEND INCOME				
Loans, including fees	\$ 11,594	\$ 14,977	\$ 36,169	\$ 45,951
Taxable securities	1,293	1,117	3,858	3,480
Tax-exempt securities	167	—	335	257
Federal funds sold and other	52	612	388	1,341
Total interest and dividend income	<u>13,106</u>	<u>16,706</u>	<u>40,750</u>	<u>51,029</u>
INTEREST EXPENSE				
Deposits	2,914	5,574	10,982	16,676
FHLB advances and other borrowed funds	456	246	1,043	1,125
Subordinated debentures	1,082	687	2,524	2,048
Total interest expense	<u>4,452</u>	<u>6,507</u>	<u>14,549</u>	<u>19,849</u>
Net interest income	8,654	10,199	26,201	31,180
Provision for loan losses	79	(1,154)	3,439	474
Net interest income after provision for loan losses	<u>8,575</u>	<u>11,353</u>	<u>22,762</u>	<u>30,706</u>
NON-INTEREST INCOME				
Services charges	379	348	1,089	1,108
Gain on sale of loans, net	17	87	59	112
Loan servicing fees	2,771	3,418	7,088	7,074
Gain on sale of securities	101	—	671	341
Other	404	234	985	1,100
Total non-interest income	<u>3,672</u>	<u>4,087</u>	<u>9,892</u>	<u>9,735</u>
NON-INTEREST EXPENSE				
Employee compensation and benefits	4,766	4,735	14,620	13,416
Occupancy	321	313	980	985
Information processing	641	683	1,974	1,837
Professional fees	555	483	1,436	1,299
Writedown of other real estate owned	—	—	1,360	250
Goodwill impairment	—	—	5,038	—
Other	1,384	1,454	4,742	4,632
Total non-interest expense	<u>7,667</u>	<u>7,668</u>	<u>30,150</u>	<u>22,419</u>
Income before income taxes	4,580	7,772	2,504	18,022
Income tax expense	1,164	2,090	1,543	4,874
NET INCOME	<u>\$ 3,416</u>	<u>\$ 5,682</u>	<u>\$ 961</u>	<u>\$ 13,148</u>
NET INCOME PER SHARE:				
Basic	\$ 0.52	\$ 0.82	\$ 0.10	\$ 1.90
Diluted	\$ 0.52	\$ 0.82	\$ 0.10	\$ 1.89
Dividends paid per share	\$ 0.07	\$ 0.05	\$ 0.21	\$ 0.15

*Amounts reclassified to current classifications from original presentation

See accompanying notes to unaudited consolidated financial statements.

COUNTY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three and Nine Months Ended September 30, 2020 and 2019
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Net income	\$ 3,416	\$ 5,682	\$ 961	\$ 13,148
Other comprehensive income:				
Unrealized gain (loss) on securities available-for-sale	(29)	1,170	9,103	7,539
Income tax benefit (expense)	8	(319)	(2,481)	(2,054)
Reclassification for realized gains on securities	(101)	—	(671)	(341)
Income tax expense	28	—	184	93
Total other comprehensive income (loss) on securities available-for-sale	(94)	851	6,135	5,237
Unrealized gain (loss) on derivatives arising during the period	98	(474)	(1,156)	(1,612)
Income tax benefit (expense)	(27)	129	315	439
Total other comprehensive income (loss) on derivatives	71	(345)	(841)	(1,173)
Total other comprehensive income (loss)	(23)	506	5,294	4,064
Comprehensive income	<u>\$ 3,393</u>	<u>\$ 6,188</u>	<u>\$ 6,255</u>	<u>\$ 17,212</u>

See accompanying notes to unaudited consolidated financial statements.

COUNTY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Three and Nine Months Ended September 30, 2020 and 2019
(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, 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	<u>\$ 8,000</u>	<u>\$ 28</u>	<u>\$ 53,280</u>	<u>\$ 101,785</u>	<u>\$ (5,030)</u>	<u>\$ (46)</u>	<u>\$ 158,017</u>
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	<u>\$ 8,000</u>	<u>\$ 28</u>	<u>\$ 53,484</u>	<u>\$ 105,035</u>	<u>\$ (5,030)</u>	<u>\$ 1,207</u>	<u>\$ 162,724</u>
Net income	—	—	—	5,682	—	—	5,682
Other comprehensive income	—	—	—	—	—	506	506
Stock compensation expense	—	—	177	—	—	—	177
Cash dividends declared on common stock	—	—	—	(337)	—	—	(337)
Cash dividends declared on preferred stock	—	—	—	(120)	—	—	(120)
Proceeds from exercise of common stock options (10,000 shares)	—	—	120	—	—	—	120
Balance at September 30, 2019	<u>\$ 8,000</u>	<u>\$ 28</u>	<u>\$ 53,781</u>	<u>\$ 110,260</u>	<u>\$ (5,030)</u>	<u>\$ 1,713</u>	<u>\$ 168,752</u>
Balance at December 31, 2019	\$ 8,000	\$ 28	\$ 54,122	\$ 113,111	\$ (5,030)	\$ 1,798	\$ 172,029
Impact of cumulative effect of change in accounting principle ⁽¹⁾	—	—	—	2,484	—	—	2,484
Balance at January 1, 2020	<u>\$ 8,000</u>	<u>\$ 28</u>	<u>\$ 54,122</u>	<u>\$ 115,595</u>	<u>\$ (5,030)</u>	<u>\$ 1,798</u>	<u>\$ 174,513</u>
Net loss	—	—	—	(5,188)	—	—	(5,188)
Other comprehensive income	—	—	—	—	—	1,639	1,639
Stock compensation expense	—	—	314	—	—	—	314
Cash dividends declared on common stock	—	—	—	(466)	—	—	(466)
Cash dividends declared on preferred stock	—	—	—	(108)	—	—	(108)
Treasury stock purchases (255,650 shares)	—	—	—	—	(5,853)	—	(5,853)
Proceeds from exercise of common stock options (14,590 shares)	—	—	195	—	—	—	195
Balance at March 31, 2020	<u>\$ 8,000</u>	<u>\$ 28</u>	<u>\$ 54,631</u>	<u>\$ 109,833</u>	<u>\$ (10,883)</u>	<u>\$ 3,437</u>	<u>\$ 165,046</u>
Net income	—	—	—	2,733	—	—	2,733
Other comprehensive income	—	—	—	—	—	3,678	3,678
Stock compensation expense	—	—	182	—	—	—	182
Cash dividends declared on common stock	—	—	—	(455)	—	—	(455)
Cash dividends declared on preferred stock	—	—	—	(99)	—	—	(99)
Treasury stock purchases (127,280 shares)	—	—	—	—	(2,560)	—	(2,560)
Balance at June 30, 2020	<u>\$ 8,000</u>	<u>\$ 28</u>	<u>\$ 54,813</u>	<u>\$ 112,012</u>	<u>\$ (13,443)</u>	<u>\$ 7,115</u>	<u>\$ 168,525</u>
Net income	—	—	—	3,416	—	—	3,416
Other comprehensive loss	—	—	—	—	—	(23)	(23)
Stock compensation expense	—	—	189	—	—	—	189
Cash dividends declared on common stock	—	—	—	(446)	—	—	(446)
Cash dividends declared on preferred stock	—	—	—	(80)	—	—	(80)
Treasury stock purchases (80,475 shares)	—	—	—	—	(1,671)	—	(1,671)
Balance at September 30, 2020	<u>\$ 8,000</u>	<u>\$ 28</u>	<u>\$ 55,002</u>	<u>\$ 114,902</u>	<u>\$ (15,114)</u>	<u>\$ 7,092</u>	<u>\$ 169,910</u>

(1) Related to the change in accounting principle for the value of loan servicing rights, net of tax effects. See Note 1 for additional discussion.

See accompanying notes to unaudited consolidated financial statements

COUNTY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2020 and 2019
(Unaudited)

	For the Nine Months Ended	
	September 30, 2020	September 30, 2019
	(dollars in thousands)	
Cash flows from operating activities		
Net income	\$ 961	\$ 13,148
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization of premises and equipment	1,007	1,035
Amortization of core deposit intangible	139	227
Amortization of subordinated debentures discount	363	117
Impairment of goodwill	5,038	—
Provision for loan losses	3,439	474
Realized gain on sales of securities available-for-sale	(671)	(341)
Realized loss (gain) on sales of premises and equipment	234	(2)
Realized loss on sales of other real estate owned	13	33
Writedown of other real estate owned	1,360	250
Increase in cash surrender value of bank owned life insurance	(535)	(342)
Deferred income tax expense (benefit)	(272)	1,452
Stock compensation expense	685	439
Net amortization of securities	721	353
Net change in:		
Accrued interest receivable and other assets	(996)	(1,150)
Loans held for sale	(442)	(1,243)
Loan servicing rights	(2,210)	(2,315)
Accrued interest payable and other liabilities	1,872	1,800
Net cash provided by operating activities	<u>10,706</u>	<u>13,935</u>
Cash flows from investing activities		
Proceeds from maturities, principal repayments, and call of securities available-for-sale	18,768	18,807
Purchases of securities available-for-sale	(185,595)	—
Proceeds from sales of securities available-for-sale	35,466	29,361
Purchase (redemption) of FHLB stock	(4,130)	1,350
Purchase of bank owned life insurance	(10,000)	—
Loan originations and principal collections, net	(40,978)	119,321
Proceeds from sales of premises and equipment	1,507	4
Purchases of premises and equipment	(3,528)	(542)
Proceeds from sales of other real estate owned	1,851	4,326
Net cash provided by (used in) investing activities	<u>(186,639)</u>	<u>172,627</u>
Cash flows from financing activities		
Net increase in demand and savings deposits	129,817	31,535
Net decrease in certificates of deposits	(181,088)	(112,129)
Net change in other borrowings	101,015	(27)
Proceeds from FHLB advances	516,000	115,000
Repayment of FHLB advances	(475,800)	(160,000)
Payments to acquire treasury stock	(10,084)	—
Proceeds from issuance of subordinated debt	21,804	—
Proceeds from issuance of common stock	195	180
Dividends paid on common stock	(1,367)	(1,008)
Dividends paid on preferred stock	(287)	(355)
Net cash provided by (used in) financing activities	<u>100,205</u>	<u>(126,804)</u>
Net change in cash and cash equivalents	(75,728)	59,758
Cash and cash equivalents, beginning of period	129,011	61,087
Cash and cash equivalents, end of period	<u>\$ 53,283</u>	<u>\$ 120,845</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 16,296	\$ 17,565
Income taxes	\$ 2,500	\$ 1,800
Noncash operating activities:		
Change in accounting principle	\$ 2,484	\$ —
Noncash investing activities:		
Transfer from loans to other real estate owned	\$ 767	\$ 5,293
Loans charged off	\$ 144	\$ 3,639

See accompanying notes to unaudited consolidated financial statements.

County Bancorp, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements

NOTE 1 – BASIS OF PRESENTATION

The unaudited consolidated financial statements of County Bancorp, Inc. (“we,” “us,” “our,” or the “Company”) and its subsidiaries, including Investors Community Bank (the “Bank”), have been prepared, in the opinion of management, to reflect all adjustments necessary for a fair presentation of the financial position, results of operations, and cash flows as of and for the three and nine months ended September 30, 2020. The results of operations for the three and nine months ended September 30, 2020 may not necessarily be indicative of the results to be expected for the year ending December 31, 2020, 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, 2019 filed with the SEC on March 13, 2020.

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

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed into law. Section 4013 of the CARES Act allows financial institutions to elect to suspend troubled debt restructuring accounting under certain circumstances when the temporary restructuring is related to the Coronavirus Disease 2019 (COVID-19) pandemic. The Company has elected to implement Section 4013, and for the nine months ended September 30, 2020, the Company has processed 184 requests with loan balances totaling \$200.7 million. At September 30, 2020, loan balances totaling \$100.3 million were still participating in the payment deferral program.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (*Topic 848*). The ASU provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendment only applies to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The ASU was effective upon issuance on March 12, 2020 and can be applied through December 31, 2022. The Company is in the process of evaluating the impact of this standard but does not expect this standard to have a material impact on its results of operations, financial position, and liquidity.

In June 2016, the Financial Accounting Standards Board (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. 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 October 2019, the FASB voted to delay the effective date for the credit losses standard to January 2023 for certain entities, including SEC filers that qualify as smaller reporting companies and private companies. As a smaller reporting company, the Company is eligible for the delay and will be deferring adoption. Management will continue to progress on its implementation project plan and improve the Company’s approach throughout the deferral period.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (*Topic 820*) – *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 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 amendment became effective on January 1, 2020, and the adoption did not have a material effect on the Company's financial statements.

Change in Accounting Principle

As of January 1, 2020, the Company elected to make an accounting principle change for the valuation of the loan servicing assets from amortized cost to fair market value. Under the amortized cost method, servicing rights were amortized in proportion to and over the period of estimated net servicing income. The amortized cost of these assets was assessed for impairment at each reporting date. Under the fair market value method, the value of the asset 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 discount rate, the custodial earnings rate, prepayment speeds and default rates and losses.

We believe that the fair value method is the preferred method of presenting these assets and is more widely recognized by current and potential investors. These assets represent the value of future net revenue streams. Updating the estimate of these cash flow streams based on both observable and unobservable trends and inputs at each reporting period provides meaningful changes to the economic value to shareholders. The amortized cost approach requires a periodic impairment test; however, it does not provide any transparency if the portfolio, or certain tranches within the portfolio, have significant increases in value. Therefore, the fair value method provides a balanced, measurement policy for the benefit of the investing public. As a result of this accounting principle change, servicing assets increased by \$3.4 million and deferred tax assets decreased by \$0.9 million. The adoption of the change was recorded through a cumulative effect adjustment to retained earnings as of January 1, 2020, of \$2.5 million. All future adjustments to fair value will be reflected in the income statement.

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 September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Net income from continuing operations	\$ 3,416	\$ 5,682	\$ 961	\$ 13,148
Less: preferred stock dividends	80	120	287	355
Income available to common shareholders for basic earnings per common share	<u>\$ 3,336</u>	<u>\$ 5,562</u>	<u>\$ 674</u>	<u>\$ 12,793</u>
Weighted average number of common shares issued	7,202,000	7,168,785	7,194,642	7,160,401
Less: weighted average treasury shares	882,153	443,920	720,654	443,857
Plus: weighted average of participating restricted stock units	66,492	32,125	57,053	26,348
Weighted average number of common shares and participating securities outstanding	6,386,339	6,756,990	6,531,041	6,742,892
Effect of dilutive options	20,915	19,160	32,833	19,063
Weighted average number of common shares outstanding used to calculate diluted earnings per common share	<u>6,407,254</u>	<u>6,776,150</u>	<u>6,563,874</u>	<u>6,761,955</u>
Weighted average of anti-dilutive options	<u>137,740</u>	<u>131,729</u>	<u>85,272</u>	<u>131,729</u>

NOTE 3 – SECURITIES AVAILABLE-FOR-SALE

The amortized cost and fair value of securities available-for-sale as of September 30, 2020 and December 31, 2019 were as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(dollars in thousands)			
September 30, 2020				
Corporate bonds	\$ 4,000	\$ —	\$ —	\$ 4,000
U.S. government and agency securities	15,338	—	(178)	15,160
Asset-backed securities	16,877	—	(194)	16,683
Municipal securities	129,604	3,776	(410)	132,970
Mortgage-backed securities	120,783	8,880	—	129,663
	<u>\$ 286,602</u>	<u>\$ 12,656</u>	<u>\$ (782)</u>	<u>\$ 298,476</u>
December 31, 2019				
U.S. government and agency securities	\$ 3,490	\$ —	\$ (32)	\$ 3,458
U.S. treasury securities	2,499	7	—	2,506
Mortgage-backed securities	149,302	3,633	(166)	152,769
	<u>\$ 155,291</u>	<u>\$ 3,640</u>	<u>\$ (198)</u>	<u>\$ 158,733</u>

The amortized cost and fair value of securities at September 30, 2020 and December 31, 2019, 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)	
September 30, 2020		
Due in one year or less	\$ —	\$ —
Due from one to five years	—	—
Due from five to ten years	22,488	22,408
Due after ten years	126,454	129,722
Asset-backed securities	16,877	16,683
Mortgage-backed securities	120,783	129,663
	<u>\$ 286,602</u>	<u>\$ 298,476</u>
December 31, 2019		
Due in one year or less	\$ 2,499	\$ 2,506
Due from one to five years	—	—
Due from five to ten years	3,490	3,458
Due after ten years	—	—
Mortgage-backed securities	149,302	152,769
	<u>\$ 155,291</u>	<u>\$ 158,733</u>

Proceeds from the sale of available-for-sale securities were \$7.7 million for the three months ended September 30, 2020 which resulted in a gain of \$0.1 million. There were no security sales for the three months ended September 30, 2019. For the nine months ended September 30, 2020 and 2019, proceeds from sales of available-for-sale securities were \$35.5 million and \$29.4 million, respectively, which resulted in gains of \$0.7 million and \$0.3 million, respectively.

At September 30, 2020 and December 31, 2019, there were \$38.8 million and \$63.0 million, respectively, of securities pledged at the Federal Reserve Bank to secure municipal customer deposits.

Federal Home Loan Bank (FHLB) advances were secured by \$5.8 million and \$1.6 million FHLB stock at September 30, 2020 and December 31, 2019, 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-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2020 and December 31, 2019:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(dollars in thousands)						
September 30, 2020						
U.S. government and agency securities	\$ 12,683	\$ (155)	\$ 2,477	\$ (23)	\$ 15,160	\$ (178)
Asset-backed securities	16,683	(194)	—	—	16,683	(194)
Municipal securities	50,433	(410)	—	—	50,433	(410)
	<u>\$ 79,799</u>	<u>\$ (759)</u>	<u>\$ 2,477</u>	<u>\$ (23)</u>	<u>\$ 82,276</u>	<u>\$ (782)</u>
December 31, 2019						
U.S. government and agency securities	\$ —	\$ —	\$ 3,458	\$ (32)	\$ 3,458	\$ (32)
Mortgage-backed securities	9,873	(41)	11,867	(125)	21,740	(166)
	<u>\$ 9,873</u>	<u>\$ (41)</u>	<u>\$ 15,325</u>	<u>\$ (157)</u>	<u>\$ 25,198</u>	<u>\$ (198)</u>

The unrealized losses on the investments at September 30, 2020 and December 31, 2019 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 September 30, 2020 and December 31, 2019.

NOTE 4 – LOANS

The components of loans were as follows:

	September 30, 2020	December 31, 2019
(dollars in thousands)		
Agricultural loans	\$ 619,617	\$ 659,725
Commercial real estate loans	237,638	235,936
Commercial loans	178,565	95,787
Residential real estate loans	39,985	43,958
Installment and consumer other	121	367
Total gross loans	1,075,926	1,035,773
Allowance for loan losses	(18,649)	(15,267)
Net loans	<u>\$ 1,057,277</u>	<u>\$ 1,020,506</u>

Changes in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2020 and 2019 were as follows:

	Agricultural	Commercial Real Estate	Commercial	Residential Real Estate	Installment and Consumer Other	Unallocated	Total
(dollars in thousands)							
For the Three Months Ended September 30, 2020							
Balance, beginning of period	\$ 12,670	\$ 3,859	\$ 1,954	\$ 85	\$ 1	\$ —	\$ 18,569
Provision for loan losses	(444)	491	(47)	3	(1)	77	79
Loans charged off	—	—	—	—	—	—	—
Recoveries	—	1	—	—	—	—	1
Balance, end of period	<u>\$ 12,226</u>	<u>\$ 4,351</u>	<u>\$ 1,907</u>	<u>\$ 88</u>	<u>\$ —</u>	<u>\$ 77</u>	<u>\$ 18,649</u>
For the Nine Months Ended September 30, 2020							
Balance, beginning of year	\$ 11,737	\$ 1,913	\$ 1,599	\$ 15	\$ 3	\$ —	\$ 15,267
Provision for loan losses	466	2,375	451	73	(3)	77	3,439
Loans charged off	—	—	(144)	—	—	—	(144)
Recoveries	23	63	1	—	—	—	87
Balance, end of period	<u>\$ 12,226</u>	<u>\$ 4,351</u>	<u>\$ 1,907</u>	<u>\$ 88</u>	<u>\$ —</u>	<u>\$ 77</u>	<u>\$ 18,649</u>
For the Three Months Ended September 30, 2019							
Balance, beginning of period	\$ 13,647	\$ 1,882	\$ 709	\$ 19	\$ 1	\$ —	\$ 16,258
Provision for loan losses	(1,093)	(44)	(14)	(4)	1	—	(1,154)
Loans charged off	(54)	(1)	—	—	—	—	(55)
Recoveries	1	15	—	—	—	—	16
Balance, end of period	<u>\$ 12,501</u>	<u>\$ 1,852</u>	<u>\$ 695</u>	<u>\$ 15</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 15,065</u>
For the Nine Months Ended September 30, 2019							
Balance, beginning of year	\$ 12,258	\$ 2,779	\$ 1,414	\$ 53	\$ 1	\$ —	\$ 16,505
Provision for loan losses	281	91	139	(38)	1	—	474
Loans charged off	(54)	(2,625)	(960)	—	—	—	(3,639)
Recoveries	16	1,607	102	—	—	—	1,725
Balance, end of period	<u>\$ 12,501</u>	<u>\$ 1,852</u>	<u>\$ 695</u>	<u>\$ 15</u>	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 15,065</u>

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 September 30, 2020 and December 31, 2019:

	September 30, 2020		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
	(dollars in thousands)		
Allowance for loan losses:			
Agricultural loans	\$ 3,801	\$ 8,425	\$ 12,226
Commercial real estate loans	2,926	1,425	4,351
Commercial loans	1,207	700	1,907
Residential real estate loans	—	88	88
Installment and consumer other	—	—	—
Unallocated	—	77	77
Total ending allowance for loan losses	7,934	10,715	18,649
Loans:			
Agricultural loans	64,384	555,233	619,617
Commercial real estate loans	9,311	228,327	237,638
Commercial loans	2,930	175,635	178,565
Residential real estate loans	60	39,925	39,985
Installment and consumer other	—	121	121
Total loans	76,685	999,241	1,075,926
Net loans	\$ 68,751	\$ 988,526	\$ 1,057,277
	December 31, 2019		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
	(dollars in thousands)		
Allowance for loan losses:			
Agricultural loans	\$ 3,515	\$ 8,222	\$ 11,737
Commercial real estate loans	836	1,077	1,913
Commercial loans	1,238	361	1,599
Residential real estate loans	—	15	15
Installment and consumer other	—	3	3
Total ending allowance for loan losses	5,589	9,678	15,267
Loans:			
Agricultural loans	58,833	600,892	659,725
Commercial real estate loans	3,682	232,254	235,936
Commercial loans	1,862	93,925	95,787
Residential real estate loans	62	43,896	43,958
Installment and consumer other	—	367	367
Total loans	64,439	971,334	1,035,773
Net loans	\$ 58,850	\$ 961,656	\$ 1,020,506

The following tables present loans individually evaluated for impairment by class of loans at September 30, 2020 and December 31, 2019:

	September 30, 2020		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
	(dollars in thousands)		
With no related allowance:			
Agricultural loans	\$ 20,890	\$ 20,785	\$ —
Commercial real estate loans	288	288	—
Commercial loans	1,136	1,114	—
Residential real estate loans	61	60	—
	<u>\$ 22,375</u>	<u>\$ 22,247</u>	<u>\$ —</u>
With an allowance recorded:			
Agricultural loans	\$ 47,255	\$ 43,599	\$ 3,801
Commercial real estate loans	9,123	9,023	2,926
Commercial loans	1,891	1,816	1,207
Residential real estate loans	—	—	—
	<u>\$ 58,269</u>	<u>\$ 54,438</u>	<u>\$ 7,934</u>
Total	<u>\$ 80,644</u>	<u>\$ 76,685</u>	<u>\$ 7,934</u>
	December 31, 2019		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
	(dollars in thousands)		
With no related allowance:			
Agricultural loans	\$ 14,151	\$ 14,131	\$ —
Commercial real estate loans	—	—	—
Commercial loans	—	—	—
Residential real estate loans	62	62	—
	<u>\$ 14,213</u>	<u>\$ 14,193</u>	<u>\$ —</u>
With an allowance recorded:			
Agricultural loans	\$ 47,225	\$ 44,702	\$ 3,515
Commercial real estate loans	3,681	3,682	836
Commercial loans	2,155	1,862	1,238
Residential real estate loans	—	—	—
	<u>\$ 53,061</u>	<u>\$ 50,246</u>	<u>\$ 5,589</u>
Total	<u>\$ 67,274</u>	<u>\$ 64,439</u>	<u>\$ 5,589</u>

The following table presents the aging of the recorded investment in past due loans at September 30, 2020 and December 31, 2019:

	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)						
September 30, 2020						
Agricultural loans	\$ 93	\$ 261	\$ 5,103	\$ 5,457	\$ 614,160	\$ 619,617
Commercial real estate loans	—	—	6,029	6,029	231,609	237,638
Commercial loans	27	—	172	199	178,366	178,565
Residential real estate loans	30	—	—	30	39,955	39,985
Installment and consumer other	—	—	—	—	121	121
Total	\$ 150	\$ 261	\$ 11,304	\$ 11,715	\$ 1,064,211	\$ 1,075,926
December 31, 2019						
Agricultural loans	\$ 1,489	\$ 71	\$ 4,974	\$ 6,534	\$ 653,191	\$ 659,725
Commercial real estate loans	—	288	-	288	235,648	235,936
Commercial loans	—	28	228	256	95,531	95,787
Residential real estate loans	—	—	62	62	43,896	43,958
Installment and consumer other	—	—	—	—	367	367
Total	\$ 1,489	\$ 387	\$ 5,264	\$ 7,140	\$ 1,028,633	\$ 1,035,773

The following table presents the recorded investment in nonaccrual loans by class of loan:

	September 30, 2020	December 31, 2019
(dollars in thousands)		
Agricultural loans	\$ 31,307	\$ 26,415
Commercial real estate loans	8,318	2,673
Commercial loans	1,666	1,818
Residential real estate loans	60	62
Total	\$ 41,351	\$ 30,968

The following tables present the average recorded investment and interest income recognized on impaired loans by portfolio segment for the three and nine months ended September 30, 2020 and 2019:

As of and for the Three Months Ended September 30, 2020					
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
(dollars in thousands)					
Agricultural loans	\$ 68,145	\$ 64,384	\$ 3,801	\$ 61,640	\$ 1,507
Commercial real estate loans	9,411	9,311	2,926	9,331	59
Commercial loans	3,027	2,930	1,207	2,906	4
Residential real estate loans	61	60	—	60	—
Total	\$ 80,644	\$ 76,685	\$ 7,934	\$ 73,937	\$ 1,570

As of and for the Nine Months Ended September 30, 2020					
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
(dollars in thousands)					
Agricultural loans	\$ 68,145	\$ 64,384	\$ 3,801	\$ 61,609	\$ 3,877
Commercial real estate loans	9,411	9,311	2,926	6,497	199
Commercial loans	3,027	2,930	1,207	2,396	73
Residential real estate loans	61	60	—	61	1
Total	\$ 80,644	\$ 76,685	\$ 7,934	\$ 70,562	\$ 4,150

As of and for the Three Months Ended September 30, 2019					
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
(dollars in thousands)					
Agricultural loans	\$ 62,666	\$ 60,049	\$ 3,702	\$ 59,963	\$ 1,384
Commercial real estate loans	1,015	1,016	4	1,019	15
Commercial loans	609	600	298	566	6
Residential real estate loans	63	63	—	32	1
Total	\$ 64,353	\$ 61,728	\$ 4,004	\$ 61,580	\$ 1,406

As of and for the Nine Months Ended September 30, 2019					
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
(dollars in thousands)					
Agricultural loans	\$ 62,666	\$ 60,049	\$ 3,702	\$ 56,498	\$ 4,088
Commercial real estate loans	1,015	1,016	4	1,527	46
Commercial loans	609	600	298	1,187	9
Residential real estate loans	63	63	—	32	1
Total	\$ 64,353	\$ 61,728	\$ 4,004	\$ 59,244	\$ 4,144

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 \$1.7 million for the three months ended September 30, 2020 and 2019, and \$4.5 million and \$2.7 million for the nine months ended September 30, 2020 and 2019, respectively.

Troubled Debt Restructurings

The Company allocated approximately \$3.1 million and \$3.5 million of specific reserves to customers whose loan terms have been modified in troubled debt restructurings (“TDR”) at September 30, 2020 and December 31, 2019, respectively. The Company had no additional lending commitments at September 30, 2020 or December 31, 2019 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 returned to accrual status. The following table presents the TDRs and related allowance for loan losses by loan class at September 30, 2020 and December 31, 2019:

	Non-Accrual	Restructured and Accruing	Total	Allowance for Loan Losses Allocated
(dollars in thousands)				
September 30, 2020				
Agricultural loans	\$ 17,778	\$ 18,043	\$ 35,821	\$ 3,066
Commercial real estate loans	—	993	993	28
Commercial loans	116	—	116	3
Total	\$ 17,894	\$ 19,036	\$ 36,930	\$ 3,097
December 31, 2019				
Agricultural loans	\$ 19,033	\$ 20,731	\$ 39,764	\$ 3,436
Commercial real estate loans	—	1,009	1,009	32
Commercial loans	228	44	272	60
Total	\$ 19,261	\$ 21,784	\$ 41,045	\$ 3,528

The following tables provide the number of loans modified in a troubled debt restructuring investment by class for the three and nine months ended September 30, 2020 and 2019:

	For the Three Months Ended			
	September 30, 2020		September 30, 2019	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
(dollars in thousands)				
Troubled debt restructurings:				
Agricultural loans	—	\$ —	12	\$ 3,694
Total	—	\$ —	12	\$ 3,694

	For the Nine Months Ended			
	September 30, 2020		September 30, 2019	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
(dollars in thousands)				
Troubled debt restructurings:				
Agricultural loans	8	\$ 2,872	41	\$ 17,454
Commercial real estate loans	—	—	1	1,021
Commercial loans	—	—	4	1,115
Total	8	\$ 2,872	46	\$ 19,590

The following tables provide the troubled debt restructurings for the three and nine months ended September 30, 2020 and 2019 grouped by type of concession:

	For the Three Months Ended			
	September 30, 2020		September 30, 2019	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(dollars in thousands)			
Agricultural loans				
Term concessions	—	\$ —	10	\$ 3,625
Commercial loans				
Payment concessions	—	—	2	69
Total	<u>—</u>	<u>\$ —</u>	<u>12</u>	<u>\$ 3,694</u>

	For the Nine Months Ended			
	September 30, 2020		September 30, 2019	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(dollars in thousands)			
Agricultural loans				
Payment concessions	1	\$ 231	3	\$ 703
Term concessions	1	484	12	4,078
Rate concessions	—	—	1	85
Extension of interest-only payments	2	75	24	12,436
Capitalized interest	1	153	1	152
Combination of extension of term and interest rate concessions	3	1,929	—	—
Commercial real estate loans				
Payment concessions	—	—	1	1,021
Commercial loans				
Combination of extension of term and interest rate concessions	—	—	2	1,046
Payment concessions	—	—	2	69
Total	<u>8</u>	<u>\$ 2,872</u>	<u>46</u>	<u>\$ 19,590</u>

No troubled debt restructurings defaulted within twelve months of the restructure date during the three and nine months ended June 30, 2020 and June 30, 2019, respectively.

Section 4013 of the CARES Act allows financial institutions to elect to suspend troubled debt restructuring accounting under certain circumstances when the temporary restructuring is related to the Coronavirus Disease 2019 (COVID-19) pandemic. The Company has elected to implement Section 4013, and for the nine months ended September 30, 2020, the Company has processed 184 requests with loan balances totaling \$200.7 million; the balance of those loans modified under Section 4103 was \$100.3 million at September 30, 2020.

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.

The Bank will not accrue interest on any loan past due 90-days or more. Furthermore, the Bank will place any loan on non-accrual status for which payment in full of principal and interest is not expected. A loan shall be placed on non-accrual as soon as it is determined that payment in full of interest and/or principal is unlikely. The CCO may approve the placement of a loan on non-accrual prior to 90-days past due.

Based on the most recent analysis performed by management, the risk category of loans by class of loans was as follows as of September 30, 2020 and December 31, 2019:

	As of September 30, 2020					
	Sound/ Acceptable/ Satisfactory/ Low Satisfactory	Watch	Special Mention	Substandard Performing	Substandard Impaired	Total Loans
	(dollars in thousands)					
Agricultural loans	\$ 380,285	\$ 162,169	\$ 1,851	\$ 38,520	\$ 36,792	\$ 619,617
Commercial real estate loans	212,747	13,863	—	2,710	8,318	237,638
Commercial loans	167,621	8,974	—	347	1,623	178,565
Residential real estate loans	39,677	248	—	—	60	39,985
Installment and consumer other	121	—	—	—	—	121
Total	\$ 800,451	\$ 185,254	\$ 1,851	\$ 41,577	\$ 46,793	\$ 1,075,926

	As of December 31, 2019 ⁽¹⁾					
	Sound/ Acceptable/ Satisfactory/ Low Satisfactory	Watch	Special Mention	Substandard Performing	Substandard Impaired	Total Loans
	(dollars in thousands)					
Agricultural loans	\$ 388,184	\$ 184,050	\$ 9,239	\$ 46,587	\$ 31,665	\$ 659,725
Commercial real estate loans	209,279	21,703	—	2,281	2,673	235,936
Commercial loans	83,141	10,091	—	737	1,818	95,787
Residential real estate loans	43,473	254	—	169	62	43,958
Installment and consumer other	367	—	—	—	—	367
Total	\$ 724,444	\$ 216,098	\$ 9,239	\$ 49,774	\$ 36,218	\$ 1,035,773

(1) Performing troubled debt restructurings have been reclassified to be reflected in their internal risk rating category rather than Substandard Impaired as previously reported.

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 loans serviced for others were approximately \$797.8 million and \$751.7 million at September 30, 2020 and December 31, 2019, respectively. The fair value of these rights were approximately \$17.2 million and \$15.9 million at September 30, 2020 and December 31, 2019.

The fair value of servicing rights is highly sensitive to changes in underlying assumptions. The Company's portfolio of loan serviced for others is mostly comprised of fixed rate loans. Generally, as market interest rates rise, prepayments on fixed rate loans decrease due to a decline in refinancing activity, which results in an increase in the fair value of servicing rights. However, due to the cross-collateralization of loans in the portfolio and the government guarantee programs under which many of the loans were originated, prepayments on the portfolio tend to be muted in comparison to those of other types of loans, such as mortgage loans. Measurement of fair value is limited to the conditions existing and the assumptions used as of a particular point in time, and those assumptions may not be appropriate if they were applied at a different time.

The fair value of servicing rights at December 31, 2019 was determined using an assumed discount rate of 14.0% and weighted average prepayment speed of 7.33%, ranging from 5.00% to 10.00%, depending upon the stratification of the specific right, and nominal credit losses. The fair value of servicing rights at September 30, 2020 was determined using an assumed discount rate of 13.3% percent and a weighted average prepayment speed of 6.23%, primarily ranging from 6.12% to 7.73%, depending upon loan type, the stratification of the specific right, and nominal credit losses.

Changes to the fair value are reported in loan servicing fees within the consolidated statements of operations.

The following tables summarize servicing rights capitalized, along with the aggregate activity in related valuation allowances. The three and nine months ended September 30, 2020 is presented at fair value, and the three and nine months ended September 30, 2019 is presented using the amortized cost method.

	For the Three Months Ended September 30, 2020 (dollars in thousands)	
Balance at June 30, 2020	\$	16,486
Additions, net		1,268
Fair value changes:		
Decay due to increases in principal paydowns or runoff		(386)
Due to changes in valuation inputs or assumptions		(165)
Balance, September 30, 2020	\$	<u>17,203</u>
	For the Nine Months Ended September 30, 2020 (dollars in thousands)	
Balance at December 31, 2019	\$	12,509
Impact of cumulative effect of change in accounting principle		3,412
Balance at January 1, 2020	\$	<u>15,921</u>
Additions, net		2,814
Fair value changes:		
Decay due to increases in principal paydowns or runoff		(1,378)
Due to changes in valuation inputs or assumptions		(154)
Balance, September 30, 2020	\$	<u>17,203</u>
	For the Three Months Ended September 30, 2019	For the Nine Months Ended September 30, 2019
	(dollars in thousands)	
Balance, beginning of period	\$ 9,621	\$ 9,047
Additions related to new loans	2,523	4,464
Impairment due to prepayment	(198)	(461)
Amortization of existing asset	(831)	(2,430)
Reduction of valuation allowance	247	742
Balance, September 30, 2019	<u>\$ 11,362</u>	<u>\$ 11,362</u>

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.

During the first quarter of 2020, goodwill was evaluated for impairment due to economic disruption and unknown growth and credit risk related to the COVID-19 pandemic. Management provided to a third party its updated income projections. Three valuation models were weighted and evaluated: discounted cash flow model (60%), guideline public company method (30%) and transaction method (10%). The transaction method was weighted the lowest as most, if not all, of the identified transactions happened prior to the COVID-19 pandemic and could not be relied upon as comparable values as of March 31, 2020. More weighting was put toward cash flows as management believes the value of the Company is still tied to overall earnings. For the discounted cash flow method, the analysis discounted projected earnings by 14.5% based on an evaluation of required returns for similar public companies adjusted for

an expected size and company-specific premium. Through this evaluation, it was determined that as of March 31, 2020, the fair value of the Company did not exceed the current carrying value by an amount in excess of the carrying amount of the goodwill; therefore, the full amount of goodwill was deemed to be impaired.

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 Bancorp, Inc. (“Fox River Valley”) acquisition in 2016 had a gross carrying amount of \$1.8 million. There was no impairment charge to core deposit intangible for the three or nine months ended September 30, 2020.

	September 30, 2020	December 31, 2019
	(dollars in thousands)	
Core deposit intangible:		
Gross carrying amount	\$ 1,801	\$ 1,801
Accumulated amortization	(1,715)	(1,576)
Net book value	<u>\$ 86</u>	<u>\$ 225</u>

NOTE 7 – DEPOSITS

Deposits are summarized as follows at September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
	(dollars in thousands)	
Demand deposits	\$ 158,798	\$ 138,489
NOW and interest checking	82,373	67,805
Savings	7,553	6,395
Money market accounts	325,900	247,828
Certificates of deposit	322,992	375,100
National time deposits	50,747	99,485
Brokered deposits	101,808	166,340
Total deposits	<u>\$ 1,050,171</u>	<u>\$ 1,101,442</u>

NOTE 8—ADVANCES FROM FHLB AND OTHER BORROWINGS

The Bank had advances outstanding from the FHLB in the amount of \$84.6 million and \$44.4 million on September 30, 2020 and December 31, 2019, respectively. These advances, rates, and maturities were as follows:

	Maturity	Rate	September 30, 2020	December 31, 2019
			(dollars in thousands)	
Fixed rate, fixed term	02/20/2020	1.71%	\$ —	\$ 5,000
Fixed rate, fixed term	07/16/2020	1.85%	—	800
Fixed rate, fixed term	08/25/2020	1.84%	—	3,000
Fixed rate, fixed term	08/27/2020	1.88%	—	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	05/03/2021	0.00%	4,000	—
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, fixed term	03/18/2022	1.03%	15,000	—
Fixed rate, fixed term	03/25/2022	0.75%	10,000	—
Fixed rate, putable, 2 years no call	01/12/2023	2.03%	8,000	8,000
Fixed rate, fixed term	03/23/2023	1.26%	10,000	—
Fixed rate, fixed term	03/27/2023	0.82%	15,000	—
			<u>\$ 84,600</u>	<u>\$ 44,400</u>

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 September 30, 2020 and December 31, 2019, the Bank had pledged qualifying mortgage loans of \$368.6 million and \$393.7 million, respectively.

As of September 30, 2020 and December 31, 2019, 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 \$109.0 million and \$127.3 million in loans at September 30, 2020 and December 31, 2019, respectively. There were no outstanding advances included in other borrowings at September 30, 2020 and December 31, 2019.

As of December 31, 2019, the Company had an unsecured credit agreement with U.S. Bank National Association for a \$10.0 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 December 31, 2019. The line of credit expired on September 30, 2020 and was not renewed.

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 September 30, 2020 and December 31, 2019, the amounts of these borrowings were \$0.8 million.

Also included in other borrowings is the financing lease for our full-service banking location in Manitowoc, Wisconsin. This branch location was owned by the Bank and was sold to a third party in March 2020. The Bank is leasing back a portion of the building for its full-service branch. Under the terms of the current lease which began on March 2, 2020, the Company is obligated to pay monthly rent of \$16 thousand with an initial lease term of ten years with two renewal options of five years each. As of September 30, 2020, the liability remaining under the financing lease was \$1.3 million. There was no financing lease obligation as of December 31, 2019.

During the second quarter of 2020, the Company largely funded the Small Business Administration's Paycheck Protection Program ("PPP") loans through the Federal Reserve's PPP Liquidity Facility, which allowed for 12-month advances collateralized by PPP loans at an interest rate of 0.35%. The balance of these advances was \$99.7 million at September 30, 2020 and were secured by PPP loans of the same amount.

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

	September 30, 2020	December 31, 2019
	(dollars in thousands)	
Balance outstanding at end of period	\$ 101,809	\$ 794
Average amount outstanding during the period	101,829	800
Maximum amount outstanding at any month-end	101,835	1,412
Weighted average interest rate during the period	0.62%	4.60%
Weighted average interest rate at end of period	0.40%	4.51%

NOTE 9 — SUBORDINATED DEBENTURES

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

The capital securities carry an interest rate identical to that of the related debentures. For Trust II, holders of capital securities are entitled to receive cumulative cash distributions at a rate based on the three month LIBOR plus 1.53% thereafter through maturity, which was 1.84% and 3.44% as of June 30, 2020 and December 31, 2019, respectively. For Trust III, holders of capital securities are entitled to receive cumulative cash distributions at a rate based on the three month LIBOR plus 1.69% through maturity, which was 2.00% and 3.60% as of June 30, 2020 and December 31, 2019, respectively. Interest was current through the most recent interest payment date of June 15, 2020. The distribution rate payable on the capital securities is cumulative and payable quarterly in arrears.

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

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

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

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

The distribution rate payable on the debentures is cumulative and payable quarterly in arrears. The Company has the right, subject to events of default, to defer payments of interest on the debentures at any time by extending the interest payment period not exceeding 20 consecutive quarters with respect to each deferral period, provided that no extension period may extend beyond the redemption or maturity date of the debentures. Interest was current through the most recent interest payment date of August 28, 2020.

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

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

On May 30, 2018, the Company entered into a Subordinated Note Purchase Agreement with certain institutional investors pursuant to which the Company sold and issued \$30.0 million in aggregate principal amount of its 5.875% fixed-to-floating rate subordinated notes due 2028 (the “Notes”). The Notes were issued by the Company to the purchasers at a price equal to 100% of their face amount. The Notes have a stated maturity of June 1, 2028, are redeemable, in whole or in part, on or after June 1, 2023, and at any time upon the occurrences of certain events. The Notes will bear interest at a fixed rate of 5.875% per year, from and including May 30, 2018 to, but excluding, June 1, 2023. From and including June 1, 2023 to, but excluding, the maturity date or early redemption date, the interest rate will reset quarterly at a variable rate equal to the then current 3-month LIBOR plus 2.88%. The notes qualify as Tier II capital of the Company. The Company incurred \$0.9 million of costs related to the issuance of the Notes. These costs have been capitalized and are being amortized over the life of the Notes.

During the second and third quarter of 2020, the Company entered into a Subordinated Note Purchase Agreement with certain institutional or accredited investors pursuant to which the Company sold and issued \$22.4 million in aggregate principal amount of its 7.00% fixed-to-floating rate subordinated notes due 2030 (the “2030 Notes”). The 2030 Notes were issued by the Company to the purchasers at a price equal to 100% of their face amount. The 2030 Notes have a stated maturity of June 30, 2030, are redeemable, in whole or in part, on or after June 30, 2025, and at any time upon the occurrences of certain events. The 2030 Notes will bear interest at a fixed rate of 7.00% per year, from and including June 30, 2020 to, but excluding, June 30, 2025. From and including June 30, 2025 to, but excluding, the maturity date or early redemption date, the interest rate will reset quarterly at a variable rate equal to the then current three-month term secured overnight financing rate (SOFR) plus 687.5 basis points. The 2030 Notes qualify as Tier 2 capital of

the Company. The Company incurred \$0.5 million of costs related to the issuance of the 2030 Notes. These costs have been capitalized and are being amortized over the call date of the 2030 Notes.

NOTE 10 – 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 September 30, 2020, 59,644 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 September 30, 2020 and changes in the Plan during the nine months ended September 30, 2020 were as follows:

	September 30, 2020		
	Number of Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value ⁽¹⁾
	(dollars in thousands except option and per share data)		
Outstanding, beginning of year	214,904	\$ 18.94	
Granted	56,076	19.50	
Exercised	(14,590)	13.38	
Forfeited/expired	—	—	
Outstanding, end of period	256,390	\$ 19.37	\$ 337
Options exercisable at period-end	168,845	\$ 18.97	\$ 285
Weighted-average fair value of options granted during the period ⁽²⁾		\$ 6.00	

- (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 September 30, 2020. 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 nine months ended September 30, 2020 was as follows:

	September 30, 2020	
	Restricted Stock Awards ⁽¹⁾	Weighted Average Grant Price
Outstanding, beginning of year	20,668	\$ 21.86
Granted	—	—
Vested	(14,369)	20.57
Forfeited/expired	—	—
Outstanding, end of period	6,299	\$ 24.80

	September 30, 2020	
	Restricted Stock Units	Weighted Average Grant Price
Outstanding, beginning of year	32,125	\$ 19.80
Granted	43,725	18.66
Vested	(14,615)	19.37
Forfeited/expired	—	—
Outstanding, end of period	61,235	\$ 19.07
Restricted shares vested not yet issued, end of period	5,257	\$ 25.39

- (1) The beginning of year amounts have been reclassified to include restricted stock awards and units for individuals that have reached retirement age as defined by the Plan. Previously, these units were considered vested and removed from the schedule; however, the Plan only accelerates the vesting of these options if the participant leaves employment.

For the three months ended September 30, 2020 and 2019, share-based compensation expense, including options and restricted stock awards and units, applicable to the Plan was \$0.2 million. For the nine months ended September 30, 2020 and 2019, share-based compensation expense, including options and restricted stock awards and units, applicable to the Plan was \$0.7 million and \$0.4 million, respectively.

As of September 30, 2020, unrecognized share-based compensation expense related to nonvested share-based compensation instruments amounted to \$0.9 million and is expected to be recognized over a weighted average period of 2.27 years.

NOTE 11 – REGULATORY MATTERS

The Company (on a consolidated basis) and Bank are each subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action (applicable only to the Bank), the Company and Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations), of Tier 1 capital (as defined in the regulations) to average assets (as defined in the regulations), and of Tier 1 Common Equity (as defined in the regulations) to risk-weighted assets. Management believed, as of September 30, 2020 and December 31, 2019, that the Company and the Bank met all capital adequacy requirements to which they were subject.

As of September 30, 2020, 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 Company and Bank's actual capital amounts and ratios are presented in the following table:

	Actual		Minimum For Capital Adequacy Purposes:		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio ⁽¹⁾	Amount	Ratio
September 30, 2020						
Total Capital (to risk weighted assets):						
Consolidated	\$ 244,758	20.39%	\$ 126,058	10.50%	Not applicable	10.00%
Bank	206,352	17.25%	125,623	10.50%	\$ 119,641	10.00%
Tier 1 Capital (to risk weighted assets):						
Consolidated	178,426	14.86%	\$ 102,047	8.50%	Not applicable	8.00%
Bank	191,372	16.00%	101,695	8.50%	95,713	8.00%
Tier 1 Capital (to average assets):						
Consolidated	178,426	12.86%	55,504	4.00%	Not applicable	5.00%
Bank	191,372	13.61%	56,250	4.00%	70,313	5.00%
Tier 1 Common Equity Ratio (to risk weighted assets):						
Consolidated	154,733	12.89%	\$ 84,039	7.00%	Not applicable	6.50%
Bank	191,372	16.00%	83,749	7.00%	77,767	6.50%
December 31, 2019						
Total Capital (to risk weighted assets):						
Consolidated	\$ 225,094	19.41%	\$ 121,746	10.500%	Not applicable	
Bank	216,198	18.70%	121,396	10.500%	\$ 115,615	10.00%
Tier 1 Capital (to risk weighted assets):						
Consolidated	180,620	15.58%	98,557	8.500%	Not applicable	
Bank	201,735	17.45%	98,273	8.500%	92,492	8.00%
Tier 1 Capital (to average assets):						
Consolidated	180,620	12.42%	58,182	4.00%	Not applicable	
Bank	201,735	14.68%	54,962	4.00%	68,702	5.00%
Tier 1 Common Equity Ratio (to risk weighted assets):						
Consolidated	156,969	13.54%	81,164	7.000%	Not applicable	
Bank	201,735	17.45%	80,930	7.000%	75,150	6.50%

(1) Includes the capital conservation buffer of 2.5%

The Basel III Rule implemented a capital conservation buffer, equal to 2.5% of Tier 1 Common Equity, which is added to the minimum requirements for capital adequacy purposes. As of September 30, 2020 and December 31, 2019, the ratios for the Company and the Bank exceeded the 2.5% capital conservation buffer. Failure to exceed the capital conservation buffer would result in limitations on certain capital distributions, including dividend payments, and certain discretionary bonus payment to executive officers.

NOTE 12 – 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.

Loan Servicing Rights

The Company's loan servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models having significant inputs of discount rate, prepayment speed, and default rate. Due to the nature of the valuation inputs, loan servicing rights are classified in Level 3 of the valuation hierarchy.

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)			
September 30, 2020				
Securities available for sale:				
Corporate bonds	\$ —	\$ 4,000	\$ —	\$ 4,000
U.S. government and agency securities	—	15,160	—	15,160
Asset backed securities	—	16,683	—	16,683
Municipal securities	—	132,970	—	132,970
Mortgage-backed securities	—	129,663	—	129,663
Loan servicing rights ⁽¹⁾	—	—	17,203	17,203
Total assets at fair value	\$ —	\$ 298,476	\$ 17,203	\$ 315,679
Derivative instruments, interest rate swaps	—	2,128	—	2,128
Total liabilities at fair value	\$ —	\$ 2,128	\$ —	\$ 2,128
December 31, 2019				
Securities available for sale:				
U.S. government and agency securities	\$ —	\$ 3,458	\$ —	\$ 3,458
U.S. treasury Securities	—	2,506	—	2,506
Mortgage-backed securities	—	152,769	—	152,769
Total assets at fair value	\$ —	\$ 158,733	\$ —	\$ 158,733
Derivative instruments, interest rate swaps	—	972	—	972
Total liabilities at fair value	\$ —	\$ 972	\$ —	\$ 972

(1) See Note 5 for quantitative information on the significant inputs and a rollforward of activity related to the loan servicing rights.

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)		
September 30, 2020			
Impaired loans	\$ —	\$ —	\$ 46,504
Other real estate owned	—	—	3,064
Total assets at fair value	\$ —	\$ —	\$ 49,568
December 31, 2019			
Impaired loans	\$ —	\$ —	\$ 44,657
Other real estate owned	—	—	5,521
Total assets at fair value	\$ —	\$ —	\$ 50,178

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

September 30, 2020			
	Valuation Techniques	Unobservable Inputs	Range (Average)
Impaired loans	Evaluation of collateral	Estimation of value	NM*
Other real estate owned	Appraisal	Appraisal adjustment	10%-57% (31%)

December 31, 2019			
	Valuation Techniques	Unobservable Inputs	Range (Average)
Impaired loans	Evaluation of collateral	Estimation of value	NM*
Other real estate owned	Appraisal	Appraisal adjustment	5%-64% (29%)

* **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:

	September 30, 2020		December 31, 2019		Input Level
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
(dollars in thousands)					
Financial assets:					
Cash and cash equivalents	\$ 52,867	\$ 52,867	\$ 108,457	\$ 108,457	1
Interest earning cash at other financial institutions	416	416	20,554	20,554	1
FHLB Stock	5,758	5,758	1,628	1,628	2
Securities available for sale	298,476	298,476	158,733	158,733	2
Loans, net of allowance for loan losses	1,057,277	1,068,482	1,020,506	1,024,062	3
Loans held for sale	2,593	2,593	2,151	2,151	3
Accrued interest receivable	3,717	3,717	2,571	2,571	2
Loan servicing rights	17,203	17,203	12,509	15,921	3
Financial liabilities:					
Deposits:					
Time	475,546	473,778	640,925	635,558	2
Other deposits	574,625	574,625	460,517	460,517	1
Other borrowings	101,809	101,809	794	794	3
Advances from FHLB	84,600	86,895	44,400	44,578	2
Subordinated debentures	67,025	67,025	44,858	44,858	3
Accrued interest payable	3,775	3,775	4,769	4,769	2
Derivative instruments, interest rate swaps	2,226	2,226	972	972	2

NOTE 13 – OTHER REAL ESTATE OWNED

Changes in other real estate owned were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Balance, beginning of period	\$ 2,629	\$ 8,693	\$ 5,521	\$ 6,568
Assets foreclosed	768	—	767	5,293
Write-down of other real estate owned	—	—	(1,360)	(250)
Net loss on sales of other real estate owned	(9)	(160)	(13)	(33)
Proceeds from sale of other real estate owned	(324)	(1,281)	(1,851)	(4,326)
Balance, end of period	<u>\$ 3,064</u>	<u>\$ 7,252</u>	<u>\$ 3,064</u>	<u>\$ 7,252</u>

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Net loss on sales of other real estate owned	\$ (9)	\$ (160)	(13)	\$ (33)
Write-down of other real estate owned	—	—	(1,360)	(250)
Operating expenses, net of rental income	(51)	(48)	(217)	(158)
	<u>\$ (60)</u>	<u>\$ (208)</u>	<u>\$ (1,590)</u>	<u>\$ (441)</u>

NOTE 14 – 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 September 30, 2020 and December 31, 2019. Both interest rate swaps mature on June 15, 2028. A pre-tax unrealized loss of \$1.2 million and \$0.8 million was recognized in accumulated other comprehensive income for the nine months ended September 30, 2020 and the year ended December 31, 2019, 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 contain 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 \$2.4 million of cash as collateral to the counterparty as of September 30, 2020.

NOTE 15 – SUBSEQUENT EVENTS

Management evaluated subsequent events through the date the financial statements were issued.

There were other no significant events or transactions occurring after September 30, 2020, but prior to November 6, 2020, that provided additional evidence about conditions that existed at September 30, 2020.

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:

- the effects of the COVID-19 pandemic, including its effects on the economic environment, our customers and our operations, as well as any changes to federal, state or local government laws, regulations or orders in connection with the pandemic;
- government intervention in the U.S. financial system in response to the COVID-19 pandemic, including the effects of recent legislative, tax, accounting and regulatory actions and reforms including the CARES Act;
- 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, as well as financial technology (FinTech) companies and other non-traditional competitors;
- 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;
- the failure of assumptions and estimates underlying the establishment of our allowance for loan losses and estimation of values of collateral and various financial assets and liabilities;
- interest rate risks associated with our business;
- fluctuations in the values of the securities held in our securities portfolio;
- 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 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, execute our strategic plan, and manage our growth;
- 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 changes in banking, consumer protection, securities, trade, and tax laws and regulations, and any increased costs of compliance with such laws and regulations;
- changes in accounting policies and practices, including the implementation of CECL;

- *our ability to retain key members of our senior management team;*
- *our ability to successfully manage liquidity risk;*
- *the effectiveness of our risk management framework;*
- *the occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents and our ability to identify and address such incidents;*
- *interruptions involving our information technology and telecommunications systems or third-party servicers;*
- *changes in benchmark interest rates used to price our loans and deposits, including the expected elimination of the London Interbank Offered Rate (“LIBOR”);*
- *the extensive regulatory framework that applies to us and our compliance with governmental and regulatory requirements including the Dodd-Frank Act, the Basel III Rule and others relating to banking, consumer protection, securities and tax matters;*
- *rapid technological change in the financial services industry;*
- *the effects of severe weather, natural disasters, acts of war or terrorism, widespread disease or pandemics, including the COVID-19 pandemic, and other external events;*
- *the impact of any claims, legal actions, litigation, and other legal proceedings and regulatory actions against us, including any effect on our reputation;*
- *the effect of tariffs, trade agreements, and 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 in this Form 10-Q and 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 adjusted diluted earnings per share, 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.

Significant Developments – Impact of COVID-19

The COVID-19 pandemic in the United States has had an adverse impact on our financial condition and results of operations as of and for the three and nine months ended September 30, 2020, and has had a complex and significant adverse impact on the economy, the banking industry and is expected to continue to adversely impact the Company in future fiscal periods, all subject to a high degree of uncertainty.

Effects on Our Market Areas. Our commercial and consumer banking products and services are offered primarily in Wisconsin, where individual and governmental responses to the COVID-19 pandemic have led to a broad curtailment of economic activity beginning in March 2020. The Wisconsin Governor ordered, effective March 25, 2020, that, subject to limited exceptions, all individuals stay at home and non-essential businesses cease all activities, but the order was rescinded by the Wisconsin Supreme Court on May 13, 2020. Since May 13, 2020, businesses and social gatherings have been reopening based on local ordinances in a phased-in approach, subject to public health reopening guidelines, including social distancing, limitations on capacity. These measures have had a lasting impact on the economy and our customers located in Wisconsin. The Bank and its branches remained open during these orders because banks were deemed essential businesses. Effective October 13, 2020, the Bank closed its branch lobbies to drop-in customer traffic and changed to opening by appointment only. The Bank is serving its customers through its drive through and night deposit services and digital banking platforms. Based on the current environment, it is unclear how communities in Wisconsin will change, relax, or impose new stay-at-home and social distancing policies, especially in light of the current surge in COVID-19 cases in Wisconsin, and how that will impact the economy and our customers.

Across the United States, as a result of the curtailment of business activities since March, many states have experienced a dramatic increase in unemployment levels. According to the U.S. Bureau of Labor Statistics, the unemployment rate in Wisconsin (on a seasonally adjusted basis) increased from 3.1% in March 2020 to 13.6% in April 2020, and subsequently decreased to 8.6% in June 2020 and 5.4% in September 2020 (based on preliminary numbers).

Policy and Regulatory Developments. Federal, state and local governments and regulatory authorities have enacted and issued a range of policy responses to the COVID-19 pandemic, including the following:

- The Federal Reserve decreased the range for the federal funds target rate by 0.5% on March 3, 2020, and by another 1.0% on March 16, 2020, reaching a range of 0.0 – 0.25%.
- On March 27, 2020, President Trump signed the CARES Act, which established a \$2.0 trillion economic stimulus package, including cash payments to individuals, supplemental unemployment insurance benefits and a \$349 billion loan program administered through the U.S. Small Business Administration (“SBA”), referred to as the paycheck protection program (“PPP”). The Bank participated as a lender in the PPP. After the initial \$349 billion in funds for the PPP was exhausted, an additional \$310 billion in funding for PPP loans was authorized. In addition, the CARES Act provides financial institutions the option to temporarily suspend certain requirements under GAAP related to TDRs for a limited period of time to account for the effects of COVID-19.
- On April 7, 2020, federal banking regulators issued a revised Interagency Statement on Loan Modifications and Reporting for Financial Institutions, which, among other things, encouraged financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19, and stated that institutions generally do not need to categorize COVID-19-related modifications as TDRs and that the agencies will not direct supervised institutions to automatically categorize all COVID-19 related loan modifications as TDRs.
- On August 3, 2020, the FFIEC issued a joint statement on Additional Loan Accommodations Related to COVID-19, which, among other things, encouraged financial institutions to consider prudent additional loan accommodation options when borrowers are unable to meet their obligations due to continuing financial challenges. Accommodation options should be based on prudent risk management and consumer protection principles.
- In addition to the policy responses described above, the federal bank regulatory agencies, along with their state counterparts, have issued a stream of guidance in response to the COVID-19 pandemic and have taken a number of unprecedented steps to help banks navigate the pandemic and mitigate its impact. These include, without limitation: requiring banks to focus on business continuity and pandemic planning; adding pandemic scenarios to stress testing; encouraging bank use of capital buffers and reserves in lending programs; permitting certain regulatory reporting extensions; reducing margin requirements on swaps; permitting certain otherwise prohibited investments in investment funds; issuing guidance to encourage banks to work with customers affected by the pandemic and encourage loan workouts; and providing credit under the Community Reinvestment Act (“CRA”) for certain pandemic-related loans, investments and public service. Moreover, because of the need for social distancing measures, the agencies revamped the manner in which they conducted periodic examinations of their regulated institutions, including making greater use of off-site reviews. The Federal Reserve also issued guidance encouraging banking institutions to utilize its discount window for loans and intraday credit extended by its Reserve Banks to help households and businesses

impacted by the pandemic and announced numerous funding facilities. The FDIC has also acted to mitigate the deposit insurance assessment effects of participating in the PPP and the Federal Reserve's PPP Liquidity Facility and Money Market Mutual Fund Liquidity Facility

Effects on Our Business. The COVID-19 pandemic and the specific developments referred to above have had and will continue to have an impact on our business. In particular, we anticipate that a significant portion of the Bank's borrowers in retail shopping centers, limited service restaurants, hotels, assisted living and nursing homes and residential rental industries may continue to endure significant economic distress, which may cause them to draw on their existing lines of credit and adversely affect their ability and willingness to repay existing indebtedness, and may adversely impact the value of collateral. These developments, together with economic conditions generally, may impact our commercial real estate portfolio, particularly with respect to real estate with exposure to these industries and the value of certain collateral securing our loans. As a result, we anticipate that our financial condition, capital levels and results of operations will be significantly adversely affected, as described in further detail below.

Our Response. We have taken numerous steps in response to the COVID-19 pandemic, including the following:

- The FDIC and the Board of Governors of the Federal Reserve System, in consultation with state financial regulators, issued a revision to the Interagency Statement on Loan Modifications by Financial Institutions Working with Customers Affected by the Coronavirus issued on March 22, 2020. The revised interagency statement encourages financial institutions to work constructively with borrowers impacted by COVID-19, provides additional information regarding loan modifications, and clarifies the interaction between the interagency statement and related relief provided by the CARES Act. The Statement provides guidance on handling payment modification requests for impacted borrowers without triggering TDR classifications, by allowing up to 6-months of payment deferrals or interest only to assist our customers at this time. Between March 31, 2020 and September 30, 2020, we processed 184 customer payment modification requests for customers who had loan balances of \$200.4 million, and at September 30, 2020, 86 customers remained on payment relief with loan balances totaling \$100.3 million, an improvement of 50.0% since June 30, 2020.
- Management had already made investments in its digital banking operations over the past several years. Management has expanded the use of digital signatures for documents as well as videoconferencing in response to COVID-19.
- Management established a Pandemic Planning Task Force which meets twice a week. The Bank's Executive Committee is also meeting regularly in response to COVID-19.
- The Bank processed 904 PPP loan applications totaling \$106.2 million through the SBA. These loans are being funded through \$99.7 million of borrowings from the Federal Reserve PPP Liquidity Facility so as not to reduce the Bank's available liquidity. As of September 30, 2020, there were \$98.4 million in PPP loans outstanding. We are currently working with PPP borrowers to help them through the process of forgiveness of their PPP loans.
- Approximately 80% of the Bank's employees are working remotely. In our branch network, the drive thrus are open and our lobbies are open by appointment.
- There are no current plans to suspend our common stock repurchase plan or common stock dividend. The Board and management will continue to evaluate our capital plans as our credit metrics and capital levels change. In addition, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019, we will not be permitted to make capital distributions (including for dividends and repurchases of stock) or pay discretionary bonuses to executive officers without restriction if we do not maintain greater than 2.5% in Common Equity Tier 1 Capital attributable to a capital conservation buffer.

Operational Overview

- Net income for the three months ended September 30, 2020 was \$3.4 million, compared to \$2.7 million for the three months ended June 30, 2020, and \$5.7 million for the three months ended September 30, 2019. Net income was \$1.0 million for the nine months ended September 30, 2020 compared to net income of \$13.1 million for the nine months ended September 30, 2019. The decrease was primarily the result of \$5.0 million of goodwill impairment during the first quarter of 2020 and \$3.3 million increase in provision for loan losses for the nine months ended September 30, 2020.
- Total securities available-for-sale increased \$139.7 million, or 88.0% from December 31, 2019 to \$298.5 million at September 30, 2020, and increased \$143.5 million, or 92.6%, since September 30, 2019.
- Total loans increased \$40.2 million, or 3.9%, from December 31, 2019 to \$1.1 billion at September 30, 2020, and decreased \$4.8 million, or 0.4%, from September 30, 2019.

- Participated and sold loans that we continue to service totaled \$797.8 million at September 30, 2020, an increase of \$46.1 million, or 6.1%, since December 31, 2019, and an increase of \$61.0 million, or 8.3%, since September 30, 2019.
- Non-performing assets increased \$7.9 million, or 21.7%, since December 31, 2019, to \$44.4 million at September 30, 2020, and increased \$16.4 million, or 58.5%, since September 30, 2019.
- Client deposits (demand, NOW accounts and interest checking, savings, money market accounts, and certificates of deposit) increased \$62.0 million, or 7.4%, since December 31, 2019, to \$897.6 million at September 30, 2020, and increased \$79.4 million, or 9.7%, since September 30, 2019.
- Our reliance on brokered deposits and national time deposits decreased \$113.3 million, or 42.6%, since December 31, 2019 to \$152.6 million at September 30, 2020, and decreased \$172.0 million, or 53.0%, since September 30, 2019.

Selected Financial Data

	As of and for the Three Months Ended		As of and for the Nine Months Ended		As of and for the
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019	Year Ended December 31, 2019
	(unaudited)		(unaudited)		
(Dollars in thousands, except per share data)					
Selected Income Statement Data:					
Interest income	\$ 13,106	\$ 16,706	\$ 40,750	\$ 51,029	\$ 66,332
Interest expense	4,452	6,507	14,549	19,849	25,550
Net interest income	8,654	10,199	26,201	31,180	40,782
Provision for loan losses	79	(1,154)	3,439	474	423
Net interest income after provision for loan losses	8,575	11,353	22,762	30,706	40,359
Non-interest income	3,672	4,087	9,892	9,735	13,393
Non-interest expense	7,667	7,668	30,150	22,419	32,684
Income tax expense	1,164	2,090	1,543	4,874	4,616
Net income	\$ 3,416	\$ 5,682	\$ 961	\$ 13,148	\$ 16,452
Per Common Share Data:					
Basic earnings per common share	\$ 0.52	\$ 0.82	\$ 0.10	\$ 1.90	\$ 2.37
Diluted earnings per common share	\$ 0.52	\$ 0.82	\$ 0.10	\$ 1.89	\$ 2.36
Adjusted diluted earnings per common share ⁽¹⁾	\$ 0.52	\$ 0.82	\$ 0.87	\$ 1.91	\$ 2.36
Cash dividends per common share	\$ 0.07	\$ 0.05	\$ 0.21	\$ 0.15	\$ 0.20
Book value per share, end of period	\$ 25.72	\$ 23.89	\$ 25.72	\$ 23.89	\$ 24.32
Tangible book value per share, end of period ⁽¹⁾	\$ 25.71	\$ 23.10	\$ 25.71	\$ 23.10	\$ 23.54
Weighted average common shares - basic	6,386,339	6,756,990	6,531,041	6,742,892	6,747,581
Weighted average common shares - diluted	6,407,254	6,776,150	6,563,874	6,761,955	6,768,925
Common shares outstanding, end of period	6,294,675	6,727,908	6,294,675	6,727,908	6,734,132
Selected Balance Sheet Data:					
Total assets	\$ 1,492,055	\$ 1,414,964	\$ 1,492,055	\$ 1,414,964	\$ 1,378,779
Securities available-for-sale	298,476	154,962	298,476	154,962	158,733
Total loans	1,075,926	1,080,767	1,075,926	1,080,767	1,035,773
Allowance for loan losses	(18,649)	(15,065)	(18,649)	(15,065)	(15,267)
Total deposits	1,050,171	1,142,753	1,050,171	1,142,753	1,101,442
Other borrowings and FHLB advances	101,809	45,200	101,809	45,200	45,194
Subordinated debentures	67,025	44,820	67,025	44,820	44,858
Total shareholders' equity	169,910	168,752	169,910	168,752	172,029
Performance Ratios:					
Return on average assets (annualized)	0.91%	1.57%	0.09%	1.19%	1.13%
Return on average shareholders' equity (annualized)	8.05%	13.75%	0.75%	10.94%	10.10%
Return on average common shareholders' equity ⁽¹⁾	8.25%	14.14%	0.56%	11.20%	10.31%
Equity to assets ratio	11.39%	11.93%	11.39%	11.93%	12.46%
Net interest margin	2.40%	2.95%	2.55%	2.94%	2.93%
Interest rate spread	2.12%	2.59%	2.23%	2.60%	2.58%
Non-interest income to average assets (annualized)	0.98%	1.11%	0.92%	0.87%	0.92%
Non-interest expense to average assets (annualized)	2.05%	2.11%	2.79%	2.02%	2.25%
Net overhead ratio (annualized) ⁽²⁾	1.07%	1.00%	1.87%	1.15%	1.33%
Efficiency ratio ⁽¹⁾	62.64%	52.55%	67.02%	54.56%	59.92%
Dividend payout ratio	13.46%	6.10%	210.00%	7.94%	8.47%
Asset Quality Ratios:					
Adverse classified asset ratio ⁽¹⁾	42.64%	45.67%	42.64%	45.67%	39.85%
Non-performing loans to total loans ⁽³⁾	3.84%	1.92%	3.84%	1.92%	2.99%
Allowance for loan losses to:					
Total loans	1.73%	1.39%	1.73%	1.39%	1.47%
Non-performing loans	45.10%	72.51%	45.10%	72.51%	49.30%
Net charge-offs to average loans	0.00%	0.00%	0.01%	0.16%	0.15%
Non-performing assets to total assets ⁽³⁾	2.98%	1.98%	2.98%	1.98%	2.65%

- (1) Adjusted diluted earnings per common share, tangible book value per share, return on average common shareholders' equity, efficiency ratio, 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.

	September 30, 2020	As of September 30, 2019 (unaudited)	December 31, 2019
Capital Ratios:			
Shareholders' common equity to assets	10.85%	11.36%	11.88%
Total capital to risk-weighted assets (Bank)	17.25%	17.85%	18.70%
Tangible common equity to tangible assets ⁽¹⁾	10.85%	11.03%	11.54%

- (1) Tangible common equity to tangible assets is not recognized under GAAP and is therefore considered to be a non-GAAP financial measure. See below for reconciliations of this financial measure to its most comparable GAAP measure.

Non-GAAP Financial Measures

"Efficiency ratio" is defined as non-interest expense, excluding goodwill impairment, historical tax credit investment impairment, and 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 and non-interest income 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		Nine Months Ended		Year Ended
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019	December 31, 2019
(dollars in thousands)					
Efficiency Ratio GAAP to Non-GAAP reconciliation:					
Non-interest expense	\$ 7,667	\$ 7,668	\$ 30,150	\$ 22,419	\$ 32,684
Less: goodwill impairment	—	—	(5,038)	—	—
Less: historical tax credit investment impairment	—	—	—	—	(1,149)
Less: net loss on sales and write-downs of OREO	(9)	(160)	(1,373)	(283)	(586)
Adjusted non-interest expense (non-GAAP)	<u>\$ 7,658</u>	<u>\$ 7,508</u>	<u>\$ 23,739</u>	<u>\$ 22,136</u>	<u>\$ 30,949</u>
Net interest income	\$ 8,654	\$ 10,252	\$ 26,201	\$ 31,244	\$ 40,782
Non-interest income	3,672	4,034	9,892	9,671	13,393
Less: net gain on sales of securities	(101)	—	(671)	(341)	(341)
Operating revenue	<u>\$ 12,225</u>	<u>\$ 14,286</u>	<u>\$ 35,422</u>	<u>\$ 40,574</u>	<u>\$ 53,834</u>
Efficiency ratio	62.64%	52.55%	67.02%	54.56%	57.49%

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		Nine Months Ended		Year Ended
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019	December 31, 2019
Return on Average Common Shareholders' Equity					
GAAP to Non-GAAP reconciliation:					
Return on average shareholders' equity	8.05%	13.75%	0.75%	10.94%	10.10%
Effect of excluding average preferred shareholders' equity	0.20%	0.39%	(0.20)%	0.26%	0.21%
Return on average common shareholders' equity	<u>8.25%</u>	<u>14.14%</u>	<u>0.56%</u>	<u>11.20%</u>	<u>10.31%</u>

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.

	September 30, 2020	September 30, 2019	December 31, 2019
	(dollars in thousands, except per share data)		
Tangible book value per share and tangible common equity to tangible assets reconciliation:			
Common equity	\$ 161,910	\$ 160,752	\$ 164,029
Less: Goodwill	—	5,038	5,038
Less: Core deposit intangible, net of amortization	86	286	225
Tangible common equity	<u>\$ 161,824</u>	<u>\$ 155,428</u>	<u>\$ 158,766</u>
Common shares outstanding	<u>6,294,675</u>	<u>6,727,908</u>	<u>6,734,132</u>
Tangible book value per share	<u>\$ 25.71</u>	<u>\$ 23.10</u>	<u>\$ 23.58</u>
Total assets	\$ 1,492,055	\$ 1,414,964	\$ 1,378,779
Less: Goodwill	—	5,038	5,038
Less: Core deposit intangible, net of amortization	86	286	225
Tangible assets	<u>\$ 1,491,969</u>	<u>\$ 1,409,640</u>	<u>\$ 1,373,516</u>
Tangible common equity to tangible assets	<u>10.85%</u>	<u>11.03%</u>	<u>11.56%</u>

Adjusted diluted earnings per share is a non-GAAP measure based on GAAP amounts. In our judgment, the adjustments made to diluted earnings per share allow investors to better assess our income related to core operations by removing the volatility associated with the goodwill impairment, which was a one-time, non-cash expense.

	Three Months Ended		Nine Months Ended		Year Ended
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019	December 31, 2019
(dollars in thousands, except per share data)					
Adjusted diluted earnings per share:					
Net income from continuing operations	\$ 3,416	\$ 5,682	\$ 961	\$ 13,148	\$ 16,452
Less: preferred stock dividends	(80)	(118)	(286)	(235)	(472)
Plus: goodwill impairment	—	—	5,038	—	—
Adjusted income available to common shareholders for basic earnings per common share	<u>\$ 3,336</u>	<u>\$ 5,564</u>	<u>\$ 5,713</u>	<u>\$ 12,913</u>	<u>\$ 15,980</u>
Weighted average number of common shares outstanding	6,386,339	6,756,990	6,531,041	6,742,892	6,747,581
Effect of dilutive options	20,915	20,731	32,833	21,170	21,344
Weighted average number of common shares outstanding used to calculate diluted earnings per common share	<u>6,407,254</u>	<u>6,776,150</u>	<u>6,563,874</u>	<u>6,761,955</u>	<u>6,768,925</u>
Adjusted diluted earnings per share	\$ 0.52	\$ 0.82	\$ 0.87	\$ 1.91	\$ 2.36

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.

	September 30, 2020	September 30, 2019	December 31, 2019
(dollars in thousands, except per share data)			
Adverse classified asset ratio:			
Substandard loans	88,370	97,239	85,992
Other real estate owned	3,064	7,252	5,521
Substandard unused commitments	5,124	991	2,849
Less: Substandard government guarantees	(7,002)	(7,746)	(7,892)
Total adverse classified assets (non-GAAP)	<u>\$ 89,556</u>	<u>\$ 97,736</u>	<u>\$ 86,470</u>
Total equity (Bank)	\$ 200,011	\$ 201,967	\$ 204,240
Accumulated other comprehensive loss (gain) on available-for-sale securities	(8,640)	(3,016)	(2,505)
Allowance for loan losses	18,649	15,065	15,267
Adjusted total equity (non-GAAP)	<u>\$ 210,020</u>	<u>\$ 214,016</u>	<u>\$ 217,002</u>
Adverse classified asset ratio	42.64%	45.67%	39.85%

Results of Operations

Our operating revenue is comprised of interest income and non-interest income. Net interest income decreased by 15.1% to \$8.7 million for the three months ended September 30, 2020 compared to the three months ended September 30, 2019, primarily attributable to a \$42.9 million, or 3.8%, decrease in average loan balance and a 106 basis point decrease in loan yield between the two periods. The decrease in average loan balance was primarily the result of an approximately \$23.0 million decrease in revolving loans since September 30, 2019 and a \$63.7 million increase in average loans sold and serviced since the third quarter of 2019. The decrease in loan yield was primarily the result of the \$106.0 million of PPP loans that were originated during the second and third quarters of 2020 with a 1.0% loan yield, in addition to the overall drop in interest rate environment.

Interest income decreased to \$13.1 million for the third quarter of 2020 compared to \$16.7 million for the third quarter of 2019, which resulted from a decrease in average loan balance and a decline in loan yields from 5.32% for the third quarter of 2019 to 4.26% for the third quarter of 2020. In addition, average yields on investment securities and interest-bearing deposits due from other banks declined from the first quarter of 2019 to the first quarter of 2020 by 49 basis points and 227 basis points, respectively. The decreases in yields on all interest-earning assets was primarily the result of the Federal Reserve's decreases to the target federal funds rate by 25 basis points in each of August, September, and October of 2019 and by a total of 150 basis points in March 2020, in addition to the low yield on PPP loans discussed above.

Interest expense decreased from \$6.5 million for the third quarter of 2019 to \$4.5 million for the third quarter of 2020, which was primarily the result of a 15.4% decrease in the average balance of interest-bearing deposits and a decrease in rates paid on savings, NOW, money market, and interest checking accounts and time deposits of 110 basis points and 36 basis points respectively.

For the nine months ended September 30, 2020, net interest income was \$26.2 million, a decrease of \$5.0 million, or 16.1%, from the nine months ended September 30, 2019. Interest income decreased \$10.3 million, or 20.2%, to \$40.8 million for the first three quarters of 2020, compared to \$51.1 million for the first three quarters of 2019, primarily due to the \$99.7 million decrease in average loans from the nine months ended September 30, 2019 to the nine months ended September 30, 2020 and the \$106.0 million of PPP loans that were funded during the second and third quarters of 2020 with a yield of 1.0% and the repricing of loans in a declining rate environment. In addition, due to the federal funds rate cuts during the first quarter of 2020, yields on investment securities and interest bearing deposits at other banks declined 33 basis points and 196 basis points, respectively, for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019.

Interest expense decreased to \$14.5 million for the nine months ended September 30, 2020 from \$19.8 million for the nine months ended September 30, 2019. The \$5.3 million, or 26.7%, decrease is primarily due to a 47 basis points reduction in the rate paid on interest-bearing deposits, and the 60 basis point reduction in the rate of our FHLB borrowings, which was slightly offset by the 37 basis point increase on the rate paid on our subordinated debt.

Analysis of Net Interest Income

Net interest income is the largest component of our income and is dependent on the volumes of and yields earned on interest-earning assets as compared to the volumes of and rates paid on interest-bearing liabilities.

As a result of the reductions in the target federal funds interest rate, as well as the impact of the COVID-19 pandemic that we expect to incur, we expect that our net interest income and net interest margin could continue to decrease in future periods.

The following tables reflect the components of net interest income for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended					
	September 30, 2020			September 30, 2019		
	Average Balance ⁽¹⁾	Income/ Expense	Yields/ Rates	Average Balance ⁽¹⁾	Income/ Expense	Yields/ Rates
	(dollars in thousands)					
Assets						
Investment securities	\$ 256,059	\$ 1,494	2.32%	\$ 159,091	\$ 1,117	2.81%
Loans ⁽²⁾	1,083,383	11,594	4.26%	1,126,243	14,977	5.32%
Interest bearing deposits due from other banks	92,701	18	0.08%	104,253	612	2.35%
Total interest-earning assets	\$ 1,432,143	\$ 13,106	3.64%	\$ 1,389,587	\$ 16,706	4.81%
Allowance for loan losses	(18,641)			(16,209)		
Other assets	86,109			78,664		
Total assets	\$ 1,499,611			\$ 1,452,042		
Liabilities						
Savings, NOW, money market, interest checking	\$ 406,888	\$ 469	0.46%	\$ 326,592	\$ 1,276	1.56%
Time deposits	499,665	2,444	1.95%	745,032	4,298	2.31%
Total interest-bearing deposits	\$ 906,553	\$ 2,913	1.28%	\$ 1,071,624	\$ 5,574	2.08%
Other borrowings	101,829	158	0.62%	804	9	4.48%
FHLB advances	89,622	298	1.32%	48,857	237	1.94%
Junior subordinated debentures	65,903	1,082	6.53%	44,800	687	6.14%
Total interest-bearing liabilities	\$ 1,163,907	\$ 4,451	1.52%	\$ 1,166,085	\$ 6,507	2.23%
Noninterest-bearing deposits	147,595			105,578		
Other liabilities	18,314			14,801		
Total liabilities	\$ 1,329,816			\$ 1,286,464		
Shareholders' equity	169,795			165,578		
Total liabilities and equity	\$ 1,499,611			\$ 1,452,042		
Net interest income		\$ 8,655		\$ 10,199		
Interest rate spread ⁽³⁾			2.12%			2.58%
Net interest margin ⁽⁴⁾			2.40%			2.94%
Ratio of interest-earning assets to interest-bearing liabilities	1.23			1.19		

(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.

	Nine Months Ended					
	September 30, 2020			September 30, 2019		
	Average Balance ⁽¹⁾	Income/ Expense	Yields/ Rates	Average Balance ⁽¹⁾	Income/ Expense	Yields/ Rates
(dollars in thousands)						
Assets						
Investment securities	\$ 229,927	\$ 4,293	2.49%	\$ 176,982	\$ 3,737	2.82%
Loans ⁽²⁾	1,070,164	36,169	4.51%	1,169,888	46,015	5.24%
Interest bearing deposits due from other banks	72,629	288	0.53%	71,666	1,341	2.49%
Total interest-earning assets	\$ 1,372,720	\$ 40,750	3.97%	\$ 1,418,536	\$ 51,093	4.80%
Allowance for loan losses	(17,281)			(16,996)		
Other assets	85,435			77,285		
Total assets	\$ 1,440,874			\$ 1,478,825		
Liabilities						
Savings, NOW, money market, interest checking	\$ 365,658	\$ 1,717	0.63%	\$ 314,114	\$ 3,947	1.68%
Time deposits	563,809	9,265	2.20%	769,325	12,729	2.21%
Total interest-bearing deposits	\$ 929,467	\$ 10,982	1.58%	\$ 1,083,439	\$ 16,676	2.05%
Other borrowings	56,830	183	0.43%	951	34	4.80%
FHLB advances	83,438	860	1.38%	73,308	1,091	1.98%
Junior subordinated debentures	52,006	2,524	6.48%	44,761	2,048	6.11%
Total interest-bearing liabilities	\$ 1,121,741	\$ 14,549	1.73%	\$ 1,202,459	\$ 19,849	2.20%
Noninterest-bearing deposits	131,797			103,239		
Other liabilities	17,318			12,831		
Total liabilities	\$ 1,270,856			\$ 1,318,529		
Shareholders' equity	170,018			160,296		
Total liabilities and equity	\$ 1,440,874			\$ 1,478,825		
Net interest income		\$ 26,201			\$ 31,244	
Interest rate spread ⁽³⁾			2.23%			2.60%
Net interest margin ⁽⁴⁾			2.55%			2.94%
Ratio of interest-earning assets to interest -bearing liabilities	1.22			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 tables present the effects of changing rates and volumes on our net interest income between the periods indicated. The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The net column represents the sum of the volume and rate columns. For purposes of this table, changes attributable to both rate and volume which cannot be segregated have been allocated proportionately between the changes due to rate and the changes due to volume.

	Three Months Ended September 30, 2020 v. 2019		
	Increase (Decrease)		
	Due to Change in Average		
	Rate	Volume	Net
	(dollars in thousands)		
Interest Income:			
Investment securities	\$ 527	\$ (150)	\$ 377
Loans	(544)	(2,839)	(3,383)
Federal funds sold and interest-bearing deposits with banks	(61)	(533)	(594)
Total interest income	(78)	(3,522)	(3,600)
Interest Expense:			
Savings, NOW, money market and interest checking	431	(1,238)	(807)
Time deposits	(1,256)	(598)	(1,854)
Other borrowings	150	(1)	149
FHLB advances	80	(19)	61
Junior subordinated debentures	347	48	395
Total interest expense	(248)	(1,808)	(2,056)
Net interest income	\$ 170	\$ (1,714)	\$ (1,544)

	Nine Months Ended September 30, 2020 v. 2019		
	Increase (Decrease)		
	Due to Change in Average		
	Rate	Volume	Net
	(dollars in thousands)		
Interest Income:			
Investment securities	\$ (343)	\$ 899	\$ 556
Loans	(6,106)	(3,740)	(9,846)
Federal funds sold and interest-bearing deposits with banks	(1,071)	18	(1,053)
Total interest income	(7,520)	(2,823)	(10,343)
Interest Expense:			
Savings, NOW, money market and interest checking	(3,023)	793	(2,230)
Time deposits	(64)	(3,400)	(3,464)
Other borrowings	(2)	151	149
FHLB advances	(421)	190	(231)
Junior subordinated debentures	133	343	476
Total interest expense	(3,377)	(1,923)	(5,300)
Net interest income	\$ (4,143)	\$ (900)	\$ (5,043)

Provision for Loan Losses

Based on our analysis of the components of the allowance for loan losses, management recorded a provision expense for loan losses of \$0.1 million for the three months ended September 30, 2020 compared to a credit provision of \$1.2 million for the three months ended September 30, 2019. The increase in provision was the result of a \$20.7 million migration of substandard performing loans to substandard impaired loans, which was offset in part by a \$17.4 million improvement in watch rated loans.

For the nine months ended September 30, 2020, the provision for loan losses was \$3.4 million compared to \$0.5 million for the nine months ended September 30, 2019. In addition to the reasons for the increase noted above, the \$2.9 million increase in

provision expense was also due to the additional qualitative factor of \$1.9 million related to customers that are at a higher risk of being impacted by the COVID-19 pandemic.

The specific reserve related to impaired loans was \$7.9 million at September 30, 2020, which was an increase of \$2.3 million, or 42.0%, from December 31, 2019. Substandard impaired loans increased \$10.6 million, or 29.2%, from \$36.2 million at December 31, 2019 to \$46.8 million at September 30, 2020. The increased specific reserve was primarily the result of two commercial customers that were downgraded. Five agricultural customers were downgraded to substandard impaired, but only one customer required special reserves because four customers had sufficient collateral so that no specific reserve was required.

The Chicago Mercantile Exchange Class III futures milk price began to rebound during the second quarter of 2020 and continued to strengthen during the third quarter of 2020, with prices ranging from \$16.43 to \$24.54 cwt during the third quarter of 2020 and futures of \$17.53 to \$19.53 cwt range for the remainder of 2020. In addition, the AgResource Dairy Report noted that United States dairy exports have exceeded imports in 2020 by \$1.98 billion, which is the third largest positive balance on record driven by increased interest from China and the demand for dairy powders. As result of this positive economic outlook, we anticipate that 80% of our ag loans that requested payment deferral through COVID-19 customer support programs should return to normal payment terms in the fourth quarter of 2020.

Other than the qualitative factor for COVID-19 discussed above, 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, 2019. 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 \$18.6 million, or 1.73% of total loans, was appropriate as of September 30, 2020. This is compared to an allowance for loan losses of \$15.1 million, or 1.39% of total loans, at September 30, 2019, and \$15.3 million, or 1.47% of total loans, at December 31, 2019.

Non-Interest Income

Non-interest income for the three months ended September 30, 2020 decreased by 10.2% to \$3.7 million from \$4.1 million for the three months ended September 30, 2019. The \$0.5 million decrease was primarily the result of a \$1.0 million decrease in loan servicing right origination as a result of \$5.4 million fewer participations completed during the third quarter of 2020 compared to the third quarter of 2019. The decrease in loan servicing right origination was partially offset in part by a \$0.4 million increase in servicing fees. As of January 1, 2020, the Company elected to make an accounting principle change for the valuation of the loan servicing assets from amortized cost to fair market value. The decrease in loan servicing right origination is primarily due to this change in accounting principle. In addition, \$7.7 million of securities were sold during the third quarter of 2020 that resulted in a \$0.1 million gain. There were no security sales during the third quarter of 2019.

For the nine months ended September 30, 2020, non-interest income increased \$0.2 million, or 1.6%, to \$9.9 million from \$9.7 million for the nine months ended September 30, 2019, primarily as a result of loan servicing fees, which increased \$1.0 million. In addition, during the first three quarters of 2020, \$35.5 million of securities were sold at a gain of \$0.7 million compared to \$29.4 million of securities sold at a gain of \$0.3 million during the first three quarters of 2019.

The following table reflects the components of non-interest income for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(dollars in thousands)			
Service charges	\$ 379	\$ 348	\$ 1,089	\$ 1,108
Gain on sale of loans, net	17	87	59	112
Loan servicing fees	2,054	1,677	5,808	4,759
Loan servicing rights recognized from transfers of financial assets	717	1,741	1,280	2,315
Income on other real estate owned	—	10	3	76
Gain on sale of securities	101	—	671	341
Referral fees	110	53	248	64
Other	294	171	734	960
Total non-interest income	\$ 3,672	\$ 4,087	\$ 9,892	\$ 9,735

Non-Interest Expense

Non-interest expense for the three months ended September 30, 2020 was virtually unchanged at \$7.7 million compared to the three months ended September 30, 2019.

For the nine months ended September 30, 2020, non-interest expense increased by \$7.7 million, or 34.5%, to \$30.2 million from \$22.4 million for the nine months ended September 30, 2019. The year-over-year increase was primarily the result of a \$5.0 million goodwill impairment during the first quarter of 2020 due to the anticipated reduction in future earnings and a decrease in the trading multiples of the Company's stock in relation to COVID-19. In addition, in the first quarter of 2020 there was a \$1.4 million write-down of a retail shopping center that is in other real estate owned and a \$0.3 million loss recognized on the sale-leaseback of our Manitowoc branch. These increases in non-interest expense were partially offset by reduced travel and education expenses as the result of the COVID-19 pandemic.

The following table reflects the components of our non-interest expense for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(dollars in thousands)			
Employee compensation and benefits	\$ 4,766	\$ 4,735	\$ 14,620	\$ 13,416
Occupancy	322	313	980	985
Information processing	640	683	1,974	1,837
Professional fees	555	483	1,436	1,299
Business development	305	351	1,004	1,023
Other real estate owned expenses	47	57	207	229
Write-down of other real estate owned	—	—	1,360	250
Net loss on other real estate owned	9	160	13	33
Depreciation and amortization	295	319	899	984
Goodwill impairment	—	—	5,038	—
Other	728	567	2,619	2,363
Total non-interest expense	<u>\$ 7,667</u>	<u>\$ 7,668</u>	<u>\$ 30,150</u>	<u>\$ 22,419</u>

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 2016.

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 September 30, 2020 and 2019, was \$1.2 million and \$2.1 million, respectively, which represents an effective tax rate of 25.4% and 26.9%, respectively. Income tax expense for the nine months ended September 30, 2020 and 2019, was \$1.5 million and \$4.9 million, respectively, which represents an effective tax rate of 61.6% and 27.0%, respectively. The increase in the effective tax rate for the 2020 periods compared to the 2019 periods was primarily the result of the non-deductible goodwill impairment that took place during the first quarter of 2020.

Financial Condition

Total assets increased \$113.3 million, or 8.2%, from December 31, 2019 to \$1.5 billion at September 30, 2020. Total loans increased by \$40.2 million, or 3.9%, since December 31, 2019 primarily as the result of the \$98.4 million of PPP loans in the loan portfolio as of September 30, 2020 that were funded in the second and third quarters of 2020, which were partially offset by normal pay-downs and a \$46.1 million increase in loans sold on the secondary market.

Total liabilities increased \$115.4 million, or 9.6%, from December 31, 2019 to \$1.3 billion at September 30, 2020. This increase was primarily attributed to \$99.7 million of advances received through the Federal Reserve Bank's Paycheck Protection Program Liquidity Facility ("PPPLF") to fund PPP loans. PPPLF borrowings bear an interest rate of 0.35%. In addition, during the first nine months of 2020, the Company increased its FHLB borrowings by \$40.2 million, or 90.5%, to take advantage of the low interest rates on FHLB borrowings as a result of the Federal Reserve's decreases in the target federal funds interest rate. The FHLB borrowings bear an average interest rate of 0.89%. The Company's overall focus remains on funding loan growth with client deposits; however, these borrowings help reduce interest rate risk and lower the cost of funds. The increases in PPPLF and FHLB borrowings were offset by an intentional decrease in brokered and national deposits of \$113.3 million, or 42.6%, during the first three quarters of 2020.

During second and third quarters of 2020, the Company entered into Subordinated Note Purchase Agreements and sold and issued a total of \$22.4 million in aggregate principal amount of its 7.0% fixed-to-floating rate subordinated notes that are due June 30, 2030. Management believes this capital raise provided additional capital to allow the Company to take advantage of future market opportunities for its customers and communities.

Shareholders' equity decreased \$2.1 million, or 1.2%, to \$169.9 million at September 30, 2020 from \$172.0 million at December 31, 2019. This decrease was due primarily to \$10.1 million in purchases of the Company's stock which was partially offset by net income for the nine months ended September 30, 2020 of \$1.0 million and a \$6.1 million tax-effected increase to the fair market value of the investment portfolio to increase accumulated other comprehensive income. Total shareholders' equity was also reduced by a \$0.8 million tax-effected decrease in the fair market value of derivatives and the payment of \$1.7 million of dividends on common and preferred stock during the nine months ended September 30, 2020.

Net Loans

Net loans increased by \$36.8 million, or 3.6%, to \$1.1 billion at September 30, 2020 from December 31, 2019. This increase was primarily the result of the \$98.4 million of PPP loans in the loan portfolio as of September 30, 2020 that were funded in the second and third quarters of 2020, which were partially offset by normal pay-downs and an increase of \$46.1 million in loans sold on the secondary market.

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

	September 30, 2020		December 31, 2019	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Agriculture loans	\$ 619,617	57.7%	\$ 659,725	63.7%
Commercial real estate loans	237,638	22.1%	235,936	22.8%
Commercial loans	80,144	7.4%	95,787	9.3%
Paycheck Protection Plan loans	98,421	9.1%	—	0.0%
Residential real estate loans	39,985	3.7%	43,958	4.2%
Installment and consumer other	121	0.0%	367	0.0%
Total gross loans	\$ 1,075,926	100.0%	\$ 1,035,773	100.0%
Allowance for loan losses	(18,649)		(15,267)	
Loans, net	\$ 1,057,277		\$ 1,020,506	

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. 12.1% of our substandard loans are partially guaranteed by the U.S. Farm Services Agency ("FSA") or the SBA. The amount of the guarantee can range from 80% to 95% of unpaid principal for FSA guaranteed loans, 50% to 100% for SBA guaranteed loans.

At September 30, 2020 and December 31, 2019, the allowance for loan losses was \$18.6 million and \$15.3 million, respectively, which resulted in a ratio of the allowance to total loans of 1.73% and 1.47%, respectively. The overall increase in the allowance for loan losses as a percentage of total loans was primarily the result of the provision expense related to the additional qualitative factor of \$1.9 million related to customers that are at a higher risk of being impacted by the COVID-19 pandemic including the restaurant and hospitality industries.

Charge-offs and recoveries by loan category for the three and nine months ended September 30, 2020 and 2019 were as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(dollars in thousands)			
Balance, beginning of period	\$ 18,569	\$ 16,258	\$ 15,267	\$ 16,505
Loans charged off:				
Agriculture loans	—	54	—	54
Commercial real estate loans	—	1	—	2,625
Commercial loans	—	—	144	960
Residential real estate loans	—	—	—	—
Installment and consumer other	—	—	—	—
Total loans charged off	\$ —	\$ 55	\$ 144	\$ 3,639
Recoveries:				
Agriculture loans	—	1	23	16
Commercial real estate loans	1	15	63	1,607
Commercial loans	—	—	1	102
Residential real estate loans	—	—	—	—
Installment and consumer other	—	—	—	—
Total recoveries	1	16	87	1,725
Net loans charged off (recovered)	\$ (1)	\$ 39	\$ 57	\$ 1,914
Unallocated	77	—	77	—
Provision for loan losses	2	(1,154)	3,439	474
Allowance for loan losses, end of period	<u>\$ 18,649</u>	<u>\$ 15,065</u>	<u>\$ 18,726</u>	<u>\$ 15,065</u>

Selected loan quality ratios:

Net charge offs to average loans	0.00%	0.00%	0.01%	0.16%
Allowance for loan losses to total loans (end of period)	1.73%	1.39%	1.73%	1.39%
Allowance for loan losses to non-performing loans and performing troubled debt restructurings (end of period)	30.88%	30.56%	30.88%	30.56%

As provided in the interagency statement, the Company has been working with its borrowers impacted by COVID-19. During the second quarter of 2020, we processed 184 customer payment modification requests for customers who had loan balances of \$200.4 million. As of September 30, 2020, loans with COVID-19 payment modifications were reduced by \$100.1 million, or 50.0%, to \$100.3 million, or 9.3% of total loans. We will continue to evaluate the impacts of these payment modification requests on our allowance for loan losses.

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 measured each class of servicing asset using the amortization method. Under the amortization method, servicing rights were amortized in proportion to and over the period of estimated net servicing income. The amortized assets were assessed for impairment or increased obligation based on fair value at each reporting date.

As of January 1, 2020, the Company elected to make an accounting principle change for the valuation of the loan servicing assets from amortized cost to fair market value. Under the amortized cost method, servicing rights were amortized in proportion to and over the period of estimated net servicing income. The amortized cost of these assets was assessed for impairment at each reporting date. Under the fair market value method, the value of the asset 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

discount rate, the custodial earnings rate, prepayment speeds and default rates and losses. See Note 1—*Basis of Presentation* of the consolidated financial statements for additional information regarding the change in accounting principle.

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:

	September 30, 2020	December 31, 2019
	(dollars in thousands)	
Total loans	\$ 1,075,926	\$ 1,035,773
Less: Nonqualified loan sales included below	(780)	(794)
Loans serviced:		
Agricultural	744,576	692,071
Commercial	51,088	52,994
Commercial real estate	2,155	6,673
Total loans serviced	<u>797,819</u>	<u>751,738</u>
Total loans and loans serviced	<u>\$ 1,872,965</u>	<u>\$ 1,786,717</u>

Securities

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

Securities increased to \$298.5 million at September 30, 2020 from \$158.7 million at December 31, 2019, in an effort to deploy excess cash and mitigate interest rate risk. During the nine months ended September 30, 2020, we recognized unrealized holding gains of \$9.1 million before income taxes through other comprehensive income.

During the nine months ended September 30, 2020, \$35.5 million of municipal securities were sold resulting in a pre-tax gain of \$0.7 million. For the nine months ended September 30, 2019, \$29.4 million of municipal securities were sold resulting in a pre-tax gain of \$0.3 million.

The following table sets forth the amortized cost and fair values of our securities portfolio at September 30, 2020 and December 31, 2019:

	September 30, 2020		December 31, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(dollars in thousands)			
Securities available-for-sale:				
Corporate Bonds	\$ 4,000	\$ 4,000	\$ —	\$ —
U.S. government and agency securities	15,338	15,160	3,490	3,458
U.S. treasury securities	—	—	2,499	2,506
Asset-backed securities	16,877	16,683	—	—
Municipal securities	129,604	132,970	—	—
Mortgage-backed securities	120,783	129,663	149,302	152,769
Total securities available-for-sale	<u>\$ 286,602</u>	<u>\$ 298,476</u>	<u>\$ 155,291</u>	<u>\$ 158,733</u>

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.

Total deposits decreased \$51.3 million, or 4.7%, from December 31, 2019 to \$1.1 billion at September 30, 2020, due primarily to a \$113.3 million decrease in brokered deposits and national time deposits, which was partially offset by a \$62.0 million increase in

client deposits (demand, NOW accounts and interest checking, savings, money market accounts, and certificates of deposit), which was primarily driven by customers who participated in the SBA PPP program but had not deployed their funds at September 30, 2020.

The Company's overall strategic focus remains on funding loan growth with client deposits and reducing wholesale funding; however, the Company took advantage of the Federal Reserve's interest rate decreases in the target federal funds during the first half of 2020 and borrowed an additional \$40.2 million from the FHLB at an average rate of 0.89%. In addition, the Company funded \$99.7 million of PPP loans with funds from the PPPLF at a rate of 0.35%. These borrowings help reduce interest rate risk and lower the cost of funds. Brokered deposits and national certificates of deposit at September 30, 2020 were \$152.6 million, which was a decrease of \$113.3 million, or 42.6%, from December 31, 2019, and a decrease of \$172.0 million, or 53.0%, from September 30, 2019.

As of September 30, 2020 and December 31, 2019, the distribution by type of deposit account was as follows:

	September 30, 2020		December 31, 2019	
	Amount	% of Deposits	Amount	% of Deposits
(dollars in thousands)				
Demand, noninterest-bearing	\$ 158,798	15.2%	\$ 138,489	12.5%
NOW accounts and interest checking	82,373	7.8%	67,805	6.2%
Savings	7,554	0.7%	6,395	0.6%
Money market accounts	325,900	31.0%	247,828	22.5%
Certificates of deposit	322,991	30.8%	375,100	34.1%
Brokered deposits	50,747	4.8%	166,340	15.1%
National time deposits	101,808	9.7%	99,485	9.0%
Total deposits	<u>\$ 1,050,171</u>	<u>100.0%</u>	<u>\$ 1,101,442</u>	<u>100.0%</u>

Hedging Activities

As of September 30, 2020, the Company had two outstanding interest rate swaps designated as a cash flow hedge, each with an aggregate notional value of \$6.0 million. Both interest rate swaps mature on June 15, 2028. A pre-tax unrealized loss of \$1.2 million and \$0.8 million was recognized in accumulated other comprehensive income at September 30, 2020 and December 31, 2019, 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 September 30, 2020, advances from the FHLB were \$84.6 million compared to \$44.4 million at December 31, 2019. At September 30, 2020, there were advances from the Federal Reserve Bank's PPPLF program totaling \$99.7 million. There were no borrowings outstanding at the Federal Reserve Bank of Chicago on December 31, 2019.

On June 30, 2020, the Company entered into a subordinated note purchase agreement to sell and issue \$17.4 million of notes to certain institutional and individual accredited investors. The notes carry a fixed interest rate of 7.0% until June 30, 2025, and have a stated maturity of June 30, 2030. As of June 30, 2025, the notes are redeemable in whole or in part, and will bear an interest rate of 3-month SOFR plus 687.5 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. On July 21, 2020, the Company sold an additional \$5.0 million of notes with similar terms.

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 \$10.7 million and \$13.9 million for the nine months ended September 30, 2020 and 2019, 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 (\$186.6) million and \$172.6 million for the nine months ended September 30, 2020 and 2019, respectively. Net cash provided by financing activities, consisting primarily of the activity in deposit accounts and FHLB advances, was \$100.2 million and (\$126.8) million for the nine months ended September 30, 2020 and 2019, respectively.

During the nine months ended September 30, 2020, management began to focus on lengthening a portion of the Bank's maturing wholesale funding into longer maturities to mitigate liquidity risk. We placed advances with the FHLB totaling \$54.0 million with maturities ranging from two to three years. As of September 30, 2020, the Bank had \$36.5 million and \$81.4 million in borrowing capacity with the FHLB and the Federal Reserve Bank of Chicago, respectively, to mitigate any liquidity needs. The Bank also had \$252.4 million in unpledged securities available for sale available for liquidity needs.

At September 30, 2020, the Bank exceeded all of its regulatory capital requirements, with Tier 1 leverage capital of \$191.4 million, or 13.61% of adjusted average total assets, which is above the minimum level to be well-capitalized of \$70.3 million, or 5.0% of adjusted average total assets, and total risk-based capital of \$206.4 million, or 17.25% of risk-weighted assets, which is above the minimum level to be well-capitalized of \$119.6 million, or 10.0% of risk-weighted assets. In addition, the Company issued \$22.4 million of subordinated debt during the second and third quarters of 2020 that qualifies as Tier 2 capital that is available to support the Bank.

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 September 30, 2020, there were \$102.8 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 September 30, 2020.

At September 30, 2020, the holding company exceeded all of its regulatory capital requirements, with Tier 1 leverage capital of \$178.4 million, or 12.86% of adjusted average assets, which is above the minimum level for capital adequacy of \$55.5 million, or 4.0% of adjusted average assets, and total risk-based capital of \$244.8 million, or 20.39% of risk-weighted assets, which is above the minimum level for capital adequacy of \$126.1 million, or 10.5% of risk-weighted assets.

Off-Balance Sheet Arrangements and Contractual Obligations

As of September 30, 2020, there were no significant changes to our contractual obligations and off-balance sheet arrangements disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on March 13, 2020. 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 September 30, 2020 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	\$ 47,500	14.18%	\$ 44,600	17.37%
+200 bps	44,600	7.21%	41,900	10.26%
+100 bps	42,900	3.13%	40,100	5.53%
Base	41,600	0.00%	38,000	0.00%
-100 bps	40,800	-1.92%	36,100	-5.00%
-200 bps	40,100	-3.61%	35,500	-6.58%

As of September 30, 2020, 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 President 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 September 30, 2020. Based on such evaluation, our President and Chief Financial Officer have concluded that, as of September 30, 2020, our disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

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 September 30, 2020 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.

In addition to the risk factors set forth under Part I, Item 1A “Risk Factors” in the Company’s Form 10-K for the fiscal year ended December 31, 2019, the following risk factor applies to the Company:

The COVID-19 pandemic has had an adverse impact on our business, financial condition and results of operations, and the duration and extent of this impact is subject to a high degree of uncertainty.

The spread of COVID-19 has led to a broad economic recession and elevated levels of unemployment and has adversely impacted certain industries and markets in which our customers operate, particularly the hospitality and limited-service restaurant industries. As of September 30, 2020, the Bank’s aggregate loan exposure to such vulnerable industries made up approximately 1.3% percent of the total loan portfolio.

These developments have had, and are expected to continue to have, an adverse impact on the credit quality of our loan portfolio, our business, financial condition and results of operations. As of September 30, 2020, approximately \$100.3 million, or 9.3%, of loans were in payment deferral status under COVID-19 related modifications. In addition, during the nine months ended September 30, 2020, nonaccrual loans increased \$10.4 million due to the duration of COVID-19 and related economic stress.

The extent of the pandemic’s effect on our business will depend on many factors, primarily including the speed and extent of any recovery from the related economic recession. Among other things, this will depend on the duration of the COVID-19 pandemic, particularly in our Wisconsin market, the development and distribution of vaccines, therapies and other public health initiatives to control the spread of the disease, the nature and size of federal economic stimulus and other governmental efforts, and the possibility of additional state lockdown or stay-at-home orders in our markets.

The pandemic has also increased our exposure to related business risks, including the following:

- We have had to modify our business practices, including with respect to branch operations, employee travel, employee work locations, participation in meetings, events and conferences, and related changes for our vendors and other business partners. The effects of these changes on our business are uncertain and difficult to quantify, but could include decreased efficiency, lower growth and increased risks of fraud.
- Demand for our products and services may decline, and we may determine that we are not able to prudently grow our loan portfolio.
- If the economic downturn or high levels of unemployment continue for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased provisions for credit losses and charge-offs and reduced income.
- The net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.
- A further and sustained decline in our stock price or the occurrence of other developments could, under certain circumstances, cause our management to perform impairment testing on our goodwill or other intangibles, which could require us to record an impairment charge that would adversely impact our results of operations and the ability of the Bank to pay dividends to us.
- As a result of the decline in the Federal Reserve’s target federal funds rate to near 0% (or possibly below 0% in the future), the yield on our assets may decline to a greater extent than the decline in our cost of interest-bearing liabilities, reducing our net interest margin and reducing net income.

- Uncertainties created by the pandemic, combined with the disruptions to our own business, will negatively affect our ability to execute our acquisition strategy for the foreseeable future, limiting or delaying our future growth plans.
- Our cybersecurity risks are increased as the result of an increase in the number of our employees and the employees of our third-party vendors and partners working remotely.
- Federal and state taxes may increase, including as a result of the effects of the pandemic on governmental budgets, which could reduce our net income.
- FDIC premiums could increase if the agency experiences additional resolution costs.

In addition, we depend upon the management skills of our executive officers and directors. The unanticipated loss or unavailability of key employees due to the pandemic could harm our ability to operate our business or execute our business strategy. We may not be successful in finding and integrating suitable successors in the event of key employee loss or unavailability.

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

Unregistered Sales of Equity Securities

The Company did not issue any unregistered equity securities during the quarter ended September 30, 2020.

Issuer Purchases of Equity Securities

The following table sets forth information regarding the Company's repurchase of shares of its outstanding common stock during the third quarter of 2020.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Maximum Number of Shares that may yet be Purchased under the Plans or Programs
July 1 - 31, 2020	51,268	\$ 20.25	51,268	238,792
August 1 - 31, 2020	19,046	19.47	19,046	219,746
September 1 - 30, 2020	10,161	19.13	10,161	209,585

- (1) On January 29, 2020, the Company announced that its Board of Directors authorized the Company to repurchase up to 673,000 shares of its common stock. Stock repurchases under the program may be made from time to time on the open market, in privately negotiated transactions, or in any manner that complies with applicable securities laws, at the discretion of the Company. The program will be in effect through January 23, 2023, with the timing of purchases and the number of shares repurchased under the program dependent upon a variety of factors including price, trading volume, corporate and regulatory requirements and market condition. The repurchase program may be suspended or discontinued at any time without notice. As of September 30, 2020, \$10.1 million, or 463,405 shares, of the Company's common stock had been repurchased under the program.

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
4.1	<u>Form of 7.00% Fixed-to-Floating Rate Subordinated Note due June 30, 2030 (Incorporated by reference to Exhibit 4.1 of County Bancorp, Inc.'s current report on Form 8-K filed on July 23, 2020)</u>
10.1	<u>Form of Subordinated Note Purchase Agreement, dated July 21, 2020, by and between County Bancorp, Inc. and the Purchaser (Incorporated by reference to Exhibit 10.1 of County Bancorp, Inc.'s current report on Form 8-K filed on July 23, 2020)</u>
31.1	<u>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</u>
31.2	<u>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</u>
32.1	<u>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</u>
32.2	<u>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</u>
101.INS	The iXBRL Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document ⁽¹⁾
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) (1) Includes the following financial information included in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) Notes to Unaudited Consolidated Financial Statements

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: November 6, 2020

By: _____
/s/ Timothy J. Schneider
Timothy J. Schneider
President
(principal executive officer)

Date: November 6, 2020

By: _____
/s/ Glen L. Stiteley
Glen L. Stiteley
Chief Financial Officer
(principal financial and accounting officer)

55

[\(Back To Top\)](#)

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.

Timothy J. Schneider
President

[\(Back To Top\)](#)

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: November 6, 2020

By: _____ /s/ Glen L. Stiteley

Glen L. Stiteley
Chief Financial Officer

[\(Back To Top\)](#)

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 September 30, 2020 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: November 6, 2020

By: _____
Timothy J. Schneider
President

[\(Back To Top\)](#)

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 September 30, 2020 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: November 6, 2020

By: _____
Glen L. Stiteley
Chief Financial Officer

[\(Back To Top\)](#)