Monona Bankshares, Inc. and Subsidiary

Monona, Wisconsin

Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

Monona Bankshares, Inc. and Subsidiary

Years Ended December 31, 2018 and 2017

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WIPFLi LLP

Independent Auditor's Report

Board of Directors
Monona Bankshares, Inc. and subsidiary
Monona, Wisconsin

We have audited the accompanying consolidated financial statements of Monona Bankshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Monona Bankshares, Inc. and Subsidiary as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP

March 15, 2019
Madison, Wisconsin

Monona Bankshares, Inc. and Subsidiary

Consolidated Balance Sheets

December 31, (Dollars in Thousands)

Assets	**2018**	**2017**
Cash and due from banks	$23,674	$22,622
Federal funds sold	24,014	52,516
Cash and cash equivalents	47,688	75,138
Other interest-bearing deposits	2,211	2,948
Securities available for sale, at fair value	81,396	82,960
Loans held for sale	126	758
Loans, net	729,543	683,114
Premises and equipment, net	15,197	15,885
Other investments	5,095	4,269
Accrued interest receivable	2,446	2,285
Foreclosed assets, net	23	748
Cash value of life insurance	10,937	10,714
Goodwill and intangible assets	15,900	16,334
Other assets	4,034	4,245
TOTAL ASSETS	$914,596	$899,398
Liabilities and Stockholders' Equity		
Liabilities:		
Non-interest bearing deposits	$162,632	$159,017
Savings and other demand deposits	349,174	313,332
Time deposits	228,018	253,807
Total deposits	739,824	726,156
Short-term borrowings	2,138	3,039
Other borrowings	78,053	82,334
Accrued interest payable	1,752	1,038
Other liabilities	4,175	4,387
Total liabilities	825,942	816,954
Stockholders' equity:		
Common stock - No par value:		
Authorized - 1,500,000 shares		
Issued - 722,979 shares and 712,717 shares		
Outstanding - 719,660 and 709,401 shares	43,717	42,368
Retained earnings	46,124	40,630
Accumulated other comprehensive loss	(707)	(75)
Treasury stock, at cost - 3,319 and 3,316 shares	(480)	(479)
Total stockholders' equity	88,654	82,444
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$914,596	$899,398

See accompanying notes to consolidated financial statements.

Monona Bankshares, Inc. and Subsidiary

Consolidated Statements of Income

Years Ended December 31, *(Dollars in Thousands, except per share amounts)*	**2018**	**2017**
Interest and dividend income:		
Loans, including fees	$33,994	$29,622
Securities:		
Taxable	1,257	1,234
Tax-exempt	598	648
Other	471	408
Total interest and dividend income	36,320	31,912
Interest expense:		
Deposits	5,922	3,774
Short-term borrowings	12	6
Other borrowings	1,903	1,302
Total interest expense	7,837	5,082
Net interest income before provision for loan losses	28,483	26,830
Provision for loan losses	1,704	1,302
Net interest income after provision for loan losses	26,779	25,528
Noninterest income:		
Service fees	568	687
Loan servicing income	682	638
Income from sale of loans	529	541
Gain on sale of securities	0	18
Other	2,314	2,153
Total noninterest income	4,094	4,037
Noninterest expense:		
Salaries and benefits	12,808	12,694
Occupancy and equipment	2,500	2,589
Computer services	1,535	2,602
Advertising and marketing	618	681
Professional fees	632	927
Other	2,912	3,189
Total noninterest expense	21,005	22,682
Income before provision for income taxes	9,868	6,883
Provision for income taxes	2,398	2,745
Net income	$7,469	$4,138
Earnings per share	$10.44	$5.91
Weighted-average shares outstanding	715,275	700,515

See accompanying notes to consolidated financial statements.

Monona Bankshares, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

Years Ended December 31, (Dollars in Thousands)	**2018**	**2017**
Net income	$7,469	$4,138
Other comprehensive loss:		
Change in unrealized loss on securities available for sale	(799)	(75)
Reclassification adjustment for net gains recognized in income	0	(18)
Income tax effect	167	10
Total other comprehensive loss	(632)	(83)
Comprehensive income	$6,837	$4,055

See accompanying notes to consolidated financial statements.

Monona Bankshares, Inc. and Subsidiary

Consolidated Statements of Stockholders' Equity

Years Ended December 31, (Dollars in Thousands)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2017	497,900	$16,413	$38,334	($1)	($601)	$54,145
Net income			4,138			4,138
Other comprehensive loss				(83)		(83)
Change in accounting policy (see Note 1)			(9)	9		0
Dividends to stockholders			(1,833)			(1,833)
Acquisition of treasury stock (862 shares)					(104)	(104)
Dividends reinvested (5,282 common stock shares and 2,100 treasury stock shares)	5,282	660			226	886
Stock issued for acquisition	206,666	24,951				24,951
Sale of stock	2,869	344				344
Balance at December 31, 2017	712,717	42,368	40,630	(75)	(479)	82,444
Net income			7,469			7,469
Other comprehensive loss				(632)		(632)
Dividends to stockholders			(1,975)			(1,975)
Acquisition of treasury stock (3 shares)					(1)	(1)
Dividends reinvested (9,696 common stock shares)	9,696	1,273				1,273
Sale of stock	566	76				76
Balance at December 31, 2018	722,979	$43,717	$46,124	($707)	($480)	$88,654

See accompanying notes to consolidated financial statements.

Monona Bankshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31, (Dollars in Thousands)	**2018**	**2017**
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Net income	$7,469	$4,138
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net amortization on securities available-for-sale	458	612
Net gain on sale of securities available-for-sale	0	(18)
Provision for loan losses	1,704	1,302
Net accretion of loan discounts	(1,176)	(1,062)
Depreciation of premises and equipment	920	1,022
Net gain on sale of foreclosed assets	(81)	(7)
Net (gain) loss on disposal of premises and equipment	(20)	9
Amortization of core deposit intangible	434	494
Amortization of premium assumed on deposits	(47)	(106)
Increase in cash value of life insurance	(223)	(244)
Deferred income tax provision (benefit)	(402)	(798)
Changes in operating assets and liabilities:		
Loans held for sale	632	(630)
Accrued interest receivable and other assets	685	962
Accrued interest payable and other liabilities	436	464
Net cash provided by operating activities	10,789	6,138
Cash flows from investing activities:		
Net decrease in other interest bearing deposits	737	1,471
Proceeds from sale of available-for-sale securities	0	897
Purchase of available-for-sale securities	(16,192)	(9,432)
Proceeds from maturities, paydowns, and calls of available-for-sale securities	16,499	19,117
Net increase in loans made to customers	(47,792)	(80,655)
Purchases of premises and equipment	(260)	(428)
Purchase of other investments	(826)	(829)
Proceeds from sale of foreclosed assets	1,641	948
Proceeds from sale of premises and equipment	48	0
Net cash received in business combination	0	16,910
Net cash used in investing activities	(46,145)	(52,001)

Monona Bankshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, (Dollars in Thousands)	**2018**	**2017**
Cash flows from financing activities:		
Net increase in deposits	13,715	57,539
Net increase (decrease) in short-term borrowings	(901)	(1,333)
Proceeds from other borrowings	136,631	71,700
Repayments of other borrowings	(140,912)	(50,566)
Cash dividends paid	(702)	(947)
Proceeds from sale of stock to 401(k) plan	76	344
Purchase of treasury stock	(1)	(104)
Net cash provided by financing activities	7,906	76,633
Net increase (decrease) in cash and cash equivalents	(27,450)	30,770
Cash and cash equivalents at beginning	75,138	44,368
Cash and cash equivalents at end	$47,688	$75,138
Supplemental cash flow information:		
Cash paid during the year for:		
Income taxes	$2,422	$3,784
Interest	7,123	4,786
Noncash investing and financing activities:		
Common and treasury stock issued through dividend reinvestments	1,273	886
Stock issued for merger consideration	0	24,951
Loans transferred to foreclosed assets	835	0

See accompanying notes to consolidated financial statements.

Note 1: Summary of Significant Accounting Policies

Organization

Monona Bankshares, Inc. (the "Company") provides a variety of financial services to individual and corporate customers through its wholly owned subsidiary, Monona Bank (the "Bank"). In addition, the Bank holds a variety of securities through its wholly owned subsidiary, Monona Investments, Inc. The Bank also holds one of its branch buildings in its wholly owned subsidiary, MSB Building LLC. The Bank operates as a full-service financial institution with a primary market area including but not limited to Dane County, Wisconsin. Note 3 discusses the types of securities held by the Bank and Monona Investments, Inc. Note 4 discusses the types of lending relationships the Company engages in. The Company is subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. The significant risks associated with the Company include interest rate risk, credit risk, concentration risk, and liquidity risk.

Principles of Consolidation

The consolidated financial statements include the accounts of Monona Bankshares, Inc. and its subsidiary, Monona Bank, and the Bank's wholly owned subsidiaries, Monona Investments, Inc., MSB Building LLC, and MSB Property Holdings, Inc. All intercompany balances and transactions have been eliminated.

Use of Estimates in Preparation of Consolidated Financial Statements

The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows in the consolidated financial statements, cash and cash equivalents include cash on hand, interest-bearing and non-interest-bearing accounts in other financial institutions, and federal funds sold, all of which have original maturities of three months or less.

Other Interest-Bearing Deposits

Other interest-bearing deposits consist of certificates of deposit at insured financial institutions. The interest-bearing deposits are carried at cost.

Securities

Securities are classified as available for sale and are carried at fair value, with unrealized gains and losses reported in other comprehensive income or loss. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the estimated lives of the securities. Gains and losses on the sale of securities are recorded on the trade date and determined using the specific-identification method.

Declines in fair value of securities that are deemed to be other than temporary, if applicable, are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers the length of time and the extent to which fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Note 1: Summary of Significant Accounting Policies (Continued)

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Realized gains and losses on the sale of loans held for sale are determined using the specific-identification method.

Loans

The Bank makes commercial, residential, and consumer loans to customers primarily in south central Wisconsin. There are no significant concentrations of loans to any one industry or customer. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on the real estate market and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding unpaid principal balances adjusted for deferred loan fees, charge-offs and an allowance for loan losses. Interest on loans is accrued and credited to income based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on a loan is discontinued when, in the opinion of management, there is an indication the borrower may be unable to make payments as they become due. When loans are placed on nonaccrual status or charged off, all unpaid accrued interest is reversed against interest income. The interest on these loans is subsequently accounted for on the cash basis or using the cost-recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans Acquired in a Transfer

The Company acquired loans (including debt securities) individually and in groups or portfolios. These loans are initially measured at fair value with no allowance for loan losses. The Company's allowance for loan losses on all acquired loans reflect only those losses incurred subsequent to acquisition.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the loan balance is not fully collectable. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

Note 1: Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Commercial and real estate loans with a balance of $75,000 or more and have a risk rating of substandard or worse are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan net of the specific allocation equals the present value of estimated future cash flows using the loan's existing rate or the fair value of underlying collateral less applicable estimated selling costs if repayment is expected solely from the collateral.

TDRs are individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs are measured at the present value of estimated future cash flows using the loan's original effective rate. If a TDR is considered to be a collateral dependent loan, the loan is measured at the fair value of the collateral less applicable estimated selling costs. For TDRs that subsequently default, the Company determines the amount of the allowance on that loan in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired.

The general component covers loans that are collectively evaluated for impairment. Large groups of smaller balance homogeneous loans, such as consumer loans, are collectively evaluated for impairment, and accordingly, they are not included in the separately identified impairment disclosures. The general allowance component also includes loans that are not individually identified for impairment evaluation, such as commercial and real estate loans below the individual evaluation threshold, as well as those loans that are individually evaluated but are not considered impaired.

The general component is based on historical loss experience adjusted for current qualitative factors. The historical loss experience is determined by portfolio segment or loan class and is based on the actual loss history experienced by the Company. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment or loan class. These economic factors include: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

Note 1: Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Management considers the following when assessing risk in the Company's loan portfolio segments:

- Commercial and industrial and agriculture production loans are primarily for working capital, physical asset expansion, asset acquisition loans, and other. These loans are made based primarily on historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to economic or individual performance factors. Financial information is obtained from the borrowers to evaluate cash flows sufficiency to service debt and are periodically updated during the life of the loan.

- Commercial real estate and agriculture real estate loans are dependent on the industries tied to these loans. Commercial real estate loans are primarily secured by office and industrial buildings, warehouses, small retail shopping facilities, multi-family, construction and land development, and various special purpose properties, including hotels and restaurants. Agriculture real estate are primarily for land acquisition. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flows sufficiency to service debt and is periodically updated during the life of the loan. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and/or property type.

- Residential real estate loans are affected by the local residential real estate market, the local economy, and, for variable rate mortgages, movement in indices tied to these loans. At the time of origination, the Company evaluates the borrower's repayment ability through a review of debt to income and credit scores. Appraisals are obtained to support the loan amount. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flows sufficiency to service debt at the time of origination.

- Consumer loans may take the form of installment loans, demand loans, or single payment loans and are extended to individual for household, family, and other personal expenditures. At the time of origination, the Company evaluates the borrower's repayment ability through a review of debt to income and credit scores.

Premises and Equipment

Land is carried at cost. Buildings and equipment are stated at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

Other Investments

Other investments are carried at cost and consist of Federal Home Loan Bank (FHLB) stock totaling $2,916 and $2,822 at December 31, 2018 and 2017, and other investments totaling $2,179 and $1,447 at December 31, 2018 and 2017, respectively. The Company is required to hold the FHLB stock as a member of the FHLB, and transfer of the stock is substantially restricted. The stock is pledged as collateral for outstanding FHLB advances. Other investments are evaluated for impairment on a periodic basis.

Note 1: Summary of Significant Accounting Policies (Continued)

Foreclosed Assets

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

Cash Value of Life Insurance

The Company has purchased life insurance policies on certain key executives. Company owned life insurance is recorded at the amount that can be realized under the life insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Mortgage Servicing Rights

The Company services mortgage loans it sells to third-party institutions. Servicing loans includes collecting monthly principal and interest payments from borrowers, passing such payments through to the third-party investors, and maintaining escrow accounts for taxes and insurance. When necessary, the Company also performs collection functions for delinquent loan payments, handles loan foreclosure proceedings, and disposes of foreclosed property. The Company generally earns a servicing fee of 25 basis points on the outstanding loan balance for performing these services as well as fees and interest income from ancillary sources, such as late fees and float. Servicing fees, late fees, and other ancillary income earned each year, net of any amortization expense and impairment charges discussed below, are reported in the consolidated statements of income as a component of loan servicing income.

Mortgage servicing rights are recognized as separate assets when rights are acquired through sale of mortgage loans. Mortgage servicing rights acquired through sale of loans are recognized as a component of income from sale of loans and are recorded at fair value. The fair value of mortgage servicing rights is estimated using 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 costs to service, a discount rate, custodial earnings rate, ancillary income, default rates and losses, and prepayment speeds. The fair value of mortgage servicing rights may change because of changes in discount rates, prepayment expectations, default rates, and other factors. Mortgage servicing rights are reported in other assets and are amortized into income in proportion to, and over the period of, the estimated future net servicing income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Mortgage servicing rights are evaluated for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The evaluation includes stratifying the mortgage servicing rights by predominant characteristics interest rates and terms and estimating the fair value of each stratum. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the carrying amount for the stratum.

Note 1: Summary of Significant Accounting Policies (Continued)

Goodwill and Intangible Assets

Intangible assets attributable to the value of core deposits are stated at cost less accumulated amortization. Intangible assets are amortized on an accelerated method over the estimated lives of the assets. The excess of purchase price over fair value of net assets acquired (goodwill) is not amortized.

The Company evaluates whether goodwill and other intangible assets may be impaired at least annually and whenever events or changes in circumstances indicate it is more likely than not the fair value of the reporting unit or asset is less than its carrying amount.

Securities Sold Under Repurchase Agreements

Securities sold under repurchase agreements, which are classified as borrowings and included in short-term borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair market value of the underlying securities.

Income Taxes

Deferred tax assets and liabilities have been determined using the liability method. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the current enacted tax rates which will be in effect when these differences are expected to reverse. Provision for deferred taxes is the result of changes in the deferred tax assets and liabilities.

The Company may also recognize a liability for unrecognized tax benefits from uncertain tax positions. Unrecognized tax benefits represent the differences between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured in the financial statements. Interest and penalties related to unrecognized tax benefits are classified as provision for income taxes.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Off-Balance-Sheet Instruments

In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments, including commitments to extend credit, unfunded commitments under lines of credit, credit card commitments, and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they become payable.

Note 1: Summary of Significant Accounting Policies (Continued)

Rate Lock Commitments

The Company enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Rate lock commitments are recorded only to the extent of fees received since recording the estimated fair value of these commitments would not have a significant impact on the consolidated financial statements.

Advertising

Advertising costs are expensed as incurred.

Other Comprehensive Income

Other comprehensive income is shown on the consolidated statements of comprehensive income. Accumulated other comprehensive income consists of unrealized gains and losses on securities available for sale, net of tax, and is shown on the consolidated statements of stockholders' equity.

Earnings Per Share

Earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during each year. There are no dilutive shares during 2018 and 2017.

Reclassifications

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 classifications.

Subsequent Events

Subsequent events have been evaluated through March 15, 2019, which is the date the consolidated financial statements were available to be issued.

New Accounting Pronouncements

The Company recently adopted the following Accounting Standards Updates (ASU) issued by the Financial Accounting Standards Board (FASB).

ASU No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* – This standard allows entities to reclassify from accumulated other comprehensive income to retained earnings stranded tax effects that result from remeasuring deferred tax assets and liabilities related to accumulated other comprehensive income for the newly enacted federal corporate income tax rate. The adoption of this accounting standard did not have a significant effect on the Company’s financial statements.

Note 1: Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

The following ASUs have been issued by FASB and may impact the Company's consolidated financial statements in future reporting periods.

ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* - This standard makes a number of changes to the recognition and measurement standards of financial instruments, including the following changes: 1) equity securities with a readily determinable fair value will have to be measured at fair value with changes in fair value recognized in net income; and 2) entities that are not public business entities will no longer be required to disclose the fair value of financial instruments measured at amortized cost. This new standard is effective for consolidated financial statements issued for annual periods beginning after December 15, 2018. However, the Company is permitted to adopt and has adopted the provision in the standard eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost. The Company does not believe the adoption of the rest of the standard will have a significant impact on its consolidated financial statements.

ASU No. 2014-09, *Revenue from Contracts with Customers* - The objective of this new standard is to provide a common revenue standard for all entities that enter into contracts with customers to transfer goods or services or contracts to transfer nonfinancial assets. This new accounting standard is effective for consolidated financial statements issued for annual reporting periods beginning after December 15, 2018. The Company is evaluating what impact this new standard will have on its consolidated financial statements.

ASU No. 2016-02, *Leases* - When this standard is adopted, the primary accounting change will require lessees to recognize right of use assets and lease obligations for most operating leases as well as finance leases. This new standard is effective for consolidated financial statements issued for annual periods beginning after December 15, 2019. The Company is evaluating what impact this new standard will have on its consolidated financial statements.

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* - This standard will significantly change how financial assets measured at amortized cost are presented. Such assets, which include most loans, will be presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses will be based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. The standard will also change the accounting for credit losses related to securities available for sale and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This new accounting standard is effective for consolidated financial statements issued for annual periods beginning after December 15, 2021. The Company is evaluating what impact this new standard will have on its consolidated financial statements.

ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment* - This standard eliminates Step 2 from the goodwill impairment test, and a goodwill impairment charge will be recognized for the amount by which the carrying amount of a reporting unit exceeds the reporting unit's estimated fair value. This new standard is effective for goodwill impairment tests in annual periods beginning after December 15, 2021. The Company does not believe this will have a significant impact on its consolidated financial statements.

(Dollars in Thousands)

Note 1: Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

ASU No. 2017-08, *Premium Amortization on Purchased Callable Debt Securities* - This standard requires premiums on purchased callable debt securities to be amortized to the earliest call date. This new standard is effective for consolidated financial statements issued for annual periods beginning after December 15, 2019. The Company does not believe this will have a significant impact on its consolidated financial statements.

Note 2: Cash and Due From Banks

The Company is required to maintain reserve balances, in cash or on deposit with the Federal Reserve Bank, based upon a percentage of deposits. The total required reserve balance was approximately $1,547 at December 31, 2018, and $983 at December 31, 2017.

In the normal course of business, the Company maintains cash and due from bank balances with correspondent banks. Balances in these accounts may exceed the Federal Deposit Insurance Corporation's insured limit of $250. Management believes these financial institutions have strong credit ratings and that the credit risk related to these deposits is minimal.

Note 3: Other Interest-Bearing Deposits

Other interest-bearing deposits consist of certificates of deposit at other financial institutions. Certificates of deposit are in denominations of $250,000 or less and are fully insured by the FDIC.

Maturities of certificates of deposits as of December 31, 2018, are as follows:

2019	$247
2020	1,474
2021	245
2022	245
Total	$2,211

(Dollars in Thousands)

Note 4: Securities

The amortized cost and estimated fair value of securities with gross unrealized gains and losses at December 31 follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2018				
Securities available for sale:				
Obligations of states and political subdivisions	$37,160	$82	$255	$36,987
Government sponsored agency mortgage-backed securities	43,731	39	727	42,043
U.S. Government and sponsored agencies	2,399	0	33	2,366
Total securities available for sale	$83,290	$121	$1,015	$81,396
2017				
Securities available for sale:				
Obligations of states and political subdivisions	$37,900	$218	$95	$38,023
Government sponsored agency mortgage-backed securities	42,757	99	309	42,547
U.S. Government and sponsored agencies	2,398	0	8	2,390
Total securities available for sale	$83,055	$317	$412	$82,960

Fair values of securities are estimated based on financial models or prices paid for similar securities. It is possible interest rates could change considerably resulting in a material change in the estimated fair value.

The following table shows the fair value and gross unrealized losses of securities with unrealized losses at December 31, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

(Dollars in Thousands)

Note 4: Securities (Continued)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2018						
U.S. Government and sponsored agencies	$0	$0	$2,366	$33	$2,366	$33
Obligations of states and political subdivisions	8,349	27	14,991	228	23,340	$255
Government sponsored agency mortgage-backed securities	7,882	74	29,120	653	37,002	727
Total	$16,231	$101	$46,477	$914	$62,708	$1,015
2017						
U.S. Government and sponsored agencies	$2,390	$8	$0	$0	$2,390	$8
Obligations of states and political subdivisions	15,022	69	1,422	26	16,444	95
Government sponsored agency mortgage-backed securities	32,863	284	1,400	25	34,263	309
Total	$50,275	$361	$2,822	$51	$53,097	$412

At December 31, 2018, 282 debt securities had unrealized losses with aggregate depreciation of 1% from the Company's amortized cost basis. These unrealized losses relate principally to the changes in interest rates and are not due to changes in the financial condition of the issuer, the quality of any underlying assets, or applicable credit enhancements. In analyzing whether unrealized losses on debt securities are other than temporary, management considers whether the securities are issued by a government body or agency, whether a rating agency has downgraded the securities, industry analysts' reports, the financial condition, and performance of the issuer, and the quality of any underlying assets or credit enhancements. Since management has the ability to hold debt securities for the foreseeable future, no declines are deemed to be other than temporary.

The following is a summary of amortized cost and estimated fair value of debt securities by contractual maturity as of December 31, 2018. Contractual maturities will differ from expected maturities for mortgage-related securities because borrowers may have the right to call or prepay obligations without penalties.

(Dollars in Thousands)

Note 4: Securities (Continued)

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$6,332	$6,327
Due after one year through five years	14,820	14,723
Due after five years through ten years	18,407	18,303
Subtotal	39,559	39,353
Government sponsored agency mortgage-backed securities	42,731	42,043
Totals	$82,290	$81,396

There were no securities sold during the year ended December 31, 2018. During the year ended December 31, 2017, gross proceeds from sales of available-for-sale securities totaled $897. As a result of these sales, gross gains totaled $18.

As of December 31, 2018, the amortized cost and estimated fair value of securities pledged to secure public deposits and for other purposes required or permitted by law were $13,244 and $13,080, respectively. As of December 31, 2017, the amortized cost and estimated fair value of securities pledged to secure public deposits and for other purposes required or permitted by law were $11,586 and $11,580, respectively.

Note 5: Loans

The following table presents total loans at December 31 by portfolio segment and class of loan:

	2018	2017
Commercial:		
Commercial and industrial	$85,592	$81,120
Commercial real estate	445,458	418,430
Agriculture related	31,484	27,013
Residential real estate	166,079	150,725
Consumer	10,376	13,440
Subtotals	738,989	690,728
Allowance for loan losses	(9,109)	(7,340)
Net deferred loan fees	(337)	(274)
Loans, net	$729,543	$683,114

(Dollars in Thousands)

Note 5: Loans (Continued)

Analysis of the allowance for loan losses for the years ended December 31, 2018 and 2017, follows:

	Commercial	Residential	Consumer	Totals
Balance at January 1, 2017	$4,593	$1,325	$68	$5,986
Provision (credit) for loan losses	1,067	107	128	1,302
Loans charged off	(77)	0	(8)	(85)
Recoveries of loans previously charged off	70	61	6	137
Balance at December 31, 2017	5,653	1,493	194	7,340
Provision (credit) for loan losses	1,638	94	(27)	1,704
Loans charged off	(2)	(12)	(13)	(27)
Recoveries of loans previously charged off	53	27	13	92
Balance at December 31, 2018	$7,341	$1,601	$167	$9,109
Allowance for loan losses at December 31, 2018:				
Individually evaluated for impairment	$991	$7	$0	$998
Collectively evaluated for impairment	6,350	1,594	167	8,111
Totals	$7,341	$1,601	$167	$9,109
Allowance for loan losses at December 31, 2017:				
Individually evaluated for impairment	$93	$83	$0	$176
Collectively evaluated for impairment	5,560	1,410	194	7,164
Totals	$5,653	$1,493	$194	$7,340

Analysis of loans evaluated for impairment as of December 31, 2018 and 2017, follows:

	Commercial	Residential	Consumer	Totals
Loans at December 31, 2018:				
Individually evaluated for impairment	$7,652	$1,618	$0	$9,270
Collectively evaluated for impairment	554,882	164,461	10,376	729,719
Totals	$562,534	$166,079	$10,376	$738,989
Loans at December 31, 2017:				
Individually evaluated for impairment	$4,035	$2,047	$0	$6,082
Collectively evaluated for impairment	522,528	148,678	13,440	684,646
Totals	$526,563	$150,725	$13,440	$690,728

(Dollars in Thousands)

Note 5: Loans (Continued)

Information regarding impaired loans for the year ended December 31 follows:

	Recorded Investment	Principal Balance	Related Allowance	Average Investment	Interest Recognized
2018					
Loans with no related allowance for loan losses:					
Commercial and industrial	$623	$620	N/A	$585	$0
Commercial real estate	747	780	N/A	759	15
Agriculture related	428	428	N/A	433	25
Residential real estate	1,390	1,565	N/A	1,534	78
Consumer	0	0	N/A	36	0
Totals	$3,188	$3,393	N/A	$3,347	$118
Loans with an allowance for loan losses:					
Commercial and Industrial	5,854	5,854	991	5,773	344
Residential real estate	228	228	7	230	10
Totals	6,082	6,082	998	6,003	354
Grand totals	$9,270	$9,475	$998	$9,350	$472
2017					
Loans with no related allowance for loan losses:					
Commercial and industrial	$559	$559	N/A	$595	$14
Commercial real estate	1,456	816	N/A	1,701	15
Agriculture Related	816	1,901	N/A	769	33
Residential real estate	1,063	1,113	N/A	1,108	24
Totals	$3,895	$4,390	N/A	$4,173	$86
Loans with an allowance for loan losses:					
Commercial real estate	$1,204	$1,204	$93	$1,205	$66
Residential real estate	983	1,078	83	1,057	23
Totals	$2,187	$2,282	$176	$2,262	$89
Grand totals	$6,082	$6,672	$176	$6,435	$175

No additional funds are committed to be advanced in connection with impaired loans.

The Company regularly evaluates various attributes of loans to determine the appropriateness of the allowance for loan losses. The credit quality indicators monitored differ depending on the class of loan.

(Dollars in Thousands)

Note 5: Loans (Continued)

Commercial loans are generally evaluated using the following internally prepared ratings:

- "Pass" ratings are assigned to loans with adequate collateral and debt service ability such that collectibility of the contractual loan payments is highly probable.
- "Watch/special mention" ratings are assigned to loans where management has some concern that the collateral or debt service ability may not be adequate, though the collectibility of the contractual loan payments is still probable.
- "Substandard" ratings are assigned to loans that do not have adequate collateral and/or debt service ability such that collectibility of the contractual loan payments is no longer probable.
- "Doubtful" ratings are assigned to loans that do not have adequate collateral and/or debt service ability, and collectability of the contractual loan payments is unlikely.

Residential real estate and consumer loans are generally evaluated based on whether or not the loan is performing according to the contractual terms of the loan.

Information regarding the credit quality indicators most closely monitored for commercial loans by class as of December 31 follows:

	Pass	Special Mention/ Watch	Substandard	Doubtful	Totals
2018					
Commercial and industrial	$73,820	$5,267	$6,505	$0	$85,592
Commercial real estate	422,050	22,626	782	0	445,458
Agriculture related	30,343	669	472	0	31,484
Totals	$526,213	$28,562	$7,759	$0	$562,534
2017					
Commercial and industrial	$75,203	$5,297	$620	$0	$81,120
Commercial real estate	393,116	22,612	2,252	450	418,430
Agriculture related	23,032	3,021	960	0	27,013
Totals	$491,351	$30,930	$3,832	$450	$526,563

(Dollars in Thousands)

Note 5: Loans (Continued)

Information regarding the credit quality indicators most closely monitored for residential real estate and consumer loans by class as of December 31 follows:

	Performing	Non-Performing	Totals
2018			
Residential real estate	$164,420	$1,659	$166,079
Consumer	10,376	0	10,376
Totals	$174,796	$1,659	$176,455
2017			
Residential real estate	$149,999	$726	$150,725
Consumer	13,385	55	13,440
Totals	$163,384	$781	$164,165

Loan aging information as of December 31 follows:

		Accruing			
	Current Loans	Loans Past Due 30-89 Days	Loans Past Due 90+ Days	Total Nonaccrual	Total Loans
2018					
Commercial and industrial	$84,961	$8	$0	$623	$85,592
Commercial real estate	443,974	0	0	1,484	445,458
Agriculture related	31,480	0	0	4	31,484
Residential real estate	164,883	343	0	853	166,079
Consumer	10,364	10	2	0	10,375
Totals	$735,662	$361	$2	$2,964	$738,989
2017					
Commercial and industrial	$80,157	$392	$0	$571	$81,120
Commercial real estate	415,082	598	0	2,750	418,430
Agriculture related	26,821	6	0	186	27,013
Residential real estate	149,355	0	0	1,370	150,725
Consumer	13,380	1	0	59	13,440
Totals	$684,795	$997	$0	$4,936	$690,728

There were no new troubled debt restructurings during the year ended December 31, 2018 and 2017.

The Company considers a troubled debt restructuring in default if it becomes past due more than 30 days. No troubled debt restructurings defaulted within 12 months of their modification date during the years ended December 31, 2018 and 2017.

(Dollars in Thousands)

Note 6: Premises and Equipment

An analysis of premises and equipment at December 31 is as follows:

	2018	2017
Land and improvements	$3,355	$3,355
Buildings and improvements	15,864	15,774
Furniture, fixtures, and equipment	5,135	6,902
Totals	24,354	26,031
Accumulated depreciation and amortization	(9,157)	(10,146)
Premises and equipment, net	$15,197	$15,885

Depreciation and amortization of premises and equipment charged to operating expense totaled $920 and $1,022 in 2018 and 2017, respectively.

During 2014, the Company entered into a lease agreement for a branch facility under a 10-year noncancelable operating lease expiring in 2024 with three options to renew for additional years at the expiration of the initial lease. The Bank also pays for real estate taxes, insurance, and maintenance under this net lease. Rent expense under this lease was $266 and $278 in 2018 and 2017, respectively.

During 2008, the Company entered into a lease agreement for a branch facility under a 3-year operating lease expiring in 2010. The lease agreement includes four options to renew for 3-year periods at the end of each period. Under the lease, the Bank also pays utility, repair and maintenance expenses. Rent expense under this lease was $40 in both 2018 and 2017, respectively.

Future minimum rental payments under noncancelable lease terms as of December 31 are as follows:

2019	$202
2020	205
2021	209
2022	182
2023	182
Thereafter	15
Total	$995

(Dollars in Thousands)

Note 7: Foreclosed Assets

Foreclosed assets consist of the following at December 31:

	2018	2017
Residential real estate	$0	$0
Commercial real estate	23	748
Total	$23	$748

Residential real estate loans that are in the process of foreclosure totaled $65 at December 31, 2017. There were no residential real estate loans in the process of foreclosure as of December 31, 2018.

Note 8: Mortgage Servicing Rights

Loans serviced for others are not included in the consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced for others totaled $447,403 and $437,406 at December 31, 2018 and 2017, respectively.

The following is a summary of changes in the balance of mortgage servicing rights, included in other assets, for the years ended December 31:

	2018	2017
Balance at beginning	$2,575	$1,358
Addition from acquisition	$0	$1,632
Additions	367	397
Amortization	(705)	(812)
Balance at end	$2,237	$2,575
Fair value at end	$4,256	$3,940

The estimated fair value of mortgage servicing rights was determined using a valuation model that calculates the present value of expected future servicing and ancillary income, net of expected servicing costs. At December 31, 2018 and 2017, the model used discount rates ranging from 9.5% to 11.5% and at December 31, 2018 and 2017, prepayment speeds ranging from 6.4% to 25.8% and 7.4% to 25.7%, respectively, both the discount rates and the prepayment speeds were based on market data from independent organizations.

(Dollars in Thousands)

Note 9: Goodwill and Intangible Assets

The gross carrying amount and accumulated amortization of intangible assets for the year ended December 31, 2018 and December 31, 2017 are as follows:

	2018		2017	
	Gross Carrying	**Accumulated Amortization**	**Gross Carrying**	**Accumulated Amortization**
Goodwill	$13,883	N/A	$13,883	N/A
Core deposit premium	2,945	($928)	2,945	($494)
Total	$16,828	($928)	$16,828	($494)

Amortization expense recognized on intangible assets totaled $434 and $494 for the years ended December 31, 2018 and 2017. The remaining amortization expense is as follows:

2019	$381
2020	334
2021	293
2022	258
2023	226
Thereafter	525
Total	$2,017

Note 10: Deposits

The aggregate amount of time deposit accounts in denominations that meet or exceed the FDIC insurance limit of $250 was $34,269 and $42,374 at December 31, 2018 and 2017, respectively.

The scheduled maturities of time deposits at December 31, 2018, are summarized as follows:

2019	$165,902
2020	51,008
2021	5,852
2022	1,406
2023	3,742
Thereafter	108
Total	$228,018

(Dollars in Thousands)

Note 11: Short-Term Borrowings

The Company has a federal funds line of credit with three of its main correspondent institutions with a combined availability up to $35,000. Federal funds purchased generally mature within one to four days from the transaction date.

Short-term borrowings consist of securities sold under repurchase agreements of $2,138 and $3,039 at December 31, 2018 and 2017, respectively.

The Company's average interest rate on securities sold under repurchase agreements was 0.26% and 0.06% at December 31, 2018 and 2017 respectively. Securities sold under repurchase agreements generally mature within one to four days. The repurchase agreements are secured by $4,740 and $3,386 of government sponsored agency mortgage-backed securities as of December 31, 2018 and 2017, respectively.

Note 12: Other Borrowings

Other borrowings consisted of the following at December 31:

	2018		2017	
	Weighted Average Rates	Amount	Weighted Average Rates	Amount
Federal Home Loan Bank (FHLB):				
Fixed rate advances	2.60%	$64,800	1.53%	$67,700
Variable rate note payable at Bankers' Bank (rate at December 31)	4.50%	8,303	3.75%	9,151
Fixed rate note payable at Bankers' Bank	3.25%	4,950	3.25%	5,483
Total		$78,053		$82,334

The following is a summary of scheduled maturities of advances as of December 31, 2018:

	Fixed-Rate Advances		Variable Rate Advances		
	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Total
2019	2.60%	$65,353	0.00%	$0	$65,353
2020	3.25%	570	0.00%	0	$570
2021	3.25%	589	0.00%	0	$589
2022	3.25%	3,238	0.00%	0	$3,238
2023	0.00%	0	4.50%	8,303	8,303
Total		$69,750		$8,303	$78,053

(Dollars in Thousands)

Note 12: Other Borrowings (Continued)

The Company has a master contract agreement with FHLB that provides for borrowing up to a specified percentage of the book value of the Company's qualifying loans. The Company has pledged loans totaling $201,365 at December 31, 2018, and $295,798 at December 31, 2017. In addition, by statute, all borrowings from the FHLB must be supported by capital stock holdings of a specific percentage of borrowings. The FHLB provides both fixed and floating rate advances. Floating rates are tied to short-term market rates of interest such as London InterBank Offered Rate (LIBOR), federal funds, or Treasury bill rates. Advances with call provisions permit FHLB to request payment beginning on the call date and quarterly thereafter. FHLB advances are subject to a prepayment penalty if they are repaid prior to maturity. FHLB advances are also secured by $2,916 and $2,822 of FHLB stock owned by the Company at December 31, 2018 and 2017. At December 31, 2018, the Company had a $0 available and unused portion of this borrowing agreement based on total assets, supporting collateral, and FHLB stock outstanding.

The Company has both fixed and variable rate term loans with Bankers' Bank. The fixed rate loan requires quarterly payments of $177 including interest at 3.25%. The variable rate loan requires quarterly interest payments at prime less 0.75% (4.50% at December 31, 2018). Both these notes mature in January 2022.

The Company has an unused line of credit available with the Federal Reserve Bank for $24,683 as of December 31, 2018.

The Company also had a $3,000 revolving line of credit, which matured on January 3, 2019, used for general corporate purposes. The stated interest rate was prime rate minus .75%. The line of credit was secured by 100% of the Bank's common stock.

Note 13: Income Taxes

The components of the provision for income taxes are as follows:

	2018	2017
Current tax expense (benefit):		
Federal	$1,912	$2,808
State	888	$735
Total current	2,800	3,543
Deferred tax expense (benefit):		
Federal	(299)	(1,076)
State	(103)	44
Total deferred	(402)	(1,032)
Adjustment to the net deferred tax asset for the Tax Cuts and Jobs Act	0	234
Total	$2,398	$2,745

(Dollars in Thousands)

Note 13: Income Taxes (Continued)

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the "Act"). The Act amends the Internal Revenue Code to reduce corporate tax rates and modify various tax policies, credits, and deductions. The Act reduces the corporate federal tax rate from a maximum of 35% to a flat 21% rate, which is effective for the Company beginning January 1, 2017. As a result of the tax rate reduction in the Act, the Company reduced its net deferred tax asset during the year ended December 31, 2017, by $234, which was recognized as additional income tax expense.

A summary of the sources of differences between income taxes at the federal statutory rate and the provision for income taxes for the years ended December 31 follows:

	2018		2017	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Tax expense at statutory rate	$2,072	21.0	$2,340	34.0
Increase (decrease) in taxes resulting from:				
State taxes	621	6.3	514	7.5
Tax-exempt interest	(158)	(1.6)	(369)	(5.4)
Adjustment to the net DTA for the Tax Cuts and Jobs Act	0	0.0	234	3.4
Other	(137)	(1.4)	26	0.4
Total	$2,398	24.3	$2,745	39.9

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The major components of the net deferred tax asset, included in other assets on the balance sheet, as of December 31 are presented below:

	2018	2017
Deferred tax assets:		
Allowance for loan losses	$2,365	$1,795
Deferred compensation	275	387
Unrealized loss on securities available for sale	187	20
Other	25	275
Total deferred tax assets	2,852	2,477
Deferred tax liabilities:		
Premises and equipment	1,015	1,116
FHLB stock	93	93
Mortgage servicing rights	609	702
Total deferred tax liabilities	1,717	1,911
Total	$1,135	$566

(Dollars in Thousands)

Note 14: Employee Benefit Plan

The Company has a 401(k) savings plan. Employees are allowed to defer a portion of their compensation subject to certain limitations. The Company makes a dollar-for-dollar matching contribution to the plan on behalf of the employee, with a 4% cap. As part of the plan, the Company can make discretionary profit sharing contributions. The Company approved a discretionary 4% contribution for 2018 and for 2017. Total matching and discretionary contributions totaled $821 and $650 for 2018 and 2017, respectively.

Note 15: Deferred Compensation

The Company has established nonqualified incentive deferred compensation plans for certain officers and directors of the Company. Both plans are based on "phantom" unit grants corresponding to the appraised value of the Company's stock. Vesting is based on years of employment for officers and years of service for directors. Earnings are credited for increases in the appraised value of the Company and for dividends assumed to have been earned on units outstanding. Amounts accrued and included in other liabilities were $961 and $870 at December 31, 2018 and 2017, respectively. There was $53 and $224 charged to operations during 2018 and 2017, respectively.

Note 16: Commitments, Contingencies, and Credit Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual, or notional, amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments. Since some of the commitments are expected to expire without being drawn upon and some of the commitments may not be drawn upon to the total extent of the commitment, the notional amount of these commitments does not necessarily represent future cash requirements.

The following commitments were outstanding at December 31:

	Notional Amount	
	2018	**2017**
Commitments to extend credit	$3,403	$2,808
Unfunded commitments under lines of credit	157,095	128,386
Credit card commitments	19,532	18,322
Standby letters of credit	7,119	6,699

Commitments to extend credit are agreements to lend to a customer at fixed or variable rates as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the customer.

(Dollars in Thousands)

Note 16: Commitments, Contingencies, and Credit Risk (Continued)

Unfunded commitments under commercial lines of credit, home equity lines of credit, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit may or may not require collateral and may or may not contain a specific maturity date.

Credit card commitments are commitments on credit cards issued by the Company and serviced by other companies. These commitments are unsecured.

Standby letters of credit are conditional lending commitments issued by the Company to guarantee the performance of a customer to a third party. Generally all standby letters of credit issued have expiration dates within one year. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting these commitments. Standby letters of credit are not reflected in the consolidated financial statements, since recording the fair value of these guarantees would not have a significant impact on the consolidated financial statements.

Legal Contingencies

Various legal claims arise from time to time in the normal course of business. In the opinion of management, any liability resulting from such proceedings would not have a material impact on the consolidated financial statements.

Concentrations of Credit Risk

The majority of the Company's loans, commitments, and standby letters of credit have been granted to customers in the Company's market area. The concentrations of credit by type are set forth in Note 5. Standby letters of credit were granted primarily to commercial borrowers. Management believes the diversity of the local economy will prevent significant losses in the event of an economic downturn.

Note 17: Related-Party Transactions

A summary of loans to directors, executive officers, principal stockholders, and their affiliates is as follows:

	2018	2017
Balance at beginning	$21,263	$14,350
Changes in related parties	0	11,943
New loans	9,709	4,021
Repayment	(3,721)	(9,051)
Balance at end	$27,251	$21,263

Deposits from directors, executive officers, principal stockholders, and their affiliates totaled $12,794 and $9,172 as of December 31, 2018 and 2017, respectively.

Note 18: Equity and Regulatory Matters

The payment of dividends by the Bank would be restricted if the Bank does not meet the minimum Capital Conservation Buffer as defined by Basel III regulatory capital guidelines and/or if, after payment of the dividend, the Bank would be unable to maintain satisfactory regulatory capital ratios.

The Bank is subject to various regulatory capital requirements administered by 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 consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of 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.

Effective January 1, 2015, the Bank is subject to a new capital adequacy framework called Basel III. Basel III includes several changes to the capital adequacy guidelines, including a new Common Equity Tier 1 capital requirement, increases in the minimum required Tier 1 risk-based capital ratios, and other changes to the calculation of regulatory capital and risk-weighted assets.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1, Tier 1, and Total capital to risk-weighted assets and of Tier 1 capital to average assets. It is management's opinion, as of December 31, 2018, that the Bank meets all applicable capital adequacy requirements.

As of December 31, 2018, the Bank is categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Common Equity Tier I, Tier I, and Total risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

(Dollars in Thousands)

Note 18: Equity and Regulatory Matters (Continued)

The Bank's actual capital amounts and ratios as of December 31 are presented in the following table:

	Actual			For Capital Adequacy Purposes				To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio - %		Amount		Ratio - %		Amount		Ratio - %
2018										
Total capital (to risk-weighted assets)	$95,544	12.02	≥	$63,583	≥	8.00	≥	$79,479	≥	10.00
Tier 1 capital (to risk-weighted assets)	86,435	10.88	≥	47,687	≥	6.00	≥	63,583	≥	8.00
Common Equity Tier 1 capital (to risk-weighted assets)	86,435	10.88	≥	35,765	≥	4.50	≥	51,661	≥	6.50
Tier 1 capital (to average assets)	86,435	9.93	≥	34,817	≥	4.00	≥	43,521	≥	5.00
2017										
Total capital (to risk-weighted assets)	$88,518	11.84	≥	$59,791	≥	8.00	≥	$74,739	≥	10.00
Tier 1 capital (to risk-weighted assets)	81,178	10.86	≥	44,844	≥	6.00	≥	59,791	≥	8.00
Common Equity Tier 1 capital (to risk-weighted assets)	81,178	10.86	≥	33,633	≥	4.50	≥	48,581	≥	6.50
Tier 1 capital (to average assets)	81,178	9.69	≥	33,497	≥	4.00	≥	41,871	≥	5.00

Note 19: Fair Value Measurements

Some assets, such as securities available for sale, are measured at fair value on a recurring basis under accounting principles generally accepted in the United States. Other assets, such as impaired loans and foreclosed assets, may be measured at fair value on a nonrecurring basis. Following is a description of the valuation methodology and significant inputs used for each asset measured at fair value on a recurring or nonrecurring basis, as well as the classification of the asset within the fair value hierarchy.

Securities available for sale - Securities available for sale are classified as Level 2 measurements within the fair value hierarchy. Level 2 securities include obligations of states and political subdivisions, mortgage-related securities, and U.S. treasuries. The fair value measurement of a Level 2 security is obtained from an independent pricing service and is based on recent sales of similar securities and other observable market data.

Loans - Loans are not measured at fair value on a recurring basis. However, loans considered to be impaired (see Note 1) may be measured at fair value on a nonrecurring basis. The fair value measurement of an impaired loan that is collateral dependent is based on the fair value of the underlying collateral. Independent appraisals are obtained that utilize one or more valuation methodologies - typically they will incorporate a comparable sales approach and an income approach. Management routinely evaluates the fair value measurements of independent appraisers and adjusts those valuations based on differences noted between actual selling prices of collateral and the most recent appraised value. Such adjustments are usually significant, which results in a Level 3 classification. All other impaired loan measurements are based on the present value of expected future cash flows discounted at the applicable effective interest rate and, thus, are not fair value measurements.

(Dollars in Thousands)

Note 19: Fair Value Measurements (Continued)

Foreclosed assets - Real estate and other property acquired through or in lieu of loan foreclosure are not measured at fair value on a recurring basis. However, foreclosed assets are initially measured at fair value (less estimated costs to sell) when they are acquired and may also be measured at fair value (less estimated costs to sell) if they become subsequently impaired. The fair value measurement for each asset may be obtained from an independent appraiser generally utilizing a market approach based on sales of comparable assets and/or an income approach. Such measurements are usually considered Level 2 measurements. However, management routinely evaluates fair value measurements of independent appraisers by comparing actual selling prices to the most recent appraisals. If management determines significant adjustments should be made to the independent appraisals based on these evaluations, these measurements are considered Level 3 measurements. Fair value measurements prepared internally are based on management's comparisons to sales of comparable assets but include significant unobservable data and are therefore considered Level 3 measurements.

Information regarding the fair value of assets measured at fair value on a recurring basis as of December 31 follows:

		Recurring Fair Value Measurements Using		
	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2018				
Assets - Securities available for sale	$81,396	$0	$81,396	$0
2017				
Assets - Securities available for sale	$82,960	$0	$82,960	$0

Information regarding the fair value of assets measured at fair value on a nonrecurring basis as of December 31 follows:

		Nonecurring Fair Value Measurements Using		
	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2018				
Assets				
Impaired Loans	$5,084	$0	$0	$5,084
Foreclosed assets	23	0	0	23
Totals	$5,107	$0	$0	$5,107
2017				
Impaired Loans	$2,011	$0	$0	$2,011
Foreclosed assets	748	0	0	748
Totals	$2,759	$0	$0	$2,759

(Dollars in Thousands)

Note 19: Fair Value Measurements (Continued)

At December 31, 2018, loans with a carrying amount of $6,082 were considered impaired and were written down to their estimated fair value of $5,084. As a result, the Company recognized a valuation allowance and a provision for loan losses totaling $998.

At December 31, 2017, loans with a carrying amount of $2,187 were considered impaired and were written down to their estimated fair value of $2,011. As a result, the Company recognized a valuation allowance and a provision for loan losses totaling $176.

Foreclosed assets with a fair value net of estimated costs to sell of $23 and $748 were acquired through or in lieu of foreclosure as of December 31, 2018 and 2017, respectively.

The following presents quantitative information about nonrecurring Level 3 fair value measurements at December 31:

Asset	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range/ Weighted Average
2018				
Impaired Loans	$5,084	Market and/or Income Approach	Management discount on appraised values	10% - 20%
Foreclosed assets	$23	Market and/or Income Approach	Management discount on appraised values	10% - 20%
2017				
Impaired Loans	$2,011	Market and/or Income Approach	Management discount on appraised values	10% - 20%
Foreclosed assets	$748	Market and/or Income Approach	Management discount on appraised values	10% - 20%

Note 20: Business Combination

On January 6, 2017 (the "Acquisition Date"), the Company purchased certain assets and assumed certain liabilities of five branch locations of Middleton Community Bank. The assets and liabilities were acquired (assumed) to provide additional liquidity and geographic growth opportunities for the Company. Goodwill of $13,883 acquired in the transaction consists largely of the synergies and economies of scale expected from combining the operations of the Company and Middleton Community Bank. Of the goodwill recognized, none is expected to be deductible for income tax purposes. Consideration paid for the net assets acquired included $15,470 of cash and 206,666 shares of the Company's common stock. The estimated fair value of the common stock issued was $24,951 based on an independent third-party valuation. Costs related to the acquisition are included in other noninterest expense on the consolidated statement of income and totaled approximately $439 for the year ended December 31, 2017.

(Dollars in Thousands)

Note 20: Business Combination (Continued)

The following summarizes assets acquired and liabilities assumed at the Acquisition Date:

Cash and due from bank	$	32,380
Other interest-bearing deposits		4,419
Securities available-for-sale		67,745
Loans		182,103
Premises and equipment		6,628
Foreclosed assets		142
Core deposit premium intangible asset		2,945
Other assets		8,860
Deposits		273,414
Other borrowings		2,746
Other liabilities		2,524
Identifiable net assets acquired		26,538
Goodwill		13,883
Total consideration paid	$	40,421

Loans acquired from Middleton Community Bank include loans that were not considered impaired as of the acquisition date and were not subject to accounting guidance covering loans acquired with deteriorated credit quality. The Company believes it will collect all contractual cash flows related to these loans, which had an estimated fair value of $182,103 and gross contractual balance of $185,713 at the Acquisition Date.

Results of operations subsequent to the acquisition are included in the consolidated statement of income for the year ended December 31, 2017.