# Section 1: 10-Q (FORM 10-Q)

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

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## FORM 10-Q

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

For the quarterly period ended September 30, 2019

**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: 001-37700

## NICOLET BANKSHARES, INC.

(Exact Name of Registrant as Specified in its Charter)

| **WISCONSIN** | **47-0871001** |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

| **111 North Washington Street**<br>**Green Bay, Wisconsin** | **54301** |
|---|---|
| (Address of Principal Executive Offices) | (Zip Code) |

**(920) 430-1400**
(Registrant's Telephone Number, Including Area Code)

**N/A**
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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, par value $0.01 per share** | **NCBS** | **The NASDAQ Stock Market LLC** |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

| | |
|---|---|
| Large accelerated filer ☐ | Accelerated filer ☒ |
| Non-accelerated filer ☐ | Smaller reporting company ☐ |

Emerging Growth Company ☐

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

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

As of October 30, 2019 there were 9,366,490 shares of $0.01 par value common stock outstanding.

**Nicolet Bankshares, Inc.**
**Quarterly Report on Form 10-Q**
**September 30, 2019**

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**PART I – FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS:**

**NICOLET BANKSHARES, INC.**
**Consolidated Balance Sheets**
**(In thousands, except share and per share data)**

| | September 30, 2019 (Unaudited) | December 31, 2018 (Audited) |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ **88,371** | $ 85,896 |
| Interest-earning deposits | **55,598** | 163,630 |
| Cash and cash equivalents | **143,969** | 249,526 |
| Certificates of deposit in other banks | **5,395** | 993 |
| Securities available for sale (“AFS”), at fair value | **419,300** | 400,144 |
| Other investments | **20,697** | 17,997 |
| Loans held for sale | **10,564** | 1,639 |
| Loans | **2,242,931** | 2,166,181 |
| Allowance for loan losses ("ALLL") | **(13,620)** | (13,153) |
| Loans, net | **2,229,311** | 2,153,028 |
| Premises and equipment, net | **47,680** | 48,173 |
| Bank owned life insurance (“BOLI”) | **71,796** | 66,310 |
| Goodwill and other intangibles, net | **121,371** | 124,307 |
| Accrued interest receivable and other assets | **35,588** | 34,418 |
| **Total assets** | $ **3,105,671** | $ 3,096,535 |
| | | |
| **Liabilities and Stockholders’ Equity** | | |
| Liabilities: | | |
| Noninterest-bearing demand deposits | $ **782,968** | $ 753,065 |
| Interest-bearing deposits | **1,801,479** | 1,861,073 |
| Total deposits | **2,584,447** | 2,614,138 |
| Long-term borrowings | **57,495** | 77,305 |
| Accrued interest payable and other liabilities | **34,987** | 17,740 |
| **Total liabilities** | **2,676,929** | 2,709,183 |
| | | |
| Stockholders’ Equity: | | |
| Common stock | **94** | 95 |
| Additional paid-in capital | **236,534** | 247,790 |
| Retained earnings | **186,710** | 144,364 |
| Accumulated other comprehensive income (loss) | **4,676** | (5,640) |
| **Total Nicolet Bankshares, Inc. stockholders’ equity** | **428,014** | 386,609 |
| Noncontrolling interest | **728** | 743 |
| **Total stockholders’ equity and noncontrolling interest** | **428,742** | 387,352 |
| **Total liabilities, noncontrolling interest and stockholders’ equity** | $ **3,105,671** | $ 3,096,535 |
| | | |
| Preferred shares authorized (no par value) | **10,000,000** | 10,000,000 |
| Preferred shares issued and outstanding | — | — |
| Common shares authorized (par value $0.01 per share) | **30,000,000** | 30,000,000 |
| Common shares outstanding | **9,363,407** | 9,495,265 |
| Common shares issued | **9,387,096** | 9,524,777 |

See accompanying notes to unaudited consolidated financial statements.

**ITEM 1. Financial Statements Continued**:

**NICOLET BANKSHARES, INC.**
**Consolidated Statements of Income**
**(In thousands, except share and per share data) (Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Interest income: | | | | |
| Loans, including loan fees | **$ 31,334** | $ 28,997 | **$ 92,511** | $ 84,644 |
| Investment securities: | | | | |
| Taxable | **1,904** | 1,564 | **5,578** | 4,503 |
| Tax-exempt | **503** | 572 | **1,574** | 1,737 |
| Other interest income | **926** | 747 | **2,733** | 2,326 |
| **Total interest income** | **34,667** | 31,880 | **102,396** | 93,210 |
| Interest expense: | | | | |
| Deposits | **4,596** | 4,055 | **14,103** | 11,012 |
| Short-term borrowings | **—** | — | **—** | 8 |
| Long-term borrowings | **881** | 883 | **2,684** | 2,571 |
| **Total interest expense** | **5,477** | 4,938 | **16,787** | 13,591 |
| **Net interest income** | **29,190** | 26,942 | **85,609** | 79,619 |
| Provision for loan losses | **400** | 340 | **900** | 1,360 |
| **Net interest income after provision for loan losses** | **28,790** | 26,602 | **84,709** | 78,259 |
| Noninterest income: | | | | |
| Trust services fee income | **1,594** | 1,638 | **4,631** | 4,915 |
| Brokerage fee income | **2,113** | 1,732 | **5,925** | 5,074 |
| Mortgage income, net | **3,700** | 1,902 | **6,962** | 4,510 |
| Service charges on deposit accounts | **1,223** | 1,247 | **3,587** | 3,637 |
| Card interchange income | **1,735** | 1,481 | **4,815** | 4,082 |
| BOLI income | **495** | 1,019 | **1,834** | 1,929 |
| Asset gains (losses), net | **286** | 146 | **8,030** | 1,322 |
| Other income | **1,166** | 1,484 | **4,274** | 4,243 |
| **Total noninterest income** | **12,312** | 10,649 | **40,058** | 29,712 |
| Noninterest expense: | | | | |
| Personnel | **12,914** | 12,983 | **40,809** | 38,149 |
| Occupancy, equipment and office | **3,454** | 3,660 | **10,961** | 10,901 |
| Business development and marketing | **1,428** | 1,334 | **4,288** | 4,139 |
| Data processing | **2,515** | 2,375 | **7,220** | 7,094 |
| Intangibles amortization | **914** | 1,054 | **2,936** | 3,336 |
| Other expense | **1,662** | 1,638 | **5,159** | 4,518 |
| **Total noninterest expense** | **22,887** | 23,044 | **71,373** | 68,137 |
| **Income before income tax expense** | **18,215** | 14,207 | **53,394** | 39,834 |
| Income tax expense | **4,603** | 3,268 | **10,788** | 9,431 |
| **Net income** | **13,612** | 10,939 | **42,606** | 30,403 |
| Less: Net income attributable to noncontrolling interest | **82** | 80 | **260** | 230 |
| **Net income attributable to Nicolet Bankshares, Inc.** | **$ 13,530** | $ 10,859 | **$ 42,346** | $ 30,173 |
| **Earnings per common share:** | | | | |
| Basic | **$ 1.45** | $ 1.13 | **$ 4.51** | $ 3.12 |
| Diluted | **$ 1.40** | $ 1.09 | **$ 4.36** | $ 3.02 |
| **Weighted average common shares outstanding:** | | | | |
| Basic | **9,346,814** | 9,633,158 | **9,393,795** | 9,678,726 |
| Diluted | **9,696,850** | 9,949,295 | **9,706,795** | 10,004,316 |

See accompanying notes to unaudited consolidated financial statements.

**ITEM 1. Financial Statements Continued**:

**NICOLET BANKSHARES, INC.**
**Consolidated Statements of Comprehensive Income**
**(In thousands) (Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| Net income | **$ 13,612** | $ 10,939 | **$ 42,606** | $ 30,403 |
| Other comprehensive income (loss), net of tax: | | | | |
| Unrealized gains (losses) on securities AFS: | | | | |
| Net unrealized holding gains (losses) | **2,053** | (1,836) | **14,165** | (6,814) |
| Net realized (gains) losses included in income | **—** | — | **(32)** | — |
| Income tax (expense) benefit | **(555)** | 497 | **(3,817)** | 1,840 |
| Total other comprehensive income (loss) | **1,498** | (1,339) | **10,316** | (4,974) |
| **Comprehensive income** | **$ 15,110** | $ 9,600 | **$ 52,922** | $ 25,429 |

See accompanying notes to unaudited consolidated financial statements.

**ITEM 1. Financial Statements Continued**:

**NICOLET BANKSHARES, INC.**
**Consolidated Statements of Stockholders' Equity**
**(In thousands) (Unaudited)**

| | Nicolet Bankshares, Inc. Stockholders' Equity | | | | | |
|---|---|---|---|---|---|---|
| | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Non-controlling Interest | Total |
| **Balances at June 30, 2019** | **$ 94** | **$ 234,963** | **$ 173,180** | **$ 3,178** | **$ 733** | **$ 412,148** |
| **Comprehensive income:** | | | | | | |
| **Net income, three months ended September 30, 2019** | **—** | **—** | **13,530** | **—** | **82** | **13,612** |
| **Other comprehensive income (loss)** | **—** | **—** | **—** | **1,498** | **—** | **1,498** |
| **Stock-based compensation expense** | **—** | **1,144** | **—** | **—** | **—** | **1,144** |
| **Exercise of stock options, net** | **—** | **1,200** | **—** | **—** | **—** | **1,200** |
| **Issuance of common stock** | **—** | **166** | **—** | **—** | **—** | **166** |
| **Purchase and retirement of common stock** | **—** | **(939)** | **—** | **—** | **—** | **(939)** |
| **Distribution to noncontrolling interest** | **—** | **—** | **—** | **—** | **(87)** | **(87)** |
| **Balances at September 30, 2019** | **$ 94** | **$ 236,534** | **$ 186,710** | **$ 4,676** | **$ 728** | **$ 428,742** |
| | | | | | | |
| Balances at June 30, 2018 | $ 96 | $ 254,564 | $ 122,642 | $ (6,718) | $ 701 | $ 371,285 |
| Comprehensive income: | | | | | | |
| Net income, three months ended September 30, 2018 | — | — | 10,859 | — | 80 | 10,939 |
| Other comprehensive income (loss) | — | — | — | (1,339) | — | (1,339) |
| Stock-based compensation expense | — | 1,299 | — | — | — | 1,299 |
| Exercise of stock options, net | 1 | 261 | — | — | — | 262 |
| Issuance of common stock | — | 59 | — | — | — | 59 |
| Purchase and retirement of common stock | (1) | (4,552) | — | — | — | (4,553) |
| Distribution to noncontrolling interest | — | — | — | — | (49) | (49) |
| Balances at September 30, 2018 | $ 96 | $ 251,631 | $ 133,501 | $ (8,057) | $ 732 | $ 377,903 |
| | | | | | | |
| **Balances at December 31, 2018** | **$ 95** | **$ 247,790** | **$ 144,364** | **$ (5,640)** | **$ 743** | **$ 387,352** |
| **Comprehensive income:** | | | | | | |
| **Net income, nine months ended September 30, 2019** | **—** | **—** | **42,346** | **—** | **260** | **42,606** |
| **Other comprehensive income (loss)** | **—** | **—** | **—** | **10,316** | **—** | **10,316** |
| **Stock-based compensation expense** | **—** | **3,643** | **—** | **—** | **—** | **3,643** |
| **Exercise of stock options, net** | **2** | **4,380** | **—** | **—** | **—** | **4,382** |
| **Issuance of common stock** | **—** | **449** | **—** | **—** | **—** | **449** |
| **Purchase and retirement of common stock** | **(3)** | **(19,728)** | **—** | **—** | **—** | **(19,731)** |
| **Distribution to noncontrolling interest** | **—** | **—** | **—** | **—** | **(275)** | **(275)** |
| **Balances at September 30, 2019** | **$ 94** | **$ 236,534** | **$ 186,710** | **$ 4,676** | **$ 728** | **$ 428,742** |
| | | | | | | |
| Balances at December 31, 2017 | $ 98 | $ 263,835 | $ 102,391 | $ (2,146) | $ 701 | $ 364,879 |
| Comprehensive income: | | | | | | |
| Net income, nine months ended September 30, 2018 | — | — | 30,173 | — | 230 | 30,403 |
| Other comprehensive income (loss) | — | — | — | (4,974) | — | (4,974) |
| Stock-based compensation expense | — | 3,613 | — | — | — | 3,613 |
| Exercise of stock options, net | 1 | 1,223 | — | — | — | 1,224 |
| Issuance of common stock | — | 167 | — | — | — | 167 |
| Purchase and retirement of common stock | (3) | (17,207) | — | — | — | (17,210) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Distribution to noncontrolling interest | — | — | — | — | (199) | (199) |
| Adoption of new accounting pronouncement | — | — | 937 | (937) | — | — |
| Balances at September 30, 2018 | $ 96 | $ 251,631 | $ 133,501 | $ (8,057) | $ 732 | $ 377,903 |

See accompanying notes to unaudited consolidated financial statements.

**ITEM 1. Financial Statements Continued**:

**NICOLET BANKSHARES, INC.**
**Consolidated Statements of Cash Flows (Unaudited)**

| (In thousands) | Nine Months Ended September 30, | |
|---|---|---|
| | **2019** | 2018 |
| **Cash Flows From Operating Activities:** | | |
| Net income | **$ 42,606** | $ 30,403 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, amortization, and accretion | **5,260** | 4,643 |
| Provision for loan losses | **900** | 1,360 |
| Increase in cash surrender value of life insurance | **(1,432)** | (1,367) |
| Stock-based compensation expense | **3,643** | 3,613 |
| Asset (gains) losses, net | **(8,030)** | (1,322) |
| Gain on sale of loans held for sale, net | **(7,042)** | (4,026) |
| Proceeds from sale of loans held for sale | **255,775** | 184,314 |
| Origination of loans held for sale | **(259,465)** | (178,911) |
| Net change in: | | |
| Accrued interest receivable and other assets | **(5,020)** | (4,952) |
| Accrued interest payable and other liabilities | **9,310** | 6,798 |
| **Net cash provided by (used in) operating activities** | **36,505** | 40,553 |
| **Cash Flows From Investing Activities:** | | |
| Net (increase) decrease in loans | **(74,131)** | (50,703) |
| Net (increase) decrease in certificates of deposit in other banks | **(4,402)** | 751 |
| Purchases of securities AFS | **(57,875)** | (57,891) |
| Proceeds from sales of securities AFS | **13,240** | — |
| Proceeds from calls and maturities of securities AFS | **38,128** | 40,302 |
| Purchases of other investments | **(1,941)** | (634) |
| Proceeds from sales of other investments | **17,144** | 807 |
| Purchases of BOLI | **(5,000)** | — |
| Proceeds from redemption of BOLI | **1,348** | 561 |
| Net (increase) decrease in premises and equipment | **(3,529)** | (2,974) |
| Net (increase) decrease in other real estate and other assets | **15** | 1,486 |
| **Net cash provided by (used in) investing activities** | **(77,003)** | (68,295) |
| **Cash Flows From Financing Activities:** | | |
| Net increase (decrease) in deposits | **(29,691)** | 51,171 |
| Repayments of long-term borrowings | **(20,193)** | (1,189) |
| Purchase and retirement of common stock | **(19,731)** | (17,210) |
| Proceeds from issuance of common stock | **449** | 167 |
| Proceeds from exercise of stock options | **4,382** | 1,224 |
| Distribution to noncontrolling interest | **(275)** | (199) |
| **Net cash provided by (used in) financing activities** | **(65,059)** | 33,964 |
| **Net increase (decrease) in cash and cash equivalents** | **(105,557)** | 6,222 |
| Cash and cash equivalents: | | |
| Beginning | **249,526** | 154,933 |
| Ending * | **$ 143,969** | $ 161,155 |
| **Supplemental Disclosures of Cash Flow Information:** | | |
| Cash paid for interest | **$ 16,682** | $ 13,294 |
| Cash paid for taxes | **11,690** | 9,325 |
| Transfer of loans and bank premises to other real estate owned | **1,025** | 587 |
| Capitalized mortgage servicing rights | **1,807** | 696 |
| Initial recognition of operating lease right of use asset | **5,403** | — |
| Initial recognition of operating lease liability | **5,403** | — |

* Cash and cash equivalents include restricted cash of $6.3 million and $7.4 million at September 30, 2019 and 2018, respectively, for the reserve balance required with

the Federal Reserve Bank. At September 30, 2019, cash and cash equivalents also includes restricted cash of $1.3 million pledged as collateral on interest rate swaps.

See accompanying notes to unaudited consolidated financial statements.

## NICOLET BANKSHARES, INC.

### Notes to Unaudited Consolidated Financial Statements

**Note 1 – Basis of Presentation**

**General**

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the consolidated balance sheets, statements of income, comprehensive income, changes in stockholders' equity and cash flows of Nicolet Bankshares, Inc. (the "Company" or "Nicolet") and its subsidiaries, for the periods presented, and all such adjustments are of a normal recurring nature. All material intercompany transactions and balances have been eliminated. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the entire year.

These interim consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission and, therefore, certain information and footnote disclosures normally presented in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") have been omitted or abbreviated. These consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

**Critical Accounting Policies and Estimates**

Preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Estimates are used in accounting for, among other items, the allowance for loan losses, valuation of loans in acquisition transactions, useful lives for depreciation and amortization, fair value of financial instruments, other-than-temporary impairment calculations, valuation of deferred tax assets, uncertain income tax positions and contingencies. Estimates that are particularly susceptible to significant change for the Company include the determination of the allowance for loan losses, the determination and assessment of deferred tax assets and liabilities, and the valuation of loans acquired in acquisition transactions; therefore, these are critical accounting policies. Factors that may cause sensitivity to the aforementioned estimates include but are not limited to: external market factors such as market interest rates and employment rates, changes to operating policies and procedures, changes in applicable banking or tax regulations, and changes to deferred tax estimates. Actual results may ultimately differ from estimates, although management does not generally believe such differences would materially affect the consolidated financial statements in any individual reporting period presented.

There have been no material changes or developments with respect to the assumptions or methodologies that the Company uses when applying what management believes are critical accounting policies and developing critical accounting estimates as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

**Recent Accounting Developments Adopted**

In August 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. ASU 2017-12 expands the activities that qualify for hedge accounting and simplifies the rules for reporting hedging transactions. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company adopted the updated guidance effective January 1, 2019 with no material impact on its consolidated financial statements, because the Company does not have any significant derivatives and does not currently apply hedge accounting to derivatives.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, with several subsequent updates. Topic 842 introduced a new accounting model for lessors and lessees. For lessees, almost all leases are now recognized on the balance sheet as a right-of-use ("ROU") asset and lease liability, unlike previous GAAP which required only capital leases to be recognized on the balance sheet. The accounting applied by lessors is largely unchanged from existing guidance. Topic 842 also requires additional disclosures concerning the amount, timing and uncertainty of cash flows arising from leases. The updated guidance is effective for annual reporting periods beginning after December 15, 2018, and provides a modified retrospective transition approach that allows lessees to recognize and measure leases on the balance sheet at the beginning of either the earliest period presented or as of the beginning of the period of adoption (the "effective date" method), with the option to elect certain practical expedients. Nicolet adopted the new guidance prospectively as of January 1, 2019, using the effective date method; thus, prior comparative periods have not been restated.

Upon adoption, Nicolet recognized an ROU asset and lease liability of approximately $5 million. There was no impact to its consolidated statements of income or cash flows compared to the prior lease accounting model. The ROU asset and lease liability are recorded in other assets and other liabilities, respectively, in the consolidated balance sheets. As part of the adoption, Nicolet elected the package of practical expedients permitted under the transition guidance of the new standard which allowed the carry forward of the historical lease classification. Nicolet also elected the practical expedient to group lease and non-lease components as a single lease component; thus, the Company's leases include both lease (e.g., fixed payments including rent, taxes, and insurance

costs) and non-lease components (e.g., common area or other maintenance costs). See Note 10 for the new disclosures required by Topic 842.

**Reclassifications**

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the 2019 presentation.

**Note 2 – Pending Acquisition**

Nicolet entered into an Agreement and Plan of Merger with Choice Bancorp, Inc. ("Choice" (OTC Pink "CBKW")) on June 26, 2019 (the "Merger Agreement"), pursuant to which Choice will merge with and into Nicolet (the "Merger") to create the largest community bank in the Oshkosh, Wisconsin marketplace. Immediately following the Merger, Choice Bank, the wholly owned bank subsidiary of Choice, will merge with and into Nicolet's wholly owned bank subsidiary (the "Bank Merger"), with Nicolet National Bank as the surviving entity in the Bank Merger.

The transaction will involve stock-for-stock consideration at a fixed exchange ratio, subject to cap and collar provisions provided for in the Merger Agreement. At September 30, 2019, Choice had total assets of $436 million, loans of $352 million, deposits of $306 million, and equity of $41 million. Choice assets represented approximately 14% of Nicolet assets at September 30, 2019.

As of September 17, 2019, Nicolet received all regulatory approvals for the Merger and Bank Merger, and Choice shareholders approved the Merger on October 22, 2019. The merger is expected to close on November 8, 2019, pending satisfaction of customary closing conditions.

**Note 3 – Earnings per Common Share**

Basic earnings per common share are calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share are calculated by dividing net income available to common shareholders by the weighted average number of shares adjusted for the dilutive effect of common stock awards (outstanding stock options and unvested restricted stock), if any. Presented below are the calculations for basic and diluted earnings per common share.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| **(In thousands, except per share data)** | **2019** | **2018** | **2019** | **2018** |
| Net income attributable to Nicolet Bankshares, Inc. | $ 13,530 | $ 10,859 | $ 42,346 | $ 30,173 |
| Weighted average common shares outstanding | 9,347 | 9,633 | 9,394 | 9,679 |
| Effect of dilutive common stock awards | 350 | 316 | 313 | 325 |
| Diluted weighted average common shares outstanding | 9,697 | 9,949 | 9,707 | 10,004 |
| Basic earnings per common share* | $ 1.45 | $ 1.13 | $ 4.51 | $ 3.12 |
| Diluted earnings per common share* | $ 1.40 | $ 1.09 | $ 4.36 | $ 3.02 |

*Cumulative quarterly per share performance may not equal annual per share totals due to the effects of the amount and timing of capital increases. When computing earnings per share for an interim period, the denominator is based on the weighted average shares outstanding during the interim period, and not on an annualized weighted average basis. Accordingly, the sum of the earnings per share data for the quarters will not necessarily equal the year to date earnings per share data.

For the three and nine months ended September 30, 2019, options to purchase less than 0.1 million shares are excluded from the calculation of diluted earnings per common share as the effect of their exercise would have been anti-dilutive. For the three and nine months ended September 30, 2018, options to purchase approximately 0.1 million shares are excluded from the calculation of diluted earnings per common share as the effect of their exercise would have been anti-dilutive.

**Note 4 – Stock-Based Compensation**

The Company may grant stock options and restricted stock under its stock-based compensation plans to certain officers, employees and directors. These plans are administered by a committee of the Board of Directors. In February 2019, with subsequent shareholder approval, the 2011 Long-Term Incentive Plan was amended to increase the shares reserved for potential stock-based awards from 1,500,000 shares to 3,000,000 shares. At September 30, 2019, approximately 1.6 million shares were available for grant under these stock-based compensation plans.

A Black-Scholes model is utilized to estimate the fair value of stock option grants, while the market price of the Company's stock at the date of grant is used to estimate the fair value of restricted stock awards. The weighted average assumptions used in the Black-Scholes model for valuing stock option grants were as follows.

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Dividend yield | —% | —% |
| Expected volatility | 25% | 25% |
| Risk-free interest rate | 2.37% | 2.48% |
| Expected average life | 7 years | 7 years |
| Weighted average per share fair value of options | $ 19.23 | $ 17.60 |

A summary of the Company's stock option activity is summarized below.

| Stock Options | Option Shares Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Life (Years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Outstanding - December 31, 2018 | 1,581,699 | $ 40.77 | | |
| Granted | 15,000 | 59.55 | | |
| Exercise of stock options * | (185,328) | 23.64 | | |
| Forfeited | (3,538) | 27.43 | | |
| Outstanding - September 30, 2019 | 1,407,833 | $ 43.25 | 7.0 | $ 32,829 |
| Exercisable - September 30, 2019 | 644,033 | $ 39.28 | 6.5 | $ 17,577 |

* The terms of the stock option agreements permit having a number of shares of stock withheld, the fair market value of which as of the date of exercise is sufficient to satisfy the exercise price and/or tax withholding requirements. For the nine months ended September 30, 2019, 70,068 such shares were surrendered to the Company.

Intrinsic value represents the amount by which the fair market value of the underlying stock exceeds the exercise price of the stock options. The intrinsic value of options exercised for the nine months ended September 30, 2019 and 2018 was approximately $6.9 million and $1.8 million, respectively.

A summary of the Company's restricted stock activity is summarized below.

| Restricted Stock | Weighted Average Grant Date Fair Value | Restricted Shares Outstanding |
|---|---|---|
| Outstanding - December 31, 2018 | $ 39.37 | 29,512 |
| Granted | 61.96 | 4,257 |
| Vested * | 45.05 | (9,672) |
| Forfeited | 16.50 | (408) |
| Outstanding - September 30, 2019 | $ 41.50 | 23,689 |

* The terms of the restricted stock agreements permit the surrender of shares to the Company upon vesting in order to satisfy applicable tax withholding requirements at the minimum statutory withholding rate, and accordingly, 1,637 shares were surrendered during the nine months ended September 30, 2019.

The Company recognized approximately $3.4 million of stock-based compensation expense (included in personnel on the consolidated statements of income) for both the nine months ended September 30, 2019 and 2018, associated with its common stock awards granted to officers and employees. In addition, during 2019 the Company recognized approximately $0.3 million of director expense (included in other expense on the consolidated statements of income) for a total restricted stock grant of 4,257 shares with immediate vesting to non-employee directors. During 2018, the Company recognized approximately $0.2 million of director expense for a total restricted stock grant of 3,510 shares with immediate vesting to non-employee directors. As of September 30, 2019, there was approximately $9.9 million of unrecognized compensation cost related to equity award grants. The cost is expected to be recognized over the remaining vesting period of approximately three years. The Company recognized a tax benefit of approximately $1.0 million and $0.2 million for the nine months ended September 30, 2019 and 2018, respectively, for the tax impact of stock option exercises and vesting of restricted stock.

**Note 5 – Securities Available for Sale**

Amortized cost and fair value of securities available for sale are summarized as follows.

| | September 30, 2019 | | | |
|---|---|---|---|---|
| (in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. government agency securities | $ 16,697 | $ — | $ 207 | $ 16,490 |
| State, county and municipals | 147,186 | 798 | 198 | 147,786 |
| Mortgage-backed securities | 169,262 | 3,267 | 652 | 171,877 |
| Corporate debt securities | 79,749 | 3,408 | 10 | 83,147 |
| Total | $ 412,894 | $ 7,473 | $ 1,067 | $ 419,300 |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| (in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. government agency securities | $ 22,467 | $ — | $ 818 | $ 21,649 |
| State, county and municipals | 163,702 | 76 | 3,252 | 160,526 |
| Mortgage-backed securities | 134,350 | 328 | 3,034 | 131,644 |
| Corporate debt securities | 87,352 | 66 | 1,093 | 86,325 |
| Total | $ 407,871 | $ 470 | $ 8,197 | $ 400,144 |

The following table presents gross unrealized losses and the related estimated fair value of investment securities available for sale, aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position.

| | September 30, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or more | | Total | | |
| ($ in thousands) | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Number of Securities |
| U.S. government agency securities | $ — | $ — | $ 16,490 | $ 207 | $ 16,490 | $ 207 | 3 |
| State, county and municipals | 44,012 | 138 | 8,370 | 60 | 52,382 | 198 | 139 |
| Mortgage-backed securities | 38,515 | 127 | 40,783 | 525 | 79,298 | 652 | 150 |
| Corporate debt securities | 2,044 | 10 | — | — | 2,044 | 10 | 1 |
| Total | $ 84,571 | $ 275 | $ 65,643 | $ 792 | $ 150,214 | $ 1,067 | 293 |

| | December 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or more | | Total | | |
| ($ in thousands) | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Number of Securities |
| U.S. government agency securities | $ — | $ — | $ 21,649 | $ 818 | $ 21,649 | $ 818 | 3 |
| State, county and municipals | 16,136 | 98 | 130,975 | 3,154 | 147,111 | 3,252 | 440 |
| Mortgage-backed securities | 20,568 | 132 | 89,189 | 2,902 | 109,757 | 3,034 | 204 |
| Corporate debt securities | 51,592 | 677 | 9,757 | 416 | 61,349 | 1,093 | 33 |
| Total | $ 88,296 | $ 907 | $ 251,570 | $ 7,290 | $ 339,866 | $ 8,197 | 680 |

As of September 30, 2019, the Company does not consider its securities AFS with unrealized losses to be other-than-temporarily impaired, as the unrealized losses in each category have occurred as a result of changes in interest rates, market spreads and market conditions subsequent to purchase, not credit deterioration. The Company has the ability and intent to hold its securities to maturity. There were no other-than-temporary impairments charged to earnings during the nine months ended September 30, 2019 or 2018.

The amortized cost and fair value of securities AFS by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties; as this is particularly inherent in mortgage-backed securities, these securities are not included in the maturity categories below.

| | September 30, 2019 | |
|---|---|---|
| (in thousands) | Amortized Cost | Fair Value |
| Due in less than one year | $ 18,762 | $ 18,770 |
| Due in one year through five years | 184,588 | 187,185 |
| Due after five years through ten years | 33,877 | 34,314 |
| Due after ten years | 6,405 | 7,154 |
| | 243,632 | 247,423 |
| Mortgage-backed securities | 169,262 | 171,877 |
| Securities AFS | $ 412,894 | $ 419,300 |

Proceeds and realized gains / losses from the sale of securities AFS were as follows.

| | Nine Months Ended September 30, | |
|---|---|---|
| (in thousands) | 2019 | 2018 |
| Gross gains | $ 152 | $ — |
| Gross losses | (120) | — |
| Gains (losses) on sales of securities AFS, net | $ 32 | $ — |
| Proceeds from sales of securities AFS | $ 13,240 | $ — |

**Note 6 – Loans, Allowance for Loan Losses, and Credit Quality**

The loan composition is summarized as follows.

| | September 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| (in thousands) | Amount | % of Total | Amount | % of Total |
| Commercial & industrial | $ 763,742 | 34% | $ 684,920 | 32% |
| Owner-occupied commercial real estate (“CRE”) | 456,508 | 20 | 441,353 | 20 |
| Agricultural (“AG”) production | 36,050 | 2 | 35,625 | 2 |
| AG real estate | 58,591 | 3 | 53,444 | 2 |
| CRE investment | 336,442 | 15 | 343,652 | 16 |
| Construction & land development | 61,810 | 3 | 80,599 | 4 |
| Residential construction | 41,496 | 2 | 30,926 | 1 |
| Residential first mortgage | 343,400 | 15 | 357,841 | 17 |
| Residential junior mortgage | 116,179 | 5 | 111,328 | 5 |
| Retail & other | 28,713 | 1 | 26,493 | 1 |
| Loans | 2,242,931 | 100% | 2,166,181 | 100% |
| Less allowance for loan losses (“ALLL”) | 13,620 | | 13,153 | |
| Loans, net | $ 2,229,311 | | $ 2,153,028 | |
| Allowance for loan losses to loans | 0.61% | | 0.61% | |

As a further breakdown, loans are summarized by originated and acquired as follows.

| | September 30, 2019 | | | | December 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| (in thousands) | Originated Amount | % of Total | Acquired Amount | % of Total | Originated Amount | % of Total | Acquired Amount | % of Total |
| Commercial & industrial | $ 660,040 | 40% | $ 103,702 | 18% | $ 568,100 | 38% | $ 116,820 | 17% |
| Owner-occupied CRE | 321,323 | 19 | 135,185 | 23 | 283,531 | 19 | 157,822 | 23 |
| AG production | 11,450 | 1 | 24,600 | 4 | 11,113 | 1 | 24,512 | 4 |
| AG real estate | 38,616 | 2 | 19,975 | 3 | 31,374 | 2 | 22,070 | 3 |
| CRE investment | 180,427 | 11 | 156,015 | 26 | 171,087 | 12 | 172,565 | 25 |
| Construction & land development | 52,806 | 3 | 9,004 | 2 | 66,478 | 4 | 14,121 | 2 |
| Residential construction | 41,246 | 3 | 250 | — | 30,926 | 2 | — | — |
| Residential first mortgage | 228,312 | 14 | 115,088 | 19 | 220,368 | 15 | 137,473 | 20 |
| Residential junior mortgage | 89,241 | 5 | 26,938 | 5 | 78,379 | 5 | 32,949 | 5 |
| Retail & other | 27,232 | 2 | 1,481 | — | 23,809 | 2 | 2,684 | 1 |
| Loans | 1,650,693 | 100% | 592,238 | 100% | 1,485,165 | 100% | 681,016 | 100% |
| Less ALLL | 12,064 | | 1,556 | | 11,448 | | 1,705 | |
| Loans, net | $ 1,638,629 | | $ 590,682 | | $ 1,473,717 | | $ 679,311 | |
| ALLL to loans | 0.73% | | 0.26% | | 0.77% | | 0.25% | |
| Loans as a percent of total loans | 74% | | 26% | | 69% | | 31% | |

Practically all of the Company's loans, commitments, and letters of credit have been granted to customers in the Company's market area. Although the Company has a diversified loan portfolio, the credit risk in the loan portfolio is largely influenced by general economic conditions and trends of the counties and markets in which the debtors operate, and the resulting impact on the operations of borrowers or on the value of underlying collateral, if any.

A roll forward of the allowance for loan losses is summarized as follows.

| | Nine Months Ended | | Year Ended |
|---|---|---|---|
| (in thousands) | September 30, 2019 | September 30, 2018 | December 31, 2018 |
| Beginning balance | $ 13,153 | $ 12,653 | $ 12,653 |
| Provision for loan losses | 900 | 1,360 | 1,600 |
| Charge-offs | (629) | (1,110) | (1,213) |
| Recoveries | 196 | 89 | 113 |
| Net (charge-offs) recoveries | (433) | (1,021) | (1,100) |
| Ending balance | $ 13,620 | $ 12,992 | $ 13,153 |

The following tables present the balance and activity in the ALLL by portfolio segment and the recorded investment in loans by portfolio segment.

| (in thousands) | TOTAL – Nine Months Ended September 30, 2019 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Commercial & industrial | Owner-occupied CRE | AG production | AG real estate | CRE investment | Construction & land development | Residential construction | Residential first mortgage | Residential junior mortgage | Retail & other | Total |
| ALLL: | | | | | | | | | | | |
| Beginning balance | $ 5,271 | $ 2,847 | $ 121 | $ 301 | $ 1,470 | $ 510 | $ 211 | $ 1,646 | $ 472 | $ 304 | $ 13,153 |
| Provision | 356 | (57) | 85 | 46 | 32 | (140) | 357 | (75) | 71 | 225 | 900 |
| Charge-offs | (59) | (13) | — | — | — | — | (226) | — | (80) | (251) | (629) |
| Recoveries | 90 | 2 | — | — | — | — | — | 36 | 32 | 36 | 196 |
| Net (charge-offs) recoveries | 31 | (11) | — | — | — | — | (226) | 36 | (48) | (215) | (433) |
| Ending balance | $ 5,658 | $ 2,779 | $ 206 | $ 347 | $ 1,502 | $ 370 | $ 342 | $ 1,607 | $ 495 | $ 314 | $ 13,620 |
| As % of ALLL | 42% | 20% | 1% | 3% | 11% | 3% | 2% | 12% | 4% | 2% | 100% |
| ALLL: | | | | | | | | | | | |
| Individually evaluated | $ 308 | $ — | $ 119 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 427 |
| Collectively evaluated | 5,350 | 2,779 | 87 | 347 | 1,502 | 370 | 342 | 1,607 | 495 | 314 | 13,193 |
| Ending balance | $ 5,658 | $ 2,779 | $ 206 | $ 347 | $ 1,502 | $ 370 | $ 342 | $ 1,607 | $ 495 | $ 314 | $ 13,620 |
| Loans: | | | | | | | | | | | |
| Individually evaluated | $ 2,143 | $ 2,552 | $ 1,251 | $ 1,089 | $ 2,483 | $ 427 | $ — | $ 2,560 | $ 221 | $ 12 | $ 12,738 |
| Collectively evaluated | 761,599 | 453,956 | 34,799 | 57,502 | 333,959 | 61,383 | 41,496 | 340,840 | 115,958 | 28,701 | 2,230,193 |
| Total loans | $ 763,742 | $ 456,508 | $ 36,050 | $ 58,591 | $ 336,442 | $ 61,810 | $ 41,496 | $ 343,400 | $ 116,179 | $ 28,713 | $ 2,242,931 |
| Less ALLL | 5,658 | 2,779 | 206 | 347 | 1,502 | 370 | 342 | 1,607 | 495 | 314 | 13,620 |
| Net loans | $ 758,084 | $ 453,729 | $ 35,844 | $ 58,244 | $ 334,940 | $ 61,440 | $ 41,154 | $ 341,793 | $ 115,684 | $ 28,399 | $ 2,229,311 |

As a further breakdown, the ALLL is summarized by originated and acquired as follows.

| (in thousands) | Originated – Nine Months Ended September 30, 2019 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Commercial & industrial | Owner-occupied CRE | AG production | AG real estate | CRE investment | Construction & land development | Residential construction | Residential first mortgage | Residential junior mortgage | Retail & other | Total |
| ALLL: | | | | | | | | | | | |
| Beginning balance | $ 4,683 | $ 2,439 | $ 110 | $ 255 | $ 1,230 | $ 431 | $ 211 | $ 1,400 | $ 408 | $ 281 | $ 11,448 |
| Provision | 395 | (17) | 84 | 45 | 68 | (111) | 323 | (42) | 22 | 227 | 994 |
| Charge-offs | (59) | (13) | — | — | — | — | (226) | — | (20) | (251) | (569) |
| Recoveries | 90 | 2 | — | — | — | — | — | 36 | 27 | 36 | 191 |
| Net (charge-offs) recoveries | 31 | (11) | — | — | — | — | (226) | 36 | 7 | (215) | (378) |
| Ending balance | $ 5,109 | $ 2,411 | $ 194 | $ 300 | $ 1,298 | $ 320 | $ 308 | $ 1,394 | $ 437 | $ 293 | $ 12,064 |
| As % of ALLL | 42% | 20% | 1% | 2% | 11% | 3% | 3% | 12% | 4% | 2% | 100% |
| ALLL: | | | | | | | | | | | |
| Individually evaluated | $ 308 | $ — | $ 119 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 427 |
| Collectively evaluated | 4,801 | 2,411 | 75 | 300 | 1,298 | 320 | 308 | 1,394 | 437 | 293 | 11,637 |
| Ending balance | $ 5,109 | $ 2,411 | $ 194 | $ 300 | $ 1,298 | $ 320 | $ 308 | $ 1,394 | $ 437 | $ 293 | $ 12,064 |
| Loans: | | | | | | | | | | | |
| Individually evaluated | $ 722 | $ 1,792 | $ 1,095 | $ 878 | $ — | $ — | $ — | $ — | $ — | $ — | $ 4,487 |
| Collectively evaluated | 659,318 | 319,531 | 10,355 | 37,738 | 180,427 | 52,806 | 41,246 | 228,312 | 89,241 | 27,232 | 1,646,206 |
| Total loans | $ 660,040 | $ 321,323 | $ 11,450 | $ 38,616 | $ 180,427 | $ 52,806 | $ 41,246 | $ 228,312 | $ 89,241 | $ 27,232 | $ 1,650,693 |
| Less ALLL | 5,109 | 2,411 | 194 | 300 | 1,298 | 320 | 308 | 1,394 | 437 | 293 | 12,064 |
| Net loans | $ 654,931 | $ 318,912 | $ 11,256 | $ 38,316 | $ 179,129 | $ 52,486 | $ 40,938 | $ 226,918 | $ 88,804 | $ 26,939 | $ 1,638,629 |

| (in thousands) | Acquired – Nine Months Ended September 30, 2019 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Commercial & industrial | Owner-occupied CRE | AG production | AG real estate | CRE investment | Construction & land development | Residential construction | Residential first mortgage | Residential junior mortgage | Retail & other | Total |
| ALLL: | | | | | | | | | | | |
| Beginning balance | $ 588 | $ 408 | $ 11 | $ 46 | $ 240 | $ 79 | $ — | $ 246 | $ 64 | $ 23 | $ 1,705 |
| Provision | (39) | (40) | 1 | 1 | (36) | (29) | 34 | (33) | 49 | (2) | (94) |
| Charge-offs | — | — | — | — | — | — | — | — | (60) | — | (60) |
| Recoveries | — | — | — | — | — | — | — | — | 5 | — | 5 |
| Net (charge-offs) recoveries | — | — | — | — | — | — | — | — | (55) | — | (55) |
| Ending balance | $ 549 | $ 368 | $ 12 | $ 47 | $ 204 | $ 50 | $ 34 | $ 213 | $ 58 | $ 21 | $ 1,556 |
| As % of ALLL | 35% | 24% | 1% | 3% | 13% | 3% | 2% | 14% | 4% | 1% | 100% |
| ALLL: | | | | | | | | | | | |
| Individually evaluated | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Collectively evaluated | 549 | 368 | 12 | 47 | 204 | 50 | 34 | 213 | 58 | 21 | 1,556 |
| Ending balance | $ 549 | $ 368 | $ 12 | $ 47 | $ 204 | $ 50 | $ 34 | $ 213 | $ 58 | $ 21 | $ 1,556 |
| Loans: | | | | | | | | | | | |
| Individually evaluated | $ 1,421 | $ 760 | $ 156 | $ 211 | $ 2,483 | $ 427 | $ — | $ 2,560 | $ 221 | $ 12 | $ 8,251 |
| Collectively evaluated | 102,281 | 134,425 | 24,444 | 19,764 | 153,532 | 8,577 | 250 | 112,528 | 26,717 | 1,469 | 583,987 |
| Total loans | $ 103,702 | $ 135,185 | $ 24,600 | $ 19,975 | $ 156,015 | $ 9,004 | $ 250 | $ 115,088 | $ 26,938 | $ 1,481 | $ 592,238 |
| Less ALLL | 549 | 368 | 12 | 47 | 204 | 50 | 34 | 213 | 58 | 21 | 1,556 |
| Net loans | $ 103,153 | $ 134,817 | $ 24,588 | $ 19,928 | $ 155,811 | $ 8,954 | $ 216 | $ 114,875 | $ 26,880 | $ 1,460 | $ 590,682 |

For comparison purposes, the following tables present the balance and activity in the ALLL by portfolio segment and the recorded investment in loans by portfolio segment for the prior year-end period.

| (in thousands) | TOTAL – Year Ended December 31, 2018 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Commercial & industrial | Owner-occupied CRE | AG production | AG real estate | CRE investment | Construction & land development | Residential construction | Residential first mortgage | Residential junior mortgage | Retail & other | Total |
| ALLL: | | | | | | | | | | | |
| Beginning balance | $ 4,934 | $ 2,607 | $ 129 | $ 296 | $ 1,388 | $ 726 | $ 251 | $ 1,609 | $ 488 | $ 225 | $ 12,653 |
| Provision | 1,107 | 300 | (8) | 5 | 119 | (216) | (40) | 117 | (51) | 267 | 1,600 |
| Charge-offs | (813) | (74) | — | — | (37) | — | — | (85) | — | (204) | (1,213) |
| Recoveries | 43 | 14 | — | — | — | — | — | 5 | 35 | 16 | 113 |
| Net (charge-offs) recoveries | (770) | (60) | — | — | (37) | — | — | (80) | 35 | (188) | (1,100) |
| Ending balance | $ 5,271 | $ 2,847 | $ 121 | $ 301 | $ 1,470 | $ 510 | $ 211 | $ 1,646 | $ 472 | $ 304 | $ 13,153 |
| As % of ALLL | 40% | 22% | 1% | 2% | 11% | 4% | 2% | 12% | 4% | 2% | 100% |
| ALLL: | | | | | | | | | | | |
| Individually evaluated | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Collectively evaluated | 5,271 | 2,847 | 121 | 301 | 1,470 | 510 | 211 | 1,646 | 472 | 304 | 13,153 |
| Ending balance | $ 5,271 | $ 2,847 | $ 121 | $ 301 | $ 1,470 | $ 510 | $ 211 | $ 1,646 | $ 472 | $ 304 | $ 13,153 |
| Loans: | | | | | | | | | | | |
| Individually evaluated | $ 2,927 | $ 1,506 | $ — | $ 222 | $ 1,686 | $ 603 | $ — | $ 2,750 | $ 233 | $ 12 | $ 9,939 |
| Collectively evaluated | 681,993 | 439,847 | 35,625 | 53,222 | 341,966 | 79,996 | 30,926 | 355,091 | 111,095 | 26,481 | 2,156,242 |
| Total loans | $ 684,920 | $ 441,353 | $ 35,625 | $ 53,444 | $ 343,652 | $ 80,599 | $ 30,926 | $ 357,841 | $ 111,328 | $ 26,493 | $ 2,166,181 |
| Less ALLL | 5,271 | 2,847 | 121 | 301 | 1,470 | 510 | 211 | 1,646 | 472 | 304 | 13,153 |
| Net loans | $ 679,649 | $ 438,506 | $ 35,504 | $ 53,143 | $ 342,182 | $ 80,089 | $ 30,715 | $ 356,195 | $ 110,856 | $ 26,189 | $ 2,153,028 |

As a further breakdown, the ALLL is summarized by originated and acquired as follows.

| | Originated – Year Ended December 31, 2018 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (in thousands) | Commercial & industrial | Owner-occupied CRE | AG production | AG real estate | CRE investment | Construction & land development | Residential construction | Residential first mortgage | Residential junior mortgage | Retail & other | Total |
| ALLL: | | | | | | | | | | | |
| Beginning balance | $ 4,192 | $ 2,115 | $ 112 | $ 235 | $ 1,154 | $ 628 | $ 200 | $ 1,297 | $ 409 | $ 200 | $ 10,542 |
| Provision | 1,262 | 385 | (2) | 20 | 113 | (197) | 11 | 187 | (31) | 266 | 2,014 |
| Charge-offs | (813) | (64) | — | — | (37) | — | — | (85) | — | (201) | (1,200) |
| Recoveries | 42 | 3 | — | — | — | — | — | 1 | 30 | 16 | 92 |
| Net (charge-offs) recoveries | (771) | (61) | — | — | (37) | — | — | (84) | 30 | (185) | (1,108) |
| Ending balance | $ 4,683 | $ 2,439 | $ 110 | $ 255 | $ 1,230 | $ 431 | $ 211 | $ 1,400 | $ 408 | $ 281 | $ 11,448 |
| As % of ALLL | 41% | 21% | 1% | 2% | 11% | 4% | 2% | 12% | 4% | 2% | 100% |
| ALLL: | | | | | | | | | | | |
| Individually evaluated | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Collectively evaluated | 4,683 | 2,439 | 110 | 255 | 1,230 | 431 | 211 | 1,400 | 408 | 281 | 11,448 |
| Ending balance | $ 4,683 | $ 2,439 | $ 110 | $ 255 | $ 1,230 | $ 431 | $ 211 | $ 1,400 | $ 408 | $ 281 | $ 11,448 |
| Loans: | | | | | | | | | | | |
| Individually evaluated | $ 227 | $ 321 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 548 |
| Collectively evaluated | 567,873 | 283,210 | 11,113 | 31,374 | 171,087 | 66,478 | 30,926 | 220,368 | 78,379 | 23,809 | 1,484,617 |
| Total loans | $ 568,100 | $ 283,531 | $ 11,113 | $ 31,374 | $ 171,087 | $ 66,478 | $ 30,926 | $ 220,368 | $ 78,379 | $ 23,809 | $ 1,485,165 |
| Less ALLL | 4,683 | 2,439 | 110 | 255 | 1,230 | 431 | 211 | 1,400 | 408 | 281 | 11,448 |
| Net loans | $ 563,417 | $ 281,092 | $ 11,003 | $ 31,119 | $ 169,857 | $ 66,047 | $ 30,715 | $ 218,968 | $ 77,971 | $ 23,528 | $ 1,473,717 |

| | Acquired – Year Ended December 31, 2018 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (in thousands) | Commercial & industrial | Owner-occupied CRE | AG production | AG real estate | CRE investment | Construction & land development | Residential construction | Residential first mortgage | Residential junior mortgage | Retail & other | Total |
| ALLL: | | | | | | | | | | | |
| Beginning balance | $ 742 | $ 492 | $ 17 | $ 61 | $ 234 | $ 98 | $ 51 | $ 312 | $ 79 | $ 25 | $ 2,111 |
| Provision | (155) | (85) | (6) | (15) | 6 | (19) | (51) | (70) | (20) | 1 | (414) |
| Charge-offs | — | (10) | — | — | — | — | — | — | — | (3) | (13) |
| Recoveries | 1 | 11 | — | — | — | — | — | 4 | 5 | — | 21 |
| Net (charge-offs) recoveries | 1 | 1 | — | — | — | — | — | 4 | 5 | (3) | 8 |
| Ending balance | $ 588 | $ 408 | $ 11 | $ 46 | $ 240 | $ 79 | $ — | $ 246 | $ 64 | $ 23 | $ 1,705 |
| As % of ALLL | 34% | 24% | 1% | 3% | 14% | 5% | —% | 14% | 4% | 1% | 100% |
| ALLL: | | | | | | | | | | | |
| Individually evaluated | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Collectively evaluated | 588 | 408 | 11 | 46 | 240 | 79 | — | 246 | 64 | 23 | 1,705 |
| Ending balance | $ 588 | $ 408 | $ 11 | $ 46 | $ 240 | $ 79 | $ — | $ 246 | $ 64 | $ 23 | $ 1,705 |
| Loans: | | | | | | | | | | | |
| Individually evaluated | $ 2,700 | $ 1,185 | $ — | $ 222 | $ 1,686 | $ 603 | $ — | $ 2,750 | $ 233 | $ 12 | $ 9,391 |
| Collectively evaluated | 114,120 | 156,637 | 24,512 | 21,848 | 170,879 | 13,518 | — | 134,723 | 32,716 | 2,672 | 671,625 |
| Total loans | $ 116,820 | $ 157,822 | $ 24,512 | $ 22,070 | $ 172,565 | $ 14,121 | $ — | $ 137,473 | $ 32,949 | $ 2,684 | $ 681,016 |
| Less ALLL | 588 | 408 | 11 | 46 | 240 | 79 | — | 246 | 64 | 23 | 1,705 |
| Net loans | $ 116,232 | $ 157,414 | $ 24,501 | $ 22,024 | $ 172,325 | $ 14,042 | $ — | $ 137,227 | $ 32,885 | $ 2,661 | $ 679,311 |

The following table presents nonaccrual loans by portfolio segment in total and then as a further breakdown by originated or acquired.

| | Total Nonaccrual Loans | | | |
|---|---|---|---|---|
| (in thousands) | September 30, 2019 | % of Total | December 31, 2018 | % of Total |
| Commercial & industrial | $ 2,279 | 25% | $ 2,816 | 52% |
| Owner-occupied CRE | 2,302 | 25 | 673 | 12 |
| AG production | 1,251 | 14 | — | — |
| AG real estate | 846 | 9 | 164 | 3 |
| CRE investment | 1,111 | 12 | 210 | 4 |
| Construction & land development | — | — | 80 | 1 |
| Residential construction | — | — | 1 | — |
| Residential first mortgage | 865 | 9 | 1,265 | 23 |
| Residential junior mortgage | 576 | 6 | 262 | 5 |
| Retail & other | 8 | — | — | — |
| Nonaccrual loans | $ 9,238 | 100% | $ 5,471 | 100% |
| Percent of total loans | 0.4% | | 0.2% | |

| | September 30, 2019 | | | | December 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| (in thousands) | Originated Amount | % of Total | Acquired Amount | % of Total | Originated Amount | % of Total | Acquired Amount | % of Total |
| Commercial & industrial | $ 833 | 16% | $ 1,446 | 35% | $ 352 | 25% | $ 2,464 | 61% |
| Owner-occupied CRE | 1,792 | 35 | 510 | 12 | 362 | 26 | 311 | 8 |
| AG production | 1,095 | 22 | 156 | 4 | — | — | — | — |
| AG real estate | 635 | 13 | 211 | 5 | — | — | 164 | 4 |
| CRE investment | — | — | 1,111 | 27 | — | — | 210 | 5 |
| Construction & land development | — | — | — | — | — | — | 80 | 2 |
| Residential construction | — | — | — | — | 1 | — | — | — |
| Residential first mortgage | 458 | 9 | 407 | 10 | 629 | 45 | 636 | 15 |
| Residential junior mortgage | 263 | 5 | 313 | 7 | 65 | 4 | 197 | 5 |
| Retail & other | — | — | 8 | — | — | — | — | — |
| Nonaccrual loans | $ 5,076 | 100% | $ 4,162 | 100% | $ 1,409 | 100% | $ 4,062 | 100% |
| Percent of nonaccrual loans | 55% | | 45% | | 26% | | 74% | |

The following tables present past due loans by portfolio segment.

| | September 30, 2019 | | | |
|---|---|---|---|---|
| (in thousands) | 30-89 Days Past Due (accruing) | 90 Days & Over or nonaccrual | Current | Total |
| Commercial & industrial | $ 215 | $ 2,279 | $ 761,248 | $ 763,742 |
| Owner-occupied CRE | — | 2,302 | 454,206 | 456,508 |
| AG production | — | 1,251 | 34,799 | 36,050 |
| AG real estate | — | 846 | 57,745 | 58,591 |
| CRE investment | — | 1,111 | 335,331 | 336,442 |
| Construction & land development | — | — | 61,810 | 61,810 |
| Residential construction | — | — | 41,496 | 41,496 |
| Residential first mortgage | 319 | 865 | 342,216 | 343,400 |
| Residential junior mortgage | 283 | 576 | 115,320 | 116,179 |
| Retail & other | 124 | 8 | 28,581 | 28,713 |
| Total loans | $ 941 | $ 9,238 | $ 2,232,752 | $ 2,242,931 |
| Percent of total loans | —% | 0.4% | 99.6% | 100.0% |

| (in thousands) | December 31, 2018<br>30-89 Days Past Due (accruing) | 90 Days & Over or nonaccrual | Current | Total |
|---|---|---|---|---|
| Commercial & industrial | $ — | $ 2,816 | $ 682,104 | $ 684,920 |
| Owner-occupied CRE | 557 | 673 | 440,123 | 441,353 |
| AG production | 19 | — | 35,606 | 35,625 |
| AG real estate | 35 | 164 | 53,245 | 53,444 |
| CRE investment | 180 | 210 | 343,262 | 343,652 |
| Construction & land development | — | 80 | 80,519 | 80,599 |
| Residential construction | — | 1 | 30,925 | 30,926 |
| Residential first mortgage | 758 | 1,265 | 355,818 | 357,841 |
| Residential junior mortgage | 12 | 262 | 111,054 | 111,328 |
| Retail & other | 10 | — | 26,483 | 26,493 |
| Total loans | $ 1,571 | $ 5,471 | $ 2,159,139 | $ 2,166,181 |
| Percent of total loans | 0.1% | 0.2% | 99.7% | 100.0% |

A description of the loan risk categories used by the Company follows.

Grades 1-4, Pass: Credits exhibit adequate cash flows, appropriate management and financial ratios within industry norms and/or are supported by sufficient collateral. Some credits in these rating categories may require a need for monitoring but elements of concern are not severe enough to warrant an elevated rating.

Grade 5, Watch: Credits with this rating are adequately secured and performing but are being monitored due to the presence of various short-term weaknesses which may include unexpected, short-term adverse financial performance, managerial problems, potential impact of a decline in the entire industry or local economy and delinquency issues. Loans to individuals or loans supported by guarantors with marginal net worth or collateral may be included in this rating category.

Grade 6, Special Mention: Credits with this rating have potential weaknesses that, without the Company's attention and correction may result in deterioration of repayment prospects. These assets are considered Criticized Assets. Potential weaknesses may include adverse financial trends for the borrower or industry, repeated lack of compliance with Company requests, increasing debt to net worth, serious management conditions and decreasing cash flow.

Grade 7, Substandard: Assets with this rating are characterized by the distinct possibility the Company will sustain some loss if deficiencies are not corrected. All foreclosures, liquidations, and nonaccrual loans are considered to be categorized in this rating, regardless of collateral sufficiency.

Grade 8, Doubtful: Assets with this rating exhibit all the weaknesses as one rated Substandard with the added characteristic that such weaknesses make collection or liquidation in full highly questionable.

Grade 9, Loss: Assets in this category are considered uncollectible. Pursuing any recovery or salvage value is impractical but does not preclude partial recovery in the future.

The following tables present total loans by risk categories.

| (in thousands) | September 30, 2019<br>Grades 1- 4 | Grade 5 | Grade 6 | Grade 7 | Grade 8 | Grade 9 | Total |
|---|---|---|---|---|---|---|---|
| Commercial & industrial | $ 725,484 | $ 22,299 | $ 2,076 | $ 13,883 | $ — | $ — | $ 763,742 |
| Owner-occupied CRE | 428,332 | 15,110 | 963 | 12,103 | — | — | 456,508 |
| AG production | 27,350 | 4,044 | 1,669 | 2,987 | — | — | 36,050 |
| AG real estate | 48,740 | 4,077 | 2,344 | 3,430 | — | — | 58,591 |
| CRE investment | 332,078 | 2,345 | 908 | 1,111 | — | — | 336,442 |
| Construction & land development | 61,794 | — | 16 | — | — | — | 61,810 |
| Residential construction | 41,496 | — | — | — | — | — | 41,496 |
| Residential first mortgage | 338,627 | 1,664 | 1,193 | 1,916 | — | — | 343,400 |
| Residential junior mortgage | 115,595 | — | — | 584 | — | — | 116,179 |
| Retail & other | 28,705 | — | — | 8 | — | — | 28,713 |
| Total loans | $ 2,148,201 | $ 49,539 | $ 9,169 | $ 36,022 | $ — | $ — | $ 2,242,931 |
| Percent of total | 95.8% | 2.2% | 0.4% | 1.6% | — | — | 100.0% |

| (in thousands) | December 31, 2018 Grades 1- 4 | Grade 5 | Grade 6 | Grade 7 | Grade 8 | Grade 9 | Total |
|---|---|---|---|---|---|---|---|
| Commercial & industrial | $ 649,475 | $ 16,145 | $ 6,178 | $ 13,122 | $ — | $ — | $ 684,920 |
| Owner-occupied CRE | 405,198 | 22,776 | 6,569 | 6,810 | — | — | 441,353 |
| AG production | 29,363 | 3,302 | 2,351 | 609 | — | — | 35,625 |
| AG real estate | 46,248 | 3,246 | 2,983 | 967 | — | — | 53,444 |
| CRE investment | 334,080 | 6,792 | — | 2,780 | — | — | 343,652 |
| Construction & land development | 75,365 | 5,138 | 16 | 80 | — | — | 80,599 |
| Residential construction | 30,926 | — | — | — | — | — | 30,926 |
| Residential first mortgage | 353,239 | 1,406 | 510 | 2,686 | — | — | 357,841 |
| Residential junior mortgage | 111,037 | 17 | — | 274 | — | — | 111,328 |
| Retail & other | 26,493 | — | — | — | — | — | 26,493 |
| Total loans | $ 2,061,424 | $ 58,822 | $ 18,607 | $ 27,328 | $ — | $ — | $ 2,166,181 |
| Percent of total | 95.1% | 2.7% | 0.9% | 1.3% | — | — | 100.0% |

The following tables present impaired loans.

| (in thousands) | Total Impaired Loans – September 30, 2019 Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| Commercial & industrial | $ 2,143 | $ 4,271 | $ 308 | $ 2,807 | $ 739 |
| Owner-occupied CRE | 2,552 | 2,930 | — | 2,742 | 170 |
| AG production | 1,251 | 1,263 | 119 | 1,295 | 12 |
| AG real estate | 1,089 | 1,091 | — | 1,098 | 2 |
| CRE investment | 2,483 | 2,490 | — | 2,524 | 8 |
| Construction & land development | 427 | 427 | — | 480 | — |
| Residential construction | — | — | — | — | — |
| Residential first mortgage | 2,560 | 2,785 | — | 2,611 | 97 |
| Residential junior mortgage | 221 | 231 | — | 225 | 2 |
| Retail & other | 12 | 15 | — | 12 | 3 |
| Total | $ 12,738 | $ 15,503 | $ 427 | $ 13,794 | $ 1,033 |
| Originated impaired loans | $ 4,487 | $ 4,707 | $ 427 | $ 4,649 | $ 176 |
| Acquired impaired loans | 8,251 | 10,796 | — | 9,145 | 857 |
| Total | $ 12,738 | $ 15,503 | $ 427 | $ 13,794 | $ 1,033 |

| (in thousands) | Total Impaired Loans – December 31, 2018 Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| Commercial & industrial | $ 2,927 | $ 6,736 | $ — | $ 4,041 | $ 660 |
| Owner-occupied CRE | 1,506 | 1,833 | — | 1,659 | 137 |
| AG production | — | — | — | — | — |
| AG real estate | 222 | 281 | — | 238 | 26 |
| CRE investment | 1,686 | 2,484 | — | 1,606 | 163 |
| Construction & land development | 603 | 1,506 | — | 603 | 21 |
| Residential construction | — | — | — | — | — |
| Residential first mortgage | 2,750 | 2,907 | — | 2,478 | 176 |
| Residential junior mortgage | 233 | 262 | — | 62 | 15 |
| Retail & other | 12 | 12 | — | 12 | 1 |
| Total | $ 9,939 | $ 16,021 | $ — | $ 10,699 | $ 1,199 |
| Originated impaired loans | $ 548 | $ 548 | $ — | $ 899 | $ 154 |
| Acquired impaired loans | 9,391 | 15,473 | — | 9,800 | 1,045 |
| Total | $ 9,939 | $ 16,021 | $ — | $ 10,699 | $ 1,199 |

Total purchased credit impaired loans (in aggregate since the Company's 2013 acquisitions) were initially recorded at a fair value of $43.6 million on their respective acquisition dates, net of an initial $34.4 million nonaccretable mark and a zero accretable mark. At September 30, 2019, $8.3 million of the $43.6 million remain in impaired loans.

**Nonaccretable discount on purchased credit impaired loans:**

| (in thousands) | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 | Year Ended December 31, 2018 |
|---|---|---|---|
| Balance at beginning of period | $ 6,408 | $ 9,471 | $ 9,471 |
| Accretion to loan interest income | (3,293) | (1,872) | (1,976) |
| Transferred to accretable | — | (513) | (990) |
| Disposals of loans | (660) | (97) | (97) |
| Balance at end of period | $ 2,455 | $ 6,989 | $ 6,408 |

**Troubled Debt Restructurings**

At September 30, 2019, there were five loans classified as troubled debt restructurings with a current outstanding balance of $1.2 million (including performing TDRs of $0.5 million and the remainder on nonaccrual) and pre-modification balance of $1.4 million. In comparison, at December 31, 2018, there were four loans classified as troubled debt restructurings with an outstanding balance of $0.6 million and pre-modification balance of $2.7 million. There were no loans classified as troubled debt restructurings during the previous twelve months that subsequently defaulted during the nine months ended September 30, 2019. As of September 30, 2019, there were no commitments to lend additional funds to debtors whose terms have been modified in troubled debt restructurings.

**Note 7 – Goodwill and Other Intangibles and Mortgage Servicing Rights**

Management periodically reviews the carrying value of its 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. The Company's quarterly assessment indicated no impairment charge on goodwill, core deposit intangibles or customer list intangibles was required for the year ended December 31, 2018 or the nine months ended September 30, 2019. A summary of goodwill and other intangibles was as follows.

| (in thousands) | Nine Months Ended September 30, 2019 | Year Ended December 31, 2018 |
|---|---|---|
| Goodwill | $ 107,366 | $ 107,366 |
| Core deposit intangibles | 10,006 | 12,562 |
| Customer list intangibles | 3,999 | 4,379 |
| Other intangibles | 14,005 | 16,941 |
| Goodwill and other intangibles, net | $ 121,371 | $ 124,307 |

***Goodwill***: Goodwill was $107.4 million at both September 30, 2019 and December 31, 2018.

***Other intangible assets***: Other intangible assets, consisting of core deposit intangibles and customer list intangibles, are amortized over their estimated finite lives.

| (in thousands) | Nine Months Ended September 30, 2019 | Year Ended December 31, 2018 |
|---|---|---|
| **Core deposit intangibles:** | | |
| Gross carrying amount | $ 29,015 | $ 29,015 |
| Accumulated amortization | (19,009) | (16,453) |
| Net book value | $ 10,006 | $ 12,562 |
| Additions during the period | $ — | $ — |
| Amortization during the period | $ 2,556 | $ 3,915 |
| **Customer list intangibles:** | | |
| Gross carrying amount | $ 5,523 | $ 5,523 |
| Accumulated amortization | (1,524) | (1,144) |
| Net book value | $ 3,999 | $ 4,379 |
| Additions during the period | $ — | $ 290 |
| Amortization during the period | $ 380 | $ 474 |

***Mortgage servicing rights***: Mortgage servicing rights are amortized in proportion to and over the period of estimated net servicing income, and

assessed for impairment at each reporting date, with the amortization recorded in mortgage income, net, in the

consolidated statements of income. Mortgage servicing rights are carried at the lower of the initial capitalized amount, net of accumulated amortization, or estimated fair value, and are included in other assets in the consolidated balance sheets. A summary of the changes in the mortgage servicing rights asset was as follows.

| (in thousands) | Nine Months Ended September 30, 2019 | Year Ended December 31, 2018 |
|---|---|---|
| **Mortgage servicing rights ("MSR") asset:** | | |
| MSR asset at beginning of year | $ 3,749 | $ 3,187 |
| Capitalized MSR | 1,807 | 1,203 |
| Amortization during the period | (611) | (641) |
| MSR asset at end of period | $ 4,945 | $ 3,749 |
| Fair value of MSR asset at end of period | $ 6,960 | $ 6,347 |
| Residential mortgage loans serviced for others | $ 721,569 | $ 603,446 |
| Net book value of MSR asset to loans serviced for others | 0.69% | 0.62% |

The Company periodically evaluates its mortgage servicing rights asset for impairment. At each reporting date, impairment is assessed based on estimated fair value using estimated prepayment speeds of the underlying mortgage loans serviced and stratifications based on the risk characteristics of the underlying loans (predominantly loan type and note interest rate). No valuation allowance or impairment charge was recorded for the year ended December 31, 2018 or the nine months ended September 30, 2019. See Note 9 for additional information on the fair value of the MSR asset.

The following table shows the estimated future amortization expense for amortizing intangible assets and the MSR asset. The projections are based on existing asset balances, the current interest rate environment and prepayment speeds as of September 30, 2019. The actual amortization expense the Company recognizes in any given period may be significantly different depending upon acquisition or sale activities, changes in interest rates, prepayment speeds, market conditions, regulatory requirements and events or circumstances that indicate the carrying amount of an asset may not be recoverable.

| (in thousands) | Core deposit intangibles | Customer list intangibles | MSR asset |
|---|---|---|---|
| Year ending December 31, | | | |
| 2019 (remaining three months) | $ 781 | $ 127 | $ 224 |
| 2020 | 2,657 | 507 | 879 |
| 2021 | 2,167 | 507 | 730 |
| 2022 | 1,735 | 507 | 730 |
| 2023 | 1,273 | 483 | 658 |
| 2024 | 841 | 449 | 400 |
| Thereafter | 552 | 1,419 | 1,324 |
| Total | $ 10,006 | $ 3,999 | $ 4,945 |

**Note 8 – Short and Long-Term Borrowings**

**Short-Term Borrowings:**
The Company did not have any short-term borrowings (borrowing with an original maturity of one year or less) outstanding at September 30, 2019 or December 31, 2018.

**Long-Term Borrowings:**
The components of long-term borrowings (borrowing with an original maturity greater than one year) were as follows.

| (in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| FHLB advances | $ 15,056 | $ 35,252 |
| Junior subordinated debentures | 30,455 | 30,096 |
| Subordinated notes | 11,984 | 11,957 |
| Total long-term borrowings | $ 57,495 | $ 77,305 |
| Percent of fixed rate long-term borrowings | 58% | 69% |
| Percent of floating rate long-term borrowings | 42% | 31% |

***FHLB Advances***: The FHLB advances bear fixed rates, require interest-only monthly payments, and have maturity dates through 2022. The weighted average rate of the FHLB advances was 1.95% at September 30, 2019 and 1.72% at December 31, 2018. During third quarter 2019, the Company repaid a $20 million puttable FHLB advance.

***Junior Subordinated Debentures*:** The following table shows the breakdown of junior subordinated debentures. Interest on all debentures is current. Any applicable discounts (initially recorded to carry an acquired debenture at its then estimated fair market value) are being accreted to interest expense over the remaining life of the debentures. All the debentures below are currently callable and may be redeemed in part or in full at par plus any accrued but unpaid interest. At September 30, 2019 and December 31, 2018, $29.3 million and $28.9 million, respectively, qualify as Tier 1 capital.

| | | Junior Subordinated Debentures | | | |
|---|---|---|---|---|---|
| | | | 9/30/2019 | 9/30/2019 | 12/31/18 |
| **(in thousands)** | **Maturity Date** | **Par** | **Unamortized Discount** | **Carrying Value** | **Carrying Value** |
| 2004 Nicolet Bankshares Statutory Trust [(1)] | 7/15/2034 | $ 6,186 | $ — | $ 6,186 | $ 6,186 |
| 2005 Mid-Wisconsin Financial Services, Inc. [(2)] | 12/15/2035 | 10,310 | (3,222) | 7,088 | 6,939 |
| 2006 Baylake Corp. [(3)] | 9/30/2036 | 16,598 | (3,942) | 12,656 | 12,478 |
| 2004 First Menasha Bancshares, Inc. [(4)] | 3/17/2034 | 5,155 | (630) | 4,525 | 4,493 |
| Total | | $ 38,249 | $ (7,794) | $ 30,455 | $ 30,096 |

(1) The interest rate is 8.00% fixed.

(2) The debentures, assumed in April 2013 as the result of an acquisition, have a floating rate of the three-month LIBOR plus 1.43%, adjusted quarterly. The interest rates were 3.55% and 4.22% as of September 30, 2019 and December 31, 2018, respectively.

(3) The debentures, assumed in April 2016 as a result of an acquisition, have a floating rate of the three-month LIBOR plus 1.35%, adjusted quarterly. The interest rates were 3.45% and 4.15% as of September 30, 2019 and December 31, 2018, respectively.

(4) The debentures, assumed in April 2017 as the result of an acquisition, have a floating rate of the three-month LIBOR plus 2.79%, adjusted quarterly. The interest rates were 4.93% and 5.58% as of September 30, 2019 and December 31, 2018, respectively.

***Subordinated Notes*:** In 2015, the Company placed an aggregate of $12 million in subordinated Notes in private placements with certain accredited investors. All Notes were issued with 10-year maturities, have a fixed annual interest rate of 5% payable quarterly, are callable on or after the fifth anniversary of their respective issuances dates, and qualify for Tier 2 capital for regulatory purposes.

**Note 9 – Fair Value Measurements**

Fair value represents the estimated price at which an orderly transaction to sell an asset or transfer a liability would take place between market participants at the measurement date under current market conditions (i.e., an exit price concept), and is a market-based measurement versus an entity-specific measurement.

The Company records and/or discloses financial instruments on a fair value basis. These financial assets and financial liabilities are measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the observability of the assumptions used to determine fair value. These levels are:

- Level 1 – quoted market prices in active markets for identical assets or liabilities that a company has the ability to access at the measurement date
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – significant unobservable inputs for the asset or liability, which are typically based on an entity’s own assumptions, as there is little, if any, related market activity

In instances where the fair value measurement is based on inputs from different levels, the level within which the entire fair value measurement will be categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. This assessment of the significance of an input requires management judgment.

**Recurring basis fair value measurements:**

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis for the periods presented.

| (in thousands) | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| Measured at Fair Value on a Recurring Basis: | Total | Level 1 | Level 2 | Level 3 |
| **September 30, 2019** | | | | |
| U.S. government agency securities | $ 16,490 | $ — | $ 16,490 | $ — |
| State, county and municipals | 147,786 | — | 147,786 | — |
| Mortgage-backed securities | 171,877 | — | 171,877 | — |
| Corporate debt securities | 83,147 | — | 80,317 | 2,830 |
| Securities AFS | $ 419,300 | $ — | $ 416,470 | $ 2,830 |
| Other investments (equity securities) | $ 4,080 | $ 4,080 | $ — | $ — |
| **December 31, 2018** | | | | |
| U.S. government agency securities | $ 21,649 | $ — | $ 21,649 | $ — |
| State, county and municipals | 160,526 | — | 160,460 | 66 |
| Mortgage-backed securities | 131,644 | — | 131,644 | — |
| Corporate debt securities | 86,325 | — | 77,901 | 8,424 |
| Securities AFS | $ 400,144 | $ — | $ 391,654 | $ 8,490 |
| Other investments (equity securities) | $ 2,650 | $ 2,650 | $ — | $ — |

The following is a description of the valuation methodologies used by the Company for the securities AFS and equity securities measured at fair value on a recurring basis, noted in the tables above. Where quoted market prices on securities exchanges are available, the investments are classified as Level 1. Level 1 investments primarily include exchange-traded equity securities. If quoted market prices are not available, fair value is generally determined using prices obtained from independent pricing vendors who use pricing models (with typical inputs including benchmark yields, reported trades for similar securities, issuer spreads or relationship to other benchmark quoted securities), or discounted cash flows, and are classified as Level 2. Examples of these investments include U.S. government agency securities, mortgage-backed securities, obligations of state, county and municipals, and certain corporate debt securities. Finally, in certain cases where there is limited activity or less transparency around inputs to the estimated fair value, investments are classified within Level 3 of the hierarchy. Examples of these include private municipal bonds and corporate debt securities, which include trust preferred security investments. At September 30, 2019 and December 31, 2018, it was determined that carrying value was the best approximation of fair value for these Level 3 securities, based primarily on the internal analysis on these securities.

The following table presents the changes in the Level 3 securities AFS measured at fair value on a recurring basis.

| (in thousands) | Nine Months Ended | Year Ended |
|---|---|---|
| Level 3 Fair Value Measurements: | September 30, 2019 | December 31, 2018 |
| Balance at beginning of year | $ 8,490 | $ 9,151 |
| Paydowns/Sales/Settlements | (5,660) | (661) |
| Balance at end of period | $ 2,830 | $ 8,490 |

**Nonrecurring basis fair value measurements:**

The following table presents the Company's assets measured at fair value on a nonrecurring basis, aggregated by level in the fair value hierarchy within which those measurements fall.

| (in thousands) | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| Measured at Fair Value on a Nonrecurring Basis: | Total | Level 1 | Level 2 | Level 3 |
| **September 30, 2019** | | | | |
| Impaired loans | $ 12,311 | $ — | $ — | $ 12,311 |
| Other real estate owned ("OREO") | 1,325 | — | — | 1,325 |
| MSR asset | 6,960 | — | — | 6,960 |
| **December 31, 2018** | | | | |
| Impaired loans | $ 9,939 | $ — | $ — | $ 9,939 |
| OREO | 420 | — | — | 420 |
| MSR asset | 6,347 | — | — | 6,347 |

The following is a description of the valuation methodologies used by the Company for the items noted in the table above. For individually evaluated impaired loans, the amount of impairment is based upon the present value of expected future cash flows discounted at the loan's effective interest rate, the estimated fair value of the underlying collateral for collateral-dependent loans, or the estimated liquidity of the note. For OREO, the fair value is based upon the estimated fair value of the underlying collateral adjusted for the expected costs to sell. To estimate the fair value of the MSR asset, the underlying serviced loan pools are stratified by interest rate tranche and term of the loan, and a valuation model is used to calculate the present value of the expected future cash flows for each stratum. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as costs to service, a discount rate, ancillary income, default rates and losses, and prepayment speeds. Although some of these assumptions are based on observable market data, other assumptions are based on unobservable estimates of what market participants would use to measure fair value.

**Financial instruments:**
The carrying amounts and estimated fair values of the Company's financial instruments are shown below.

| September 30, 2019 | | | | | |
|---|---|---|---|---|---|
| **(in thousands)** | **Carrying Amount** | **Estimated Fair Value** | **Level 1** | **Level 2** | **Level 3** |
| **Financial assets:** | | | | | |
| Cash and cash equivalents | $ 143,969 | $ 143,969 | $ 143,969 | $ — | $ — |
| Certificates of deposit in other banks | 5,395 | 5,390 | — | 5,390 | — |
| Securities AFS | 419,300 | 419,300 | — | 416,470 | 2,830 |
| Other investments, including equity securities | 20,697 | 20,697 | 4,080 | 13,259 | 3,358 |
| Loans held for sale | 10,564 | 10,710 | — | 10,710 | — |
| Loans, net | 2,229,311 | 2,244,410 | — | — | 2,244,410 |
| BOLI | 71,796 | 71,796 | 71,796 | — | — |
| MSR asset | 4,945 | 6,960 | — | — | 6,960 |
| **Financial liabilities:** | | | | | |
| Deposits | $ 2,584,447 | $ 2,584,662 | $ — | $ — | $ 2,584,662 |
| Long-term borrowings | 57,495 | 56,679 | — | 15,135 | 41,544 |

| December 31, 2018 | | | | | |
|---|---|---|---|---|---|
| **(in thousands)** | **Carrying Amount** | **Estimated Fair Value** | **Level 1** | **Level 2** | **Level 3** |
| **Financial assets:** | | | | | |
| Cash and cash equivalents | $ 249,526 | $ 249,526 | $ 249,526 | $ — | $ — |
| Certificates of deposit in other banks | 993 | 993 | — | 993 | — |
| Securities AFS | 400,144 | 400,144 | — | 391,654 | 8,490 |
| Other investments, including equity securities | 17,997 | 17,997 | 2,650 | 13,189 | 2,158 |
| Loans held for sale | 1,639 | 1,662 | — | 1,662 | — |
| Loans, net | 2,153,028 | 2,139,322 | — | — | 2,139,322 |
| BOLI | 66,310 | 66,310 | 66,310 | — | — |
| MSR asset | 3,749 | 6,347 | — | — | 6,347 |
| **Financial liabilities:** | | | | | |
| Deposits | $ 2,614,138 | $ 2,614,995 | $ — | $ — | $ 2,614,995 |
| Long-term borrowings | 77,305 | 75,923 | — | 34,907 | 41,016 |

The carrying value of certain assets and liabilities such as cash and cash equivalents, BOLI, and nonmaturing deposits, approximate their estimated fair value. For those financial instruments not previously disclosed, the following is a description of the valuation methodologies used.

*Certificates of deposits in other banks:* Fair values are estimated using discounted cash flow analysis based on current interest rates being offered by instruments with similar terms and represents a Level 2 measurement.

*Other investments:* The valuation methodologies utilized for exchange-traded equity securities are discussed under "Recurring basis fair value measurements" above. The carrying amount of Federal Reserve Bank and FHLB stock is a reasonably accepted fair value estimate given their restricted nature. Fair value is the redeemable (carrying) value based on the redemption provisions of the instruments which is considered a Level 2 measurement. The carrying amount of the remaining other investments (particularly common stocks of companies or other banks that are not publicly traded) approximates their fair value, determined primarily by

analysis of company financial statements and recent capital issuances of the respective companies or banks, if any, and represents a Level 3 measurement.

*Loans held for sale:* The fair value estimation process for the loans held for sale portfolio is segregated by loan type. The estimated fair value was based on what secondary markets are currently offering for portfolios with similar characteristics and represents a Level 2 measurement.

*Loans, net*: For variable-rate loans that reprice frequently and with no significant change in credit risk or other optionality, fair values are based on carrying values. Fair values for all other loans are estimated by discounting contractual cash flows using estimated market discount rates, which reflect the credit and interest rate risk inherent in the loan. Collateral-dependent impaired loans are included in loans, net. The fair value of loans is considered to be a Level 3 measurement due to internally developed discounted cash flow measurements.

*Deposits*: The fair value of deposits with no stated maturity (such as demand deposits, savings, interest and noninterest checking, and money market accounts) is, by definition, equal to the amount payable on demand at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market place on certificates of similar remaining maturities. Use of internal discounted cash flows provides a Level 3 fair value measurement.

*Long-term borrowings*: The fair value of the FHLB advances is obtained from the FHLB which uses a discounted cash flow analysis based on current market rates of similar maturity debt securities and represents a Level 2 measurement. The fair values of the junior subordinated debentures and subordinated notes utilize a discounted cash flow analysis based on an estimate of current interest rates being offered by instruments with similar terms and credit quality. Since the market for these instruments is limited, the internal evaluation represents a Level 3 measurement.

*Lending-related commitments and derivative financial instruments*: At September 30, 2019 and December 31, 2018, the estimated fair value of letters of credit, interest rate lock commitments on residential mortgage loans, outstanding mandatory commitments to sell residential mortgage loans into the secondary market, and mirror interest rate swap agreements were not significant.

*Limitations*: Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Fair value estimates may not be realizable in an immediate settlement of the instrument. In some instances, there are no quoted market prices for the Company's various financial instruments, in which case fair values may be based on estimates using present value or other valuation techniques, or based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of the financial instruments, or other factors. Those techniques are significantly affected by the assumptions used, including the discount rate and estimate of future cash flows. Subsequent changes in assumptions could significantly affect the estimates.

**Note 10 – Operating Leases**

As of January 1, 2019, the Company adopted ASU 2016-02 (Topic 842) on a prospective basis using the effective date method. The adoption of the new standard did not have a material impact on Nicolet's financial statements; however, additional disclosures have been added in accordance with the ASU. See Note 1 for additional information on this new accounting standard.

The operating lease ROU asset represents the right to use an underlying asset during the lease term, while the operating lease liability represents the obligation to make lease payments arising from the lease. The ROU asset and lease liability are recognized at lease commencement based on the present value of the remaining lease payments, considering a discount rate that represents Nicolet's incremental borrowing rate. Operating lease expense is recognized on a straight-line basis over the lease term and is recognized in occupancy, equipment, and office on the consolidated statements of income.

Nicolet leases space under non-cancelable operating lease agreements for certain bank and nonbank branch facilities with remaining lease terms of 2 to 7 years. Certain lease arrangements contain extension options which typically range from 5 to 10 years at the then fair market rental rates. The lease asset and liability considers renewal options when they are reasonably certain of being exercised.

A summary of net lease cost and selected other information related to operating leases was as follows.

| ($ in thousands) | Nine Months Ended September 30, 2019 |
|---|---|
| **Net lease cost:** | |
| Operating lease cost | $ 737 |
| Variable lease cost | 179 |
| Net lease cost | $ 916 |
| **Selected other operating lease information:** | |
| Weighted average remaining lease term (years) | 5 |
| Weighted average discount rate | 2.5% |

The following table summarizes the maturity of remaining lease liabilities.

| (in thousands) | |
|---|---|
| Year ending December 31, | |
| 2019 (remaining three months) | $ 951 |
| 2020 | 1,037 |
| 2021 | 911 |
| 2022 | 851 |
| 2023 | 607 |
| 2024 | 499 |
| Thereafter | 16 |
| Total future minimum lease payments | 4,872 |
| Less: amount representing interest | (122) |
| Present value of net future minimum lease payments | $ 4,750 |

**ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Nicolet Bankshares, Inc. (the “Company” or “Nicolet”) is a bank holding company headquartered in Green Bay, Wisconsin. Nicolet provides a diversified range of traditional banking and wealth management services to individuals and businesses in its market area and through the branch offices of its banking subsidiary, Nicolet National Bank (the “Bank”), in northeastern and central Wisconsin and in Menominee, Michigan.

**Forward-Looking Statements**

Statements made in this document and in any documents that are incorporated by reference which are not purely historical are forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995, including any statements regarding descriptions of management’s plans, objectives, or goals for future operations, products or services, and forecasts of its revenues, earnings, or other measures of performance. Forward-looking statements are based on current management expectations and, by their nature, are subject to risks and uncertainties. These statements generally may be identified by the use of words such as “believe,” “expect,” “anticipate,” “plan,” “estimate,” “should,” “will,” “intend,” or similar expressions. Shareholders should note that many factors, some of which are discussed elsewhere in this document, could affect the future financial results of Nicolet and could cause those results to differ materially from those expressed in forward-looking statements contained in this document. These factors, many of which are beyond Nicolet’s control, include, but are not necessarily limited to the following:

- operating, legal and regulatory risks, including the effects of legislative or regulatory developments affecting the financial industry generally or Nicolet specifically;
- economic, market, political and competitive forces affecting Nicolet’s banking and wealth management businesses;
- changes in interest rates, monetary policy and general economic conditions, which may impact Nicolet’s net interest income;
- potential difficulties in integrating the operations of Nicolet with those of Choice following the merger;
- adoption of new accounting standards, including the effects from the adoption of the current expected credit loss ("CECL") model on January 1, 2020, or changes in existing standards;
- compliance or operational risks related to new products, services, ventures, or lines of business, if any, that Nicolet may pursue or implement; and
- the risk that Nicolet’s analysis of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful.

These factors should be considered in evaluating the forward-looking statements, and you should not place undue reliance on such statements. Nicolet specifically disclaims any obligation to update factors or to publicly announce the results of revisions to any of the forward-looking statements or comments included herein to reflect future events or developments.

**Overview**

The following discussion is management’s analysis of the consolidated financial condition as of September 30, 2019 and December 31, 2018 and results of operations for the three and nine-month periods ended September 30, 2019 and 2018. It should be read in conjunction with Nicolet’s audited consolidated financial statements included in Nicolet’s Annual Report on Form 10-K for the year ended December 31, 2018.

**Performance Summary**

**Table 1: Earnings Summary and Selected Financial Data**

| (In thousands, except per share data) | At or for the Three Months Ended | | | | | At or for the Nine Months Ended | |
|---|---|---|---|---|---|---|---|
| | 9/30/2019 | 6/30/2019 | 3/31/2019 | 12/31/2018 | 9/30/2018 | 9/30/2019 | 9/30/2018 |
| **Results of operations:** | | | | | | | |
| Interest income | $ 34,667 | $ 34,570 | $ 33,159 | $ 32,327 | $ 31,880 | $ 102,396 | $ 93,210 |
| Interest expense | 5,477 | 5,626 | 5,684 | 5,298 | 4,938 | 16,787 | 13,591 |
| Net interest income | 29,190 | 28,944 | 27,475 | 27,029 | 26,942 | 85,609 | 79,619 |
| Provision for loan losses | 400 | 300 | 200 | 240 | 340 | 900 | 1,360 |
| Net interest income after provision for loan losses | 28,790 | 28,644 | 27,275 | 26,789 | 26,602 | 84,709 | 78,259 |
| Noninterest income | 12,312 | 18,560 | 9,186 | 9,797 | 10,649 | 40,058 | 29,712 |
| Noninterest expense | 22,887 | 25,727 | 22,759 | 21,621 | 23,044 | 71,373 | 68,137 |
| Income before income tax expense | 18,215 | 21,477 | 13,702 | 14,965 | 14,207 | 53,394 | 39,834 |
| Income tax expense | 4,603 | 2,833 | 3,352 | 4,015 | 3,268 | 10,788 | 9,431 |
| Net income | 13,612 | 18,644 | 10,350 | 10,950 | 10,939 | 42,606 | 30,403 |
| Net income attributable to noncontrolling interest | 82 | 95 | 83 | 87 | 80 | 260 | 230 |
| Net income attributable to Nicolet Bankshares, Inc. | $ 13,530 | $ 18,549 | $ 10,267 | $ 10,863 | $ 10,859 | $ 42,346 | $ 30,173 |
| **Earnings per common share:** | | | | | | | |
| Basic | $ 1.45 | $ 1.98 | $ 1.09 | $ 1.14 | $ 1.13 | $ 4.51 | $ 3.12 |
| Diluted | $ 1.40 | $ 1.91 | $ 1.05 | $ 1.11 | $ 1.09 | $ 4.36 | $ 3.02 |
| **Common Shares:** | | | | | | | |
| Basic weighted average | 9,347 | 9,374 | 9,461 | 9,526 | 9,633 | 9,394 | 9,679 |
| Diluted weighted average | 9,697 | 9,692 | 9,758 | 9,814 | 9,949 | 9,707 | 10,004 |
| Outstanding (period end) | 9,363 | 9,327 | 9,431 | 9,495 | 9,577 | 9,363 | 9,577 |
| **Period-End Balances:** | | | | | | | |
| Loans | $ 2,242,931 | $ 2,203,273 | $ 2,189,688 | $ 2,166,181 | $ 2,143,457 | $ 2,242,931 | $ 2,143,457 |
| Allowance for loan losses | 13,620 | 13,571 | 13,370 | 13,153 | 12,992 | 13,620 | 12,992 |
| Securities available-for-sale, at fair value | 419,300 | 403,989 | 407,693 | 400,144 | 410,911 | 419,300 | 410,911 |
| Goodwill and other intangibles, net | 121,371 | 122,285 | 123,254 | 124,307 | 125,360 | 121,371 | 125,360 |
| Total assets | 3,105,671 | 3,054,813 | 3,041,091 | 3,096,535 | 3,000,902 | 3,105,671 | 3,000,902 |
| Deposits | 2,584,447 | 2,536,639 | 2,538,486 | 2,614,138 | 2,522,156 | 2,584,447 | 2,522,156 |
| Stockholders' equity | 428,014 | 411,415 | 398,767 | 386,609 | 377,171 | 428,014 | 377,171 |
| Book value per common share | 45.71 | 44.11 | 42.28 | 40.72 | 39.38 | 45.71 | 39.38 |
| Tangible book value per common share [(2)] | 32.75 | 31.00 | 29.21 | 27.62 | 26.29 | 32.75 | 26.29 |
| **Average Balances:** | | | | | | | |
| Loans | $ 2,218,307 | $ 2,189,070 | $ 2,179,420 | $ 2,142,870 | $ 2,134,448 | $ 2,195,742 | $ 2,122,280 |
| Interest-earning assets | 2,763,997 | 2,702,357 | 2,734,936 | 2,693,752 | 2,664,316 | 2,733,870 | 2,664,081 |
| Goodwill and other intangibles, net | 121,895 | 122,841 | 123,892 | 124,930 | 125,798 | 122,869 | 126,741 |
| Total assets | 3,094,546 | 3,022,383 | 3,047,068 | 2,996,553 | 2,971,247 | 3,054,840 | 2,971,022 |
| Deposits | 2,563,821 | 2,514,226 | 2,556,927 | 2,518,378 | 2,497,439 | 2,545,017 | 2,505,776 |
| Interest-bearing liabilities | 1,895,754 | 1,892,775 | 1,946,210 | 1,867,327 | 1,931,119 | 1,911,395 | 1,980,329 |
| Stockholders' equity | 420,864 | 404,345 | 391,027 | 379,846 | 375,507 | 405,521 | 368,867 |
| **Financial Ratios:** [(1)] | | | | | | | |
| Return on average assets | 1.73% | 2.46% | 1.37 % | 1.44% | 1.45% | 1.85% | 1.36% |
| Return on average common equity | 12.75 | 18.40 | 10.65 | 11.35 | 11.47 | 13.96 | 10.94 |
| Return on average tangible common equity [(2)] | 17.95 | 26.43 | 15.59 | 16.91 | 17.25 | 20.03 | 16.66 |
| Average equity to average assets | 13.60 | 13.38 | 12.83 | 12.68 | 12.64 | 13.27 | 12.42 |
| Stockholders' equity to assets | 13.78 | 13.47 | 13.11 | 12.49 | 12.57 | 13.78 | 12.57 |
| Tangible common equity to tangible assets [(2)] | 10.28 | 9.86 | 9.44 | 8.83 | 8.76 | 10.28 | 8.76 |
| Net interest margin | 4.19 | 4.28 | 4.05 | 3.98 | 4.02 | 4.17 | 3.99 |
| Net loan charge-offs to average loans | 0.06 | 0.02 | (0.00) | 0.01 | 0.04 | 0.03 | 0.06 |
| Nonperforming loans to total loans | 0.41 | 0.35 | 0.40 | 0.25 | 0.48 | 0.41 | 0.48 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Nonperforming assets to total assets | 0.34 | 0.26 | 0.30 | 0.19 | 0.38 | 0.34 | 0.38 |
| Efficiency ratio | 55.19 | 64.01 | 61.91 | 58.03 | 61.08 | 60.27 | 62.58 |
| Effective tax rate | 25.27 | 13.19 | 24.46 | 26.83 | 23.00 | 20.20 | 23.68 |
| **Selected Items:** | | | | | | | |
| Interest income from resolving PCI loans (rounded) | $ 1,800 | $ 1,300 | $ 200 | $ 100 | $ 300 | $ 3,300 | $ 1,900 |
| Tax-equivalent adjustment on net interest income | 251 | 263 | 272 | 278 | 285 | 786 | 872 |
| Tax benefit on stock-based compensation | (128) | (739) | (144) | (23) | — | (1,011) | (159) |

(1) Income statement-related ratios for partial-year periods are annualized.

(2) The ratios of tangible book value per common share, return on average tangible common equity, and tangible common equity to tangible assets exclude goodwill and other intangibles, net. These financial ratios have been included as they are considered to be critical metrics with which to analyze and evaluate financial condition and capital strength.

Net income was $42.3 million for the nine months ended September 30, 2019, an increase of $12.2 million or 40% over $30.2 million for the nine months ended September 30, 2018. Earnings per diluted common share was $4.36 for the first nine months of 2019, 44% higher than $3.02 for the comparable 2018 period.

- During second quarter 2019, net income favorably included $5.4 million (or $0.55 of diluted earnings per common share) related to two actions combined, the sale of 80% of Nicolet's equity investment in UFS, LLC, a data processing and e-banking entity ($7.4 million after-tax gain included in noninterest income under asset gains) and retirement-related compensation declared to benefit all employees after that sale ($2.75 million, or $2.0 million after-tax cost, included in noninterest expense under personnel), impacting the 2019 year-to-date and quarter comparisons.
- Net interest income was $85.6 million for the first nine months of 2019, up $6.0 million or 8% over the first nine months of 2018. Interest income grew $9.2 million (overcoming $1.0 million lower aggregate discount income on purchased loans), aided by a slightly higher mix of average interest-earning assets in loans and the elevated rate environment on new, renewed and variable rate loans. Interest expense increased $3.2 million primarily due to rising rates. Net interest margin was 4.17% for the nine months ended September 30, 2019, compared to 3.99% for the nine months ended September 30, 2018. For additional information regarding net interest income, see “Income Statement Analysis — Net Interest Income.”
- Noninterest income was $40.1 million for the first nine months of 2019, up $10.3 million or 35% over the comparable 2018 period, mostly due to the $7.4 million gain on the equity investment sale noted above. Excluding net asset gains, noninterest income was $32.0 million for the first nine months of 2019, up $3.6 million or 12.8% over 2018, predominantly on stellar net mortgage income. For additional information regarding noninterest income, see “Income Statement Analysis — Noninterest Income.”
- Noninterest expense was $71.4 million, $3.2 million or 5% higher than the first nine months of 2018, mostly due to the retirement-related compensation actions in second quarter 2019 noted above. Personnel costs increased $2.7 million, and non-personnel expenses combined increased $0.6 million or 2% over the comparable 2018 period. For additional information regarding noninterest expense, see “Income Statement Analysis — Noninterest Expense.”
- Asset quality remains exceptional. Nonperforming assets were only $10.6 million, representing 0.34% of total assets at September 30, 2019, compared to 0.19% at December 31, 2018 and 0.38% at September 30, 2018. For additional information regarding nonperforming assets, see “Balance Sheet Analysis – Nonperforming Assets.”
- At September 30, 2019, assets were $3.1 billion, up slightly (less than l%) from December 31, 2018, with cash and cash equivalents funding strong loan growth, debt repayments and seasonably lower deposits. Compared to September 30, 2018, assets increased $105 million or 3%, on solid growth in loans and deposits.
- At September 30, 2019, loans were $2.2 billion, 4% higher than December 31, 2018 and 5% higher than September 30, 2018. On average, loans grew $73 million or 3% over the first nine months of 2018. For additional information regarding loans, see “Balance Sheet Analysis — Loans.”
- Total deposits were $2.6 billion at September 30, 2019, a decrease of 1% from December 31, 2018 and 2% higher than September 30, 2018. Year-to-date average deposits were $39 million or 2% higher than the first nine months of 2018. For additional information regarding deposits, see “Balance Sheet Analysis – Deposits.”

**INCOME STATEMENT ANALYSIS**

**Net Interest Income**

Tax-equivalent net interest income is a non-GAAP measure, but is a preferred industry measurement of net interest income (and its use in calculating a net interest margin) as it enhances the comparability of net interest income arising from taxable and tax-exempt sources. The tax-equivalent adjustments bring tax-exempt interest to a level that would yield the same after-tax income by applying the effective Federal corporate tax rates to the underlying assets. Tables 2 and 3 present information to facilitate the review and discussion of selected average balance sheet items, tax-equivalent net interest income, interest rate spread and net interest margin.

**Table 2: Average Balance Sheet and Net Interest Income Analysis - Tax-Equivalent Basis**

| | For the Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| (in thousands) | Average Balance | Interest | Average Yield/Rate | Average Balance | Interest | Average Yield/Rate |
| **ASSETS** | | | | | | |
| **Interest-earning assets** | | | | | | |
| Loans, including loan fees [(1)(2)] | $ 2,195,742 | $ 92,650 | 5.58% | $ 2,122,280 | $ 84,786 | 5.28% |
| Investment securities: | | | | | | |
| Taxable | 269,663 | 5,578 | 2.76% | 255,763 | 4,503 | 2.35% |
| Tax-exempt [(2)] | 134,166 | 2,221 | 2.21% | 151,643 | 2,467 | 2.17% |
| Other interest-earning assets | 134,299 | 2,733 | 2.69% | 134,395 | 2,326 | 2.29% |
| Total non-loan earning assets | 538,128 | 10,532 | 2.60% | 541,801 | 9,296 | 2.28% |
| Total interest-earning assets | 2,733,870 | $ 103,182 | 4.99% | 2,664,081 | $ 94,082 | 4.67% |
| Other assets, net | 320,970 | | | 306,941 | | |
| Total assets | $ 3,054,840 | | | $ 2,971,022 | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | | |
| **Interest-bearing liabilities** | | | | | | |
| Savings | $ 311,438 | $ 1,136 | 0.49% | $ 282,606 | $ 818 | 0.39% |
| Interest-bearing demand | 490,661 | 3,748 | 1.02% | 545,980 | 3,361 | 0.82% |
| Money market accounts ("MMA") | 569,850 | 2,858 | 0.67% | 650,485 | 2,897 | 0.60% |
| Core time deposits | 397,530 | 6,070 | 2.04% | 323,570 | 3,481 | 1.44% |
| Brokered deposits | 64,588 | 291 | 0.60% | 99,818 | 455 | 0.61% |
| Total interest-bearing deposits | 1,834,067 | 14,103 | 1.03% | 1,902,459 | 11,012 | 0.77% |
| Other interest-bearing liabilities | 77,328 | 2,684 | 4.59% | 77,870 | 2,579 | 4.38% |
| Total interest-bearing liabilities | 1,911,395 | 16,787 | 1.17% | 1,980,329 | 13,591 | 0.92% |
| Noninterest-bearing demand | 710,950 | | | 603,317 | | |
| Other liabilities | 26,974 | | | 18,509 | | |
| Stockholders' equity | 405,521 | | | 368,867 | | |
| Total liabilities and stockholders' equity | $ 3,054,840 | | | $ 2,971,022 | | |
| Net interest income and rate spread | | $ 86,395 | 3.82% | | $ 80,491 | 3.75% |
| Tax-equivalent adjustment | | $ 786 | | | $ 872 | |
| Net interest margin | | | 4.17% | | | 3.99% |

(1)Nonaccrual loans and loans held for sale are included in the daily average loan balances outstanding.

(2)The yield on tax-exempt loans and tax-exempt investment securities is computed on a tax-equivalent basis using a federal tax rate of 21% and adjusted for the disallowance of interest expense.

**Table 2: Average Balance Sheet and Net Interest Income Analysis - Tax-Equivalent Basis (Continued)**

| | For the Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| (in thousands) | Average Balance | Interest | Average Yield/Rate | Average Balance | Interest | Average Yield/Rate |
| **ASSETS** | | | | | | |
| **Interest-earning assets** | | | | | | |
| Loans, including loan fees [(1)(2)] | $ 2,218,307 | $ 31,380 | 5.56% | $ 2,134,448 | $ 29,045 | 5.35% |
| Investment securities: | | | | | | |
| Taxable | 271,632 | 1,904 | 2.80% | 264,733 | 1,564 | 2.36% |
| Tax-exempt [(2)] | 127,458 | 708 | 2.22% | 147,547 | 809 | 2.19% |
| Other interest-earning assets | 146,600 | 926 | 2.49% | 117,588 | 747 | 2.51% |
| Total non-loan earning assets | 545,690 | 3,538 | 2.58% | 529,868 | 3,120 | 2.35% |
| Total interest-earning assets | 2,763,997 | $ 34,918 | 4.97% | 2,664,316 | $ 32,165 | 4.75% |
| Other assets, net | 330,549 | | | 306,931 | | |
| Total assets | $ 3,094,546 | | | $ 2,971,247 | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | | |
| **Interest-bearing liabilities** | | | | | | |
| Savings | $ 323,222 | $ 384 | 0.47% | $ 291,811 | $ 313 | 0.43% |
| Interest-bearing demand | 480,395 | 1,199 | 0.99% | 536,830 | 1,191 | 0.88% |
| MMA | 571,194 | 873 | 0.61% | 594,937 | 979 | 0.65% |
| Core time deposits | 389,033 | 2,010 | 2.05% | 348,899 | 1,472 | 1.67% |
| Brokered deposits | 54,661 | 130 | 0.94% | 81,441 | 100 | 0.49% |
| Total interest-bearing deposits | 1,818,505 | 4,596 | 1.00% | 1,853,918 | 4,055 | 0.87% |
| Other interest-bearing liabilities | 77,249 | 881 | 4.48% | 77,201 | 883 | 4.49% |
| Total interest-bearing liabilities | 1,895,754 | 5,477 | 1.14% | 1,931,119 | 4,938 | 1.01% |
| Noninterest-bearing demand | 745,316 | | | 643,521 | | |
| Other liabilities | 32,612 | | | 21,100 | | |
| Stockholders' equity | 420,864 | | | 375,507 | | |
| Total liabilities and stockholders' equity | $ 3,094,546 | | | $ 2,971,247 | | |
| Net interest income and rate spread | | $ 29,441 | 3.83% | | $ 27,227 | 3.74% |
| Tax-equivalent adjustment | | $ 251 | | | $ 285 | |
| Net interest margin | | | 4.19% | | | 4.02% |

(1) Nonaccrual loans and loans held for sale are included in the daily average loan balances outstanding.

(2) The yield on tax-exempt loans and tax-exempt investment securities is computed on a tax-equivalent basis using a federal tax rate of 21% and adjusted for the disallowance of interest expense.

**Table 3: Volume/Rate Variance - Tax-Equivalent Basis**

| | For the Three Months Ended September 30, 2019 Compared to September 30, 2018: | | | For the Nine Months Ended September 30, 2019 Compared to September 30, 2018: | | |
|---|---|---|---|---|---|---|
| | Increase (Decrease) Due to Changes in | | | Increase (Decrease) Due to Changes in | | |
| **(in thousands)** | **Volume** | **Rate** | **Net [1]** | **Volume** | **Rate** | **Net [1]** |
| **Interest-earning assets** | | | | | | |
| Loans [2] | $ 1,214 | $ 1,121 | $ 2,335 | $ 3,179 | $ 4,685 | $ 7,864 |
| Investment securities: | | | | | | |
| Taxable | 91 | 249 | 340 | 568 | 507 | 1,075 |
| Tax-exempt [2] | (111) | 10 | (101) | (288) | 42 | (246) |
| Other interest-earning assets | 172 | 7 | 179 | 24 | 383 | 407 |
| Total non-loan earning assets | 152 | 266 | 418 | 304 | 932 | 1,236 |
| **Total interest-earning assets** | $ 1,366 | $ 1,387 | $ 2,753 | $ 3,483 | $ 5,617 | $ 9,100 |
| | | | | | | |
| **Interest-bearing liabilities** | | | | | | |
| Savings | $ 36 | $ 35 | $ 71 | $ 89 | $ 229 | $ 318 |
| Interest-bearing demand | (132) | 140 | 8 | (365) | 752 | 387 |
| MMA | (38) | (68) | (106) | (382) | 343 | (39) |
| Core time deposits | 182 | 356 | 538 | 913 | 1,676 | 2,589 |
| Brokered deposits | (41) | 71 | 30 | (158) | (6) | (164) |
| Total interest-bearing deposits | 7 | 534 | 541 | 97 | 2,994 | 3,091 |
| Other interest-bearing liabilities | 7 | (9) | (2) | 7 | 98 | 105 |
| **Total interest-bearing liabilities** | 14 | 525 | 539 | 104 | 3,092 | 3,196 |
| **Net interest income** | $ 1,352 | $ 862 | $ 2,214 | $ 3,379 | $ 2,525 | $ 5,904 |

(1)The change in interest due to both rate and volume has been allocated in proportion to the relationship of dollar amounts of change in each.
(2)The yield on tax-exempt loans and tax-exempt investment securities is computed on a tax-equivalent basis using a federal tax rate of 21% and adjusted for the disallowance of interest expense.

The Federal Reserve raised short-term interest rates by 25 bps in eight moves from fourth quarter 2016 through fourth quarter 2018 (up 200 bps total) to 2.50% at December 31, 2018, then reduced rates by 50 bps total in two moves during third quarter 2019 to 2.00% at September 30, 2019. These changes impacted the rate earned on short-term assets and pressured the cost of shorter-term borrowings, but have not proportionally influenced the rates further out on the yield curve. Hence, 2018 was characterized by rising short-term interest rates and a flattening yield curve, while the first nine months of 2019 had periods of an inverted yield curve and unchanging short-term rates until third quarter.

Tax-equivalent net interest income was $86.4 million for the first nine months of 2019, comprised of net interest income of $85.6 million ($5.9 million or 7% higher than the first nine months of 2018, overcoming $1.0 million lower aggregate discount accretion on purchased loans), and a $0.8 million tax-equivalent adjustment (relatively unchanged between the periods). The $5.9 million increase in tax-equivalent net interest income was due to favorable volumes (which added $3.4 million, with $3.2 million from higher loan volumes) and net favorable rates (which added $2.5 million). The net $2.5 million increase from rates was from interest-earning asset rate changes in the higher interest rate environment (improving net interest income by $5.6 million, of which $4.7 million was from loans, inclusive of the lower aggregate discount accretion), exceeding the rising cost of funds (which cost $3.1 million more, led by interest-bearing deposits and most notably time deposits).

Between the comparable nine-month periods, the interest rate spread increased 7 bps due to an increase in the interest-earning asset yield (up 32 bps to 4.99%, both mostly rate related, as the mix of interest-earning assets and liabilities were similar between the periods), exceeding a rise in the cost of funds (up 25 bps to 1.17%). The contribution from net free funds increased 11 bps, due mostly to the increase in average noninterest-bearing demand deposits (up 18%) and their increased value in the higher rate environment. As a result, the tax-equivalent net interest margin was 4.17% for the first nine months of 2019, up 18 bps compared to 3.99% for the comparable 2018 period.

Average interest-earning assets increased $70 million or 3% to $2.7 billion for the first nine months of 2019, primarily due to strong loan growth. Between the nine-month periods, average loans increased $73 million or 3%, while all other interest-earning assets declined $3.7 million (mainly in lower municipal securities). The mix of average interest-earning assets was relatively unchanged at 80% loans, 15% investments, and 5% other interest-earning assets (mostly cash) for both nine-month periods.

Tax-equivalent interest income was $103.2 million for the first nine months of 2019, up $9.1 million or 10% over the first nine months of 2018, while the related interest-earning asset yield was 4.99%, up 32 bps over comparable period in 2018. Interest income on loans increased $7.9 million or 9% over the first nine months of 2018, despite $1.0 million lower aggregate discount accretion income between the periods (predominantly attributable to aging discounts on purchased loans, offset partly by higher recovered discount income on resolved purchased credit impaired loans). The 2019 loan yield was 5.58%, up 30 bps over the first nine months of 2018 (which, if excluding the aggregate discount accretion income from both nine-month periods, would have increased 37 bps), as improved yields on new, renewed and variable rate loans in the higher rate environment more than offset the lower aggregate discount income. Between the comparable nine-month periods, interest income on non-loan earning assets combined increased $1.2 million or 13%, while the related yield increased 32 bps to 2.60%, due mostly to the higher rate on cash levels, as well as higher yields on new investments added in the higher rate environment.

Average interest-bearing liabilities were $1.9 billion, a decrease of $69 million or 3% compared to the first nine months of 2018, primarily due to a $68 million or 4% decrease in interest-bearing deposits (roughly half the decline coming from brokered deposits and the remainder from seasonality in the deposit base). With core deposit growth (especially in noninterest-bearing demand deposits and in core time deposits, responding to more favorable rate offerings between the years), brokered deposits have continued to decline. The mix of average interest-bearing liabilities was 93% core deposits, 3% brokered deposits and 4% other funding, compared to 91%, 5% and 4%, respectively, for the first nine months of 2018.

Interest expense was $16.8 million for the first nine months of 2019, up $3.2 million over the first nine months of 2018, and the related cost of funds increased 25 bps to 1.17%, driven predominantly by the cost, mix and volume of deposits. Interest expense on deposits increased $3.1 million from the first nine months of 2018 and the average cost of interest-bearing deposits increased 26 bps to 1.03%, influenced by increases in select deposit rates from general rate pressures of the higher rate environment and the larger proportion of core time deposits. The 2019 cost of savings, interest-bearing demand and money market accounts increased over the first nine months of 2018 by 10 bps, 20 bps and 7 bps, respectively, as product rate changes lagged the incremental rise in the rate environment, and time deposits cost 60 bps more between the nine-month periods commensurate with paying more for a customer's commitment of term in the higher rate environment.

**Provision for Loan Losses**

Asset quality trends remained strong. The provision for loan losses was $0.9 million for the nine months ended September 30, 2019, compared to $1.4 million for the nine months ended September 30, 2018. The ALLL was $13.6 million (0.61% of loans) at September 30, 2019, compared to $13.2 million (0.61% of loans) at December 31, 2018 and $13.0 million (0.61% of loans) at September 30, 2018.

The provision for loan losses is predominantly a function of Nicolet’s methodology and judgment as to qualitative and quantitative factors used to determine the appropriateness of the ALLL. The appropriateness of the ALLL is affected by changes in the size and character of the loan portfolio, changes in levels of impaired and other nonperforming loans, historical losses and delinquencies in each portfolio segment, the risk inherent in specific loans, concentrations of loans to specific borrowers or industries, existing and future economic conditions, the fair value of underlying collateral, and other factors which could affect potential credit losses. For additional information regarding asset quality and the ALLL, see “BALANCE SHEET ANALYSIS — Loans,” “— Allowance for Loan Losses,” and “— Nonperforming Assets.”

**Noninterest Income**

**Table 4: Noninterest Income**

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| **(in thousands)** | **2019** | **2018** | **$ Change** | **% Change** | **2019** | **2018** | **$ Change** | **% Change** |
| Trust services fee income | $ 1,594 | $ 1,638 | $ (44) | (3)% | $ 4,631 | $ 4,915 | $ (284) | (6)% |
| Brokerage fee income | 2,113 | 1,732 | 381 | 22 | 5,925 | 5,074 | 851 | 17 |
| Mortgage income, net | 3,700 | 1,902 | 1,798 | 95 | 6,962 | 4,510 | 2,452 | 54 |
| Service charges on deposit accounts | 1,223 | 1,247 | (24) | (2) | 3,587 | 3,637 | (50) | (1) |
| Card interchange income | 1,735 | 1,481 | 254 | 17 | 4,815 | 4,082 | 733 | 18 |
| BOLI income | 495 | 1,019 | (524) | (51) | 1,834 | 1,929 | (95) | (5) |
| Other income | 1,166 | 1,484 | (318) | (21) | 4,274 | 4,243 | 31 | 1 |
| Noninterest income without net gains | 12,026 | 10,503 | 1,523 | 15 | 32,028 | 28,390 | 3,638 | 13 |
| Asset gains (losses), net | 286 | 146 | 140 | N/M | 8,030 | 1,322 | 6,708 | N/M |
| Total noninterest income | $ 12,312 | $ 10,649 | $ 1,663 | 16 % | $ 40,058 | $ 29,712 | $ 10,346 | 35 % |
| Trust services fee income & Brokerage fee income combined | $ 3,707 | $ 3,370 | $ 337 | 10 % | $ 10,556 | $ 9,989 | $ 567 | 6 % |

N/M means not meaningful.

Noninterest income was $40.1 million for the first nine months of 2019, compared to $29.7 million for the comparable period of 2018, an increase of $10.3 million or 35%, mostly due to the $7.4 million gain on the equity investment sale in second quarter 2019 previously noted in the "Overview" section. Noninterest income excluding net asset gains grew $3.6 million or 13% between the comparable nine-month periods, predominantly on stellar net mortgage income.

Trust services fee income and brokerage fee income combined were up $0.6 million or 6%, consistent with the growth in assets under management and including the transfer of some trust accounts into brokerage accounts.

Mortgage income represents net gains received from the sale of residential real estate loans into the secondary market, capitalized mortgage servicing rights (“MSRs”), servicing fees, fair value marks on the mortgage interest rate lock commitments and forward commitments, offsetting MSR amortization, MSR valuation changes, if any, and to a smaller degree some related income. Net mortgage income increased $2.5 million or 54% between the comparable nine-month periods, predominantly from higher gains on sale (including 38% more volume sold into the secondary market aided by the current refinance boom and better pricing), higher MSR gains (reflective of greater volume and changes in MSR capitalization assumptions in mid-2018), and increased net servicing fees on the growing portfolio of mortgage loans serviced for others, partially offset by unfavorable changes in the fair value of the mortgage-related derivatives. See also "Lending-Related Commitments."

Service charges on deposits accounts were minimally changed at $3.6 million for both nine-month periods. The change in the 2019 deposit base had minimal impact on service charges since most of the deposit growth in 2019 occurred in time deposits and the increase to the earnings credit rate in mid-2018 mostly offset the growth in transaction deposits.

Card interchange income grew $0.7 million or 18% due to higher volume and activity.

BOLI income was down $0.1 million between the comparable nine-month periods, attributable to the difference in BOLI death benefits received in each period (down $0.2 million), partly offset by income on the higher average balances largely from $5 million additional BOLI purchased in 2019.

Other income of $4.3 million for the nine months ended September 30, 2019 was minimally changed (up less than 1%) from the comparable 2018 period as the fee earned on a customer loan interest rate swap in 2019 was substantially offset by lower income from the smaller equity interest in UFS, LLC given the previously noted sale.

The $8.0 million net asset gains in the first nine months of 2019 were comprised primarily of the $7.4 million gain on the equity investment sale in second quarter 2019 and $0.9 million of favorable fair value marks on equity securities, partially offset by losses of $0.3 million on the disposal and write-down of fixed assets, an OREO property, and an other investment. The $1.3 million net asset gains in the first nine months of 2018 were primarily attributable to $0.6 million of net gains on the sale of fixed assets and OREO, and a $0.7 million fair value mark on equity securities.

**Noninterest Expense**

**Table 5: Noninterest Expense**

| ($ in thousands) | Three Months Ended September 30, 2019 | 2018 | Change | % Change | Nine Months Ended September 30, 2019 | 2018 | Change | % Change |
|---|---|---|---|---|---|---|---|---|
| Personnel | $ 12,914 | $ 12,983 | $ (69) | (1)% | $ 40,809 | $ 38,149 | $ 2,660 | 7 % |
| Occupancy, equipment and office | 3,454 | 3,660 | (206) | (6) | 10,961 | 10,901 | 60 | 1 |
| Business development and marketing | 1,428 | 1,334 | 94 | 7 | 4,288 | 4,139 | 149 | 4 |
| Data processing | 2,515 | 2,375 | 140 | 6 | 7,220 | 7,094 | 126 | 2 |
| Intangibles amortization | 914 | 1,054 | (140) | (13) | 2,936 | 3,336 | (400) | (12) |
| Other expense | 1,662 | 1,638 | 24 | 1 | 5,159 | 4,518 | 641 | 14 |
| Total noninterest expense | $ 22,887 | $ 23,044 | $ (157) | (1)% | $ 71,373 | $ 68,137 | $ 3,236 | 5 % |
| Non-personnel expenses | $ 9,973 | $ 10,061 | $ (88) | (1)% | $ 30,564 | $ 29,988 | $ 576 | 2 % |
| Average full-time equivalent employees | 568 | 567 | 1 | — % | 557 | 554 | 3 | 1 % |

Noninterest expense was $71.4 million, an increase of $3.2 million or 5% over the first nine months of 2018. Personnel costs increased $2.7 million, and non-personnel expenses combined increased $0.6 million or 2% over the first nine months of 2018.

Personnel expense was $40.8 million for the first nine months of 2019, an increase of $2.7 million or 7% over the comparable period in 2018. As previously noted in the "Overview" section, $2.75 million of the increase in personnel expense was attributable to retirement-related compensation actions in second quarter 2019, including a discretionary profit sharing contribution of $1.05 million to the 401k plan and a $1.7 million contribution to the nonqualified deferred compensation plan. Consistent with our philosophy of aligning outcomes to customers, shareholders, and employees, the board approved these retirement-related compensation actions to benefit all employees following the recognition of the gain on the equity investment sale as previously noted. Personnel expense was also impacted by merit increases between the periods (though on a minimally changed workforce, with average full-time equivalents up less than 1%), lower equity and cash incentives (mostly timing in nature), and lower health and other benefit costs.

Occupancy, equipment and office expense was $11.0 million for the first nine months of 2019, up $0.1 million or 1% compared to the first nine months of 2018, with 2019 including higher expense for software and technology solutions to drive operational efficiency and product or service enhancements. Both periods also included accelerated depreciation or impairment charges given new branches or branch facility upgrades totaling $0.3 million in 2019 and $0.4 million in 2018.

Business development and marketing expense was $4.3 million, up $0.1 million or 4%, between the comparable nine-month periods, largely due to the timing and extent of donations, marketing campaigns, promotions, and media.

Data processing expense was $7.2 million, up $0.1 million or 2% between the comparable nine-month periods, with volume-based increases in core processing charges partially offset by savings in data communication and ancillary processing charges.

Intangibles amortization decreased $0.4 million between the comparable nine-month periods from declining amortization on the aging intangibles of previous acquisitions. Other expense was $5.2 million, up $0.6 million or 14% between the comparable nine-month periods, due primarily to a fraud loss contingency matter (with $0.5 million recognized in fourth quarter 2018 and $0.6 million recognized in the year-to-date 2019 period).

**Income Taxes**

Income tax expense was $10.8 million (effective tax rate of 20.2%) for the first nine months of 2019, compared to $9.4 million (effective tax rate of 23.7%) for the comparable period of 2018. The lower effective tax rate was due to the favorable tax treatment of the equity investment sale and the tax benefit on stock-based compensation.

**Income Statement Analysis – Three Months Ended September 30, 2019 versus Three Months Ended September 30, 2018**

Net income was $13.5 million for the three months ended September 30, 2019, an increase of $2.7 million or 25% over $10.9 million for the three months ended September 30, 2018. Earnings per diluted common share was $1.40 for third quarter 2019, 28% higher than $1.09 for third quarter 2018. The increase in net income was principally due to $2.2 million higher net interest income, $1.7 million higher noninterest income (led by net mortgage income), and controlled expenses.

Tax-equivalent net interest income was $29.4 million for third quarter 2019, comprised of net interest income of $29.2 million ($2.2 million or 8% over third quarter 2018, driven mostly by positive volume and rate variances), and a tax-equivalent adjustment of $0.3 million (relatively unchanged from third quarter 2018). Tax-equivalent interest income increased $2.8 million between the third quarter periods, with $1.4 million from improved yields across most interest-earning assets though led by loans (with a 22 bps increase in the interest-earning asset yield) and $1.4 million from stronger volumes (led by average loans which grew $84 million or 4% over third quarter 2018). Interest expense increased $0.5 million over third quarter 2018, all due to rising rates (the cost of funds increased 13 bps between the comparable third quarter periods). For additional information regarding average balances and net interest income, see "Income Statement Analysis — Net Interest Income."

Asset quality remained exceptional. For third quarter 2019, provision for loan losses was $0.4 million (covering $0.4 million of net charge-offs), compared to provision for loan losses of $0.3 million (covering $0.2 million of net charge-offs) for third quarter 2018.

Noninterest income was $12.3 million for third quarter 2019, an increase of $1.7 million or 16% over third quarter 2018, largely due to stellar net mortgage income. Net mortgage income of $3.7 million for third quarter 2019 was up $1.8 million or 95% over third quarter 2018 on higher sales volume (mostly due to the current refinance boom), higher MSR gains and a larger servicing portfolio, partially offset by unfavorable changes in the fair value of the mortgage-related derivatives. Trust services fee income and brokerage fee income combined was up $0.3 million or 10%, consistent with the growth in assets under management and including the transfer of some trust accounts into brokerage accounts. Card interchange income grew $0.3 million or 17% on higher volume and activity, while BOLI income was down $0.5 million due to a death benefit in third quarter 2018. Other income decreased $0.3 million given the smaller equity interest in UFS, LLC in 2019. Net asset gains of $0.3 million for third quarter 2019 and $0.1 million for third quarter 2018 were both attributable to fair value marks on equity securities. For additional information regarding noninterest income, see "Income Statement Analysis — Noninterest Income."

Noninterest expense was $22.9 million for third quarter 2019, a decrease of $0.2 million or 1% from third quarter 2018, including a $0.1 million decrease in personnel expense and a $0.1 million decrease in non-personnel expenses. Personnel expense declined due to lower overall benefit costs, partially offset by high salary expense from merit increases between the periods. Non-personnel expenses combined decreased $0.1 million largely due to occupancy, equipment, and office (down $0.2 million or 6%, attributable to accelerated depreciation for branch facility upgrades in third quarter 2018) and intangibles amortization (down $0.1 million from declining amortization on the aging intangibles of previous acquisitions), partially offset by higher data processing (up $0.1 million or 6% on the higher volume of accounts and activity). For additional information regarding noninterest expense, see "Income Statement Analysis — Noninterest Expense."

Income tax expense for third quarter 2019 was $4.6 million, with an effective tax rate of 25.3%, compared to income tax expense of $3.3 million and an effective tax rate of 23.0% for third quarter 2018. The higher income tax expense and effective tax rate for 2019 was due to higher income before taxes, while third quarter 2018 benefited from a BOLI death benefit.

**BALANCE SHEET ANALYSIS**

At September 30, 2019, assets were $3.1 billion, minimally changed (up 0.3%) from December 31, 2018, including a $77 million (4%) increase in loans (fully attributable to commercial loans), and a $19 million increase in securities AFS (mostly due to fair value changes from an unrealized loss of $8 million at December 31, 2018 to an unrealized gain of $6 million at September 30, 2019, as well as 2019 purchases), substantially offset by a decrease in cash and cash equivalents. Deposits of $2.6 billion and borrowings of $57 million at September 30, 2019, decreased $30 million and $20 million, respectively, from year-end 2018, contributing to the decrease in cash and cash equivalents. Total stockholders' equity was $428 million, an increase of $41 million from December 31, 2018, with earnings and net fair value investment changes partially offset by stock repurchases.

Compared to September 30, 2018, assets were $3.1 billion, up $105 million or 3%, including a $99 million or 5% increase in loans (fully attributable to strong commercial loan growth). Deposits were $2.6 billion, an increase of $62 million or 2%, largely due to growth in noninterest-bearing demand deposits. Compared to September 30, 2018, stockholders' equity increased $51 million, primarily due to net income, stock issuances, and net fair value investment changes partially offset by stock repurchases over the year.

**Loans**

Nicolet services a diverse customer base throughout northeastern and central Wisconsin and in Menominee, Michigan. The Company concentrates on originating loans in its local markets and assisting its current loan customers. The loan portfolio is widely diversified by types of borrowers, industry groups, and market areas. Significant loan concentrations are considered to exist for a financial institution when there are amounts loaned to multiple numbers of borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. At September 30, 2019, no significant industry concentrations existed in Nicolet's portfolio in excess of 10% of total loans. Nicolet has also developed guidelines to manage its exposure to various types of concentration risks. See also Note 6, "Loans, Allowance for Loan Losses, and Credit Quality" of the Notes to Unaudited Consolidated Financial Statements under Part I, Item 1, for additional disclosures on loans.

An active credit risk management process is used to ensure that sound and consistent credit decisions are made. The credit management process is regularly reviewed and the process has been modified over the past several years to further strengthen the controls. Factors that are important to managing overall credit quality are sound loan underwriting and administration, systematic monitoring of existing loans and commitments, effective loan review on an ongoing basis, early problem loan identification and remedial action to minimize losses, an appropriate ALLL, and sound nonaccrual and charge-off policies.

**Table 6: Period End Loan Composition**

| | September 30, 2019 | | December 31, 2018 | | September 30, 2018 | |
|---|---|---|---|---|---|---|
| **(in thousands)** | **Amount** | **% of Total** | **Amount** | **% of Total** | **Amount** | **% of Total** |
| Commercial & industrial | $ 763,742 | 34% | $ 684,920 | 32% | $ 665,754 | 31% |
| Owner-occupied CRE | 456,508 | 20 | 441,353 | 20 | 449,151 | 21 |
| AG production | 36,050 | 2 | 35,625 | 2 | 35,727 | 2 |
| Commercial | 1,256,300 | 56 | 1,161,898 | 54 | 1,150,632 | 54 |
| AG real estate | 58,591 | 3 | 53,444 | 2 | 52,378 | 2 |
| CRE investment | 336,442 | 15 | 343,652 | 16 | 331,312 | 16 |
| Construction & land development | 61,810 | 3 | 80,599 | 4 | 86,533 | 4 |
| Commercial real estate | 456,843 | 21 | 477,695 | 22 | 470,223 | 22 |
| Commercial-based loans | 1,713,143 | 77 | 1,639,593 | 76 | 1,620,855 | 76 |
| Residential construction | 41,496 | 2 | 30,926 | 1 | 30,295 | 1 |
| Residential first mortgage | 343,400 | 15 | 357,841 | 17 | 357,163 | 17 |
| Residential junior mortgage | 116,179 | 5 | 111,328 | 5 | 109,692 | 5 |
| Residential real estate | 501,075 | 22 | 500,095 | 23 | 497,150 | 23 |
| Retail & other | 28,713 | 1 | 26,493 | 1 | 25,452 | 1 |
| Retail-based loans | 529,788 | 23 | 526,588 | 24 | 522,602 | 24 |
| Total loans | $ 2,242,931 | 100% | $ 2,166,181 | 100% | $ 2,143,457 | 100% |

Broadly, the loan portfolio at September 30, 2019, was 77% commercial-based and 23% retail-based. Commercial-based loans are considered to have more inherent risk of default than retail-based loans, in part because of the broader list of factors that could impact a commercial borrower negatively. In addition, the commercial balance per borrower is typically larger than that for retail-based loans, implying higher potential losses on an individual customer basis. Credit risk on commercial-based loans is largely influenced by general economic conditions and the resulting impact on a borrower's operations or on the value of underlying collateral, if any.

Commercial-based loans of $1.7 billion increased $74 million or 4% since December 31, 2018, primarily due to growth in commercial and industrial loans. Commercial and industrial loans continue to be the largest segment of Nicolet's portfolio and represented 34% of the total portfolio at September 30, 2019.

Residential real estate loans were relatively unchanged from year-end 2018, and represented 22% of total loans at September 30, 2019. Residential first mortgage loans include conventional first-lien home mortgages, while residential junior mortgage real estate loans consist mainly of home equity lines and term loans secured by junior mortgage liens. As part of its management of originating residential mortgage loans, the vast majority of Nicolet's long-term, fixed-rate residential real estate mortgage loans are sold in the secondary market with servicing rights retained. Nicolet's mortgage loans are typically of high quality and have historically had low net charge-off rates.

Retail and other loans (up $2 million from year-end 2018) represented approximately 1% of the total loan portfolio, and include predominantly short-term and other personal installment loans not secured by real estate.

**Allowance for Loan Losses**

In addition to the discussion that follows, see also Note 6, "Loans, Allowance for Loan Losses, and Credit Quality," in the Notes to Unaudited Consolidated Financial Statements under Part I, Item 1, for additional disclosures on the allowance for loan losses.

Credit risks within the loan portfolio are inherently different for each loan type as summarized under "BALANCE SHEET ANALYSIS — Loans." A detailed discussion of the loan portfolio credit risk can be found in the "Loans" section in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's 2018 Annual Report on Form 10-K. There have been no material changes in the credit risk of the Company's loan portfolio since December 31, 2018. Credit risk is controlled and monitored through the use of lending standards, a thorough review of potential borrowers, and ongoing review of loan payment performance. Active asset quality administration, including early problem loan identification and timely resolution of problems, aids in the management of credit risk and minimization of loan losses.

The level of the ALLL represents management's estimate of an amount of reserves that provides for estimated probable credit losses in the loan portfolio at the balance sheet date. To assess the appropriateness of the ALLL, an allocation methodology is applied by Nicolet which focuses on evaluation of qualitative and environmental factors, including but not limited to: (i) evaluation of facts and issues related to specific loans; (ii) management's ongoing review and grading of the loan portfolio; (iii) consideration of historical loan loss and delinquency experience on each portfolio segment; (iv) trends in past due and nonperforming loans; (v) the risk characteristics of the various loan segments; (vi) changes in the size and character of the loan portfolio; (vii) concentrations of loans to specific borrowers or industries; (viii) existing economic conditions; (ix) the fair value of underlying collateral; and (x) other qualitative and quantitative factors which could affect potential credit losses. Assessing these numerous factors involves significant judgment; therefore, management considers the ALLL a critical accounting policy.

Management allocates the ALLL by pools of risk within each loan portfolio segment. The allocation methodology consists of the following components. First, a specific reserve for the estimated shortfall is established for all loans determined to be impaired. The specific reserve in the ALLL is equal to the aggregate collateral or discounted cash flow shortfall calculated from the impairment analysis. For determining the appropriateness of the ALLL, management defines impaired loans as nonaccrual credit relationships over $250,000, all loans determined to be troubled debt restructurings ("restructured loans"), plus additional loans with impairment risk characteristics. Second, management allocates the ALLL with historical loss rates by loan segment. The loss factors applied are periodically re-evaluated and adjusted to reflect changes in historical loss levels on an annual basis. The look-back period on which the average historical loss rates are determined is a rolling 20-quarter (5 year) average. Lastly, management allocates ALLL to the remaining loan portfolio using the qualitative factors mentioned above. Consideration is given to those current qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the historical loss experience of each loan segment. Management conducts its allocation methodology on both the originated loans and on the acquired loans separately to account for differences, such as different loss histories and qualitative factors, between the two loan portfolios.

At September 30, 2019, the ALLL was $13.6 million compared to $13.2 million at December 31, 2018 and $13.0 million at September 30, 2018. The components of the ALLL are detailed further in Table 7 below. Annualized net charge-offs as a percent of average loans were 0.03% for the first nine months of 2019, compared to 0.06% for the first nine months of 2018 and 0.05% for the entire 2018 year.

The ratio of the ALLL as a percentage of period-end loans was 0.61% at September 30, 2019, unchanged from 0.61% at both December 31, 2018 and September 30, 2018, respectively. The ALLL to loans ratio is impacted by the accounting treatment of Nicolet's bank acquisitions, which combined at their acquisition dates (from 2013 to 2017) added no ALLL to the numerator and $1.3 billion of loans into the denominator. Remaining outstanding acquired loans were $592 million (26% of total loans) and $681 million (31% of total loans) at September 30, 2019 and December 31, 2018, respectively. At September 30, 2019, the $13.6 million ALLL was comprised of $1.6 million for acquired loans (0.26% of acquired loans) and $12.1 million for originated loans (0.73% of originated loans). In comparison, at December 31, 2018, the $13.2 million ALLL was comprised of $1.7 million for acquired loans (0.25% of acquired loans) and $11.4 million for originated loans (0.77% of originated loans).

**Table 7: Allowance for Loan Losses**

| (in thousands) | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 | Year Ended December 31, 2018 |
|---|---|---|---|
| **Allowance for loan losses:** | | | |
| **Balance at beginning of period** | $ 13,153 | $ 12,653 | $ 12,653 |
| Provision for loan losses | 900 | 1,360 | 1,600 |
| Charge-offs | (629) | (1,110) | (1,213) |
| Recoveries | 196 | 89 | 113 |
| Net (charge-offs) recoveries | (433) | (1,021) | (1,100) |
| **Balance at end of period** | $ 13,620 | $ 12,992 | $ 13,153 |
| **Net loan (charge-offs) recoveries:** | | | |
| Commercial & industrial | $ 31 | $ (713) | $ (770) |
| Owner-occupied CRE | (11) | (52) | (60) |
| AG production | — | — | — |
| AG real estate | — | — | — |
| CRE investment | — | (37) | (37) |
| Construction & land development | — | — | — |
| Residential construction | (226) | — | — |
| Residential first mortgage | 36 | (82) | (80) |
| Residential junior mortgage | (48) | 31 | 35 |
| Retail & other | (215) | (168) | (188) |
| Total net (charge-offs) recoveries | $ (433) | $ (1,021) | $ (1,100) |
| **Ratios:** | | | |
| ALLL to total loans | 0.61% | 0.61% | 0.61% |
| Net charge-offs to average loans, annualized | 0.03% | 0.06% | 0.05% |

**Nonperforming Assets**

As part of its overall credit risk management process, management is committed to an aggressive problem loan identification philosophy. This philosophy has been implemented through the ongoing monitoring and review of all pools of risk in the loan portfolio to ensure that problem loans are identified early and the risk of loss is minimized. See also Note 6, “Loans, Allowance for Loan Losses, and Credit Quality” of the Notes to Unaudited Consolidated Financial Statements under Part I, Item 1, for additional disclosures on credit quality.

Nonperforming loans are considered one indicator of potential future loan losses. Nonperforming loans are defined as nonaccrual loans, including those defined as impaired under current accounting standards, and loans 90 days or more past due but still accruing interest. Loans are generally placed on nonaccrual status when contractually past due 90 days or more as to interest or principal payments. Additionally, whenever management becomes aware of facts or circumstances that may adversely impact the collectability of principal or interest on loans, it is management’s practice to place such loans on nonaccrual status immediately. Nonaccrual loans were $9.2 million (consisting of $5.1 million originated loans and $4.2 million acquired loans) at September 30, 2019 compared to $5.5 million at December 31, 2018 (consisting of $1.4 million originated loans and $4.1 million acquired loans). Nonperforming assets (which include nonperforming loans and other real estate owned “OREO”) were $10.6 million at September 30, 2019 compared to $5.9 million at December 31, 2018. OREO was $1.3 million at September 30, 2019 and $0.4 million at December 31, 2018. Nonperforming assets as a percent of total assets were 0.34% at September 30, 2019 compared to 0.19% at December 31, 2018.

The level of potential problem loans is another predominant factor in determining the relative level of risk in the loan portfolio and in determining the appropriate level of the ALLL. Potential problem loans are generally defined by management to include loans rated as Substandard by management but that are in performing status; however, there are circumstances present which might adversely affect the ability of the borrower to comply with present repayment terms. The decision of management to include performing loans in potential problem loans does not necessarily mean that Nicolet expects losses to occur, but that management recognizes a higher degree of risk associated with these loans. The loans that have been reported as potential problem loans are predominantly commercial-based loans covering a diverse range of businesses and real estate property types. Potential problem loans were $26.8 million (1.2% of loans) and $21.9 million (1.0% of loans) at September 30, 2019 and December 31, 2018, respectively. Potential problem loans require a heightened management review of the pace at which a credit may deteriorate, the

duration of asset quality stress, and uncertainty around the magnitude and scope of economic stress that may be felt by Nicolet's customers and on underlying real estate values.

**Table 8: Nonperforming Assets**

| (in thousands) | September 30, 2019 | December 31, 2018 | September 30, 2018 |
| --- | --- | --- | --- |
| **Nonperforming loans:** | | | |
| Commercial & industrial | $ 2,279 | $ 2,816 | $ 5,803 |
| Owner-occupied CRE | 2,302 | 673 | 474 |
| AG production | 1,251 | — | — |
| AG real estate | 846 | 164 | 175 |
| CRE investment | 1,111 | 210 | 1,381 |
| Construction & land development | — | 80 | 80 |
| Residential construction | — | 1 | 28 |
| Residential first mortgage | 865 | 1,265 | 1,973 |
| Residential junior mortgage | 576 | 262 | 268 |
| Retail & other | 8 | — | — |
| Total nonaccrual loans | 9,238 | 5,471 | 10,182 |
| Accruing loans past due 90 days or more | — | — | — |
| Total nonperforming loans | $ 9,238 | $ 5,471 | $ 10,182 |
| **OREO:** | | | |
| Commercial real estate owned | $ 525 | $ 420 | $ 505 |
| Residential real estate owned | — | — | 51 |
| Bank property real estate owned | 800 | — | 725 |
| Total OREO | 1,325 | 420 | 1,281 |
| Total nonperforming assets | $ 10,563 | $ 5,891 | $ 11,463 |
| Performing troubled debt restructurings | $ 459 | $ — | $ — |
| **Ratios:** | | | |
| Nonperforming loans to total loans | 0.41% | 0.25% | 0.48% |
| Nonperforming assets to total loans plus OREO | 0.47% | 0.27% | 0.53% |
| Nonperforming assets to total assets | 0.34% | 0.19% | 0.38% |
| ALLL to nonperforming loans | 147.4% | 240.4% | 127.6% |

**Deposits**

Deposits represent Nicolet's largest source of funds. The deposit composition is presented in Table 9 below.

Total deposits were $2.6 billion at September 30, 2019, $30 million or 1% lower than December 31, 2018, reflecting the usual cyclical decline. Notably, the decrease in total deposits since year-end 2018 was largely due to money market and interest-bearing demand combined (down $84 million or 7%), partially offset by growth in savings and noninterest-bearing demand accounts.

Compared to September 30, 2018, total deposits were up $62 million or 2%. Notably, the increase in total deposits since September 30, 2018 was largely due to noninterest-bearing demand accounts (up $118 million or 18%) and growth in savings accounts, partially offset by reductions in money market and interest-bearing demand (down $96 million or 8%).

**Table 9: Period End Deposit Composition**

| (in thousands) | September 30, 2019 Amount | September 30, 2019 % of Total | December 31, 2018 Amount | December 31, 2018 % of Total | September 30, 2018 Amount | September 30, 2018 % of Total |
|---|---|---|---|---|---|---|
| Noninterest-bearing demand | $ 782,968 | 30% | $ 753,065 | 29% | $ 664,788 | 26% |
| Money market and interest-bearing demand | 1,079,233 | 42% | 1,163,369 | 45% | 1,174,912 | 47% |
| Savings | 329,122 | 13% | 294,068 | 11% | 291,058 | 12% |
| Time | 393,124 | 15% | 403,636 | 15% | 391,398 | 15% |
| Total deposits | $ 2,584,447 | 100% | $ 2,614,138 | 100% | $ 2,522,156 | 100% |
| Brokered transaction accounts | $ 38,078 | 1% | $ 62,021 | 2% | $ 45,894 | 2% |
| Brokered time deposits | 15,450 | 1% | 19,130 | 1% | 31,056 | 1% |
| Total brokered deposits | $ 53,528 | 2% | $ 81,151 | 3% | $ 76,950 | 3% |
| Customer transaction accounts | $ 2,153,245 | 83% | $ 2,148,481 | 82% | $ 2,084,864 | 83% |
| Customer time deposits | 377,674 | 15% | 384,506 | 15% | 360,342 | 14% |
| Total customer deposits (core) | $ 2,530,919 | 98% | $ 2,532,987 | 97% | $ 2,445,206 | 97% |

**Lending-Related Commitments**

As of September 30, 2019 and December 31, 2018, Nicolet had the following off-balance sheet lending-related commitments.

**Table 10: Commitments**

| (in thousands) | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Commitments to extend credit | $ 718,772 | $ 721,098 |
| Financial standby letters of credit | 10,791 | 8,571 |
| Performance standby letters of credit | 9,344 | 7,094 |

Interest rate lock commitments to originate residential mortgage loans held for sale (included above in commitments to extend credit) and forward commitments to sell residential mortgage loans held for sale are considered derivative instruments and represented $100.1 million and $47.9 million, respectively, at September 30, 2019. In comparison, interest rate lock commitments to originate residential mortgage loans held for sale and forward commitments to sell residential mortgage loans held for sale represented $18.2 million and $6.0 million, respectively, at December 31, 2018. The net fair value of these interest rate lock commitments and forward commitments combined was a loss of $451,000 at September 30, 2019 compared to a gain of $162,000 at December 31, 2018.

**Liquidity Management**

Liquidity management refers to the ability to ensure that cash is available in a timely and cost-effective manner to meet cash flow requirements of depositors and borrowers and to meet other commitments as they fall due, including the ability to service debt, invest in subsidiaries, repurchase common stock, pay dividends to shareholders (if any), and satisfy other operating requirements.

Funds are available from a number of basic banking activity sources including, but not limited to, the core deposit base; repayment and maturity of loans; investment securities calls, maturities, and sales; and procurement of brokered deposits or other wholesale funding. All securities AFS and equity securities (included in other investments) are reported at fair value on the consolidated balance sheet. At September 30, 2019, approximately 32% of the $419 million securities AFS portfolio was pledged to secure public deposits and short-term borrowings, as applicable, and for other purposes as required by law. Additional funding sources at September 30, 2019, consist of a $10 million available and unused line of credit at the holding company, $175 million of available and unused Federal funds lines, available borrowing capacity at the FHLB of $185 million, and borrowing capacity in the brokered deposit market.

Cash and cash equivalents at September 30, 2019 and December 31, 2018 were $144 million and $250 million, respectively. The decrease in cash and cash equivalents since year-end 2018 was largely attributable to loan growth, a reduction in deposits, and common stock purchases, partially offset by earnings. Nicolet's liquidity resources were sufficient as of September 30, 2019 to fund loans, accommodate deposit cycles and trends, and to meet other cash needs as necessary.

Management is committed to the parent Company being a source of strength to the Bank and its other subsidiaries, and therefore, regularly evaluates capital and liquidity positions of the parent Company in light of current and projected needs, growth or strategies. The parent Company uses cash for normal expenses, debt service requirements, and when opportune, for common stock repurchases or investment in other strategic actions such as mergers or acquisitions. Dividends from the Bank and, to a lesser extent, stock

option exercises, represent significant sources of cash flows for the parent Company. Among others, additional cash sources available to the parent Company include its $10 million available and unused line of credit, and access to the public or private markets to issue new equity, subordinated debt or other debt. At September 30, 2019, the parent Company had $62 million in cash.

**Interest Rate Sensitivity Management and Impact of Inflation**

A reasonable balance between interest rate risk, credit risk, liquidity risk and maintenance of yield, is highly important to Nicolet's business success and profitability. As an ongoing part of its financial strategy and risk management, Nicolet attempts to understand and manage the impact of fluctuations in market interest rates on its net interest income. The consolidated balance sheet consists mainly of interest-earning assets (loans, investments and cash) which are primarily funded by interest-bearing liabilities (deposits and other borrowings). Such financial instruments have varying levels of sensitivity to changes in market rates of interest. Market rates are highly sensitive to many factors beyond our control, including but not limited to general economic conditions and policies of governmental and regulatory authorities. Our operating income and net income depends, to a substantial extent, on "rate spread" (i.e., the difference between the income earned on loans, investments and other earning assets and the interest expense paid to obtain deposits and other funding liabilities).

Asset-liability management policies establish guidelines for acceptable limits on the sensitivity to changes in interest rates on earnings and market value of assets and liabilities. Such policies are set and monitored by management and the board of directors' Asset and Liability Committee.

To understand and manage the impact of fluctuations in market interest rates on net interest income, Nicolet measures its overall interest rate sensitivity through a net interest income analysis, which calculates the change in net interest income in the event of hypothetical changes in interest rates under different scenarios versus a baseline scenario. Such scenarios can involve static balance sheets, balance sheets with projected growth, parallel (or non-parallel) yield curve slope changes, immediate or gradual changes in market interest rates, and one-year or longer time horizons. The simulation modeling uses assumptions involving market spreads, prepayments of rate-sensitive instruments, renewal rates on maturing or new loans, deposit retention rates, and other assumptions.

Nicolet assessed the impact on net interest income in the event of a gradual +/-100 bps and +/-200 bps change in market rates (parallel to the change in prime rate) over a one-year time horizon to a static (flat) balance sheet. The interest rate scenarios are used for analytical purposes only and do not necessarily represent management's view of future market interest rate movements. Based on financial data at September 30, 2019 and December 31, 2018, the projected changes in net interest income over a one-year time horizon, versus the baseline, are presented in Table 11 below. The results are within Nicolet's guidelines of not greater than -10% for +/- 100 bps and not greater than -15% for +/- 200 bps.

**Table 11: Interest Rate Sensitivity**

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| 200 bps decrease in interest rates | (2.3)% | (0.6)% |
| 100 bps decrease in interest rates | (1.2)% | — % |
| 100 bps increase in interest rates | 1.0 % | (0.1)% |
| 200 bps increase in interest rates | 2.1 % | — % |

Actual results may differ from these simulated results due to timing, magnitude and frequency of interest rate changes, as well as changes in market conditions and their impact on customer behavior and management strategies.

The effect of inflation on a financial institution differs significantly from the effect on an industrial company. While a financial institution's operating expenses, particularly salary and employee benefits, are affected by general inflation, the asset and liability structure of a financial institution consists largely of monetary items. Monetary items, such as cash, investments, loans, deposits and other borrowings, are those assets and liabilities which are or will be converted into a fixed number of dollars regardless of changes in prices. As a result, changes in interest rates have a more significant impact on a financial institution's performance than does general inflation.

**Capital**

Management regularly reviews the adequacy of its capital to ensure that sufficient capital is available for current and future needs and is in compliance with regulatory guidelines and actively reviews capital strategies in light of perceived business risks associated with current and prospective earning levels, liquidity, asset quality, economic conditions in the markets served, and level of returns available to shareholders. Management intends to maintain an optimal capital and leverage mix for growth and shareholder return.

Nicolet's intent is to maintain capital levels for the Company and the Bank at amounts in excess of the regulatory well-capitalized thresholds. At September 30, 2019, the Bank's regulatory capital ratios qualify the Bank as well-capitalized under the prompt-corrective action framework. This strong base of capital has allowed Nicolet to be opportunistic in the current environment and

in strategic growth. A summary of Nicolet's and the Bank's regulatory capital amounts and ratios, as well as selected capital metrics are presented in the following table.

**Table 12: Capital**

| ($ in thousands) | At or for the Nine Months Ended September 30, 2019 | At or for the Year Ended December 31, 2018 |
|---|---|---|
| **Company Stock Repurchases: *** | | |
| Common stock repurchased during the period (dollars) | $ 15,318 | $ 22,178 |
| Common stock repurchased during the period (full shares) | 263,053 | 408,071 |
| **Company Risk-Based Capital:** | | |
| Total risk-based capital | $ 360,697 | $ 326,235 |
| Tier 1 risk-based capital | 335,093 | 301,125 |
| Common equity Tier 1 capital | 305,058 | 271,435 |
| Total capital ratio | 13.5% | 12.9% |
| Tier 1 capital ratio | 12.6% | 11.9% |
| Common equity tier 1 capital ratio | 11.4% | 10.7% |
| Tier 1 leverage ratio | 11.3% | 10.4% |
| **Bank Risk-Based Capital:** | | |
| Total risk-based capital | $ 288,080 | $ 274,492 |
| Tier 1 risk-based capital | 274,460 | 261,339 |
| Common equity Tier 1 capital | 274,460 | 261,339 |
| Total capital ratio | 10.8% | 10.8% |
| Tier 1 capital ratio | 10.3% | 10.3% |
| Common equity tier 1 capital ratio | 10.3% | 10.3% |
| Tier 1 leverage ratio | 9.2% | 9.1% |

* Reflects common stock repurchased under board of director authorizations for the common stock repurchase program.

In managing capital for optimal return, we evaluate capital sources and uses, pricing and availability of our stock in the market, and alternative uses of capital (such as the level of organic growth or acquisition opportunities) in light of strategic plans. During the first nine months of 2019, $15.3 million was utilized to repurchase and cancel 263,053 shares of common stock pursuant to our common stock repurchase program. At September 30, 2019, there remained $24.4 million authorized under the repurchase program to be utilized from time-to-time to repurchase shares in the open market, through block transactions or in private transactions.

**Critical Accounting Policies**

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Estimates that are particularly susceptible to significant change include the valuation of loan acquisition transactions, as well as the determination of the allowance for loan losses and income taxes. A discussion of these policies can be found in the "Critical Accounting Policies" section in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's 2018 Annual Report on Form 10-K. There have been no changes in the Company's application of critical accounting policies since December 31, 2018.

**Future Accounting Pronouncements**

Recent accounting pronouncements adopted are included in Note 1, "Basis of Presentation" of the Notes to Unaudited Consolidated Financial Statements within Part I, Item 1.

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*. This ASU modifies the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. The updated guidance is effective for annual reporting periods, including interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. As the new ASU only revises disclosure requirements, it is not expected to have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* intended to improve the financial reporting by requiring earlier recognition of credit losses on loans and

certain other financial assets. Topic 326 replaces the current incurred loss impairment model (which recognizes losses when a probable threshold is met) with a requirement to recognize lifetime expected credit losses immediately when a financial asset is originated or purchased. The measurement of lifetime expected credit losses will be based on historical experience, current conditions, and reasonable and supportable forecasts. The ASU is effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Entities should apply the amendment by means of a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. Early application is permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company expects to adopt the new accounting standard in 2020, as required, and continues to make progress on implementing the new standard. Based on our analysis, we believe the standard may potentially have a material impact on the financial statements and we expect more volatility in the credit loss estimate over economic cycles. Nicolet estimates a 40-60% increase to its aggregate reserve levels upon adoption of the current expected credit losses standard on January 1, 2020; however, this estimate is based on current economic conditions, forecasts and our existing loan portfolio at September 30, 2019, and the estimate is likely to change between now and adoption. The Company has been running parallel assessments since the beginning of 2019, which includes expanding the loan segmentation from our current ten categories to better evaluate loans with similar loss characteristics and probabilities over the life of the loan. Results of various assumptions have been monitored and refined over the past two years toward a final adoption method.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See section “Interest Rate Sensitivity Management and Impact of Inflation” within Management’s Discussion and Analysis of Financial Condition and Results of Operations under Part I, Item 2.

## ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, management, under the supervision, and with the participation, of our Chairman, President and Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act pursuant to Exchange Act Rule 13a-15). Based upon, and as of the date of such evaluation, the Chairman, President and Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective.

There have been no changes in the Company’s internal controls or, to the Company’s knowledge, in other factors during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

# PART II – OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

We and our subsidiaries may be involved from time to time in various routine legal proceedings incidental to our respective businesses. Neither we nor any of our subsidiaries are currently engaged in any legal proceedings that are expected to have a material adverse effect on our results of operations or financial position.

## ITEM 1A. RISK FACTORS

There have been no material changes in the risk factors previously disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Following are Nicolet’s monthly common stock purchases during the third quarter of 2019.

| | Total Number of Shares Purchased [(a)] | Average Price Paid per Share | | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs [(b)] |
|---|---|---|---|---|---|
| | (#) | ($) | | (#) | (#) |
| Period | | | | | |
| July 1 – July 31, 2019 | 5,057 | $ | 63.98 | 1,853 | 604,100 |
| August 1 – August 31, 2019 | 7,447 | $ | 61.99 | 7,447 | 596,700 |
| September 1 – September 30, 2019 | 2,267 | $ | 67.81 | — | 596,700 |
| Total | 14,771 | $ | 63.57 | 9,300 | 596,700 |

(a)During third quarter 2019, the Company repurchased 84 common shares for minimum tax withholding settlements on restricted stock and repurchased 5,387 common shares to satisfy the exercise price and / or tax withholding requirements of stock options, respectively. These purchases do not count against the maximum number of shares that may yet be purchased under the board of directors' authorization.

(b)During third quarter 2019, Nicolet utilized $0.6 million to repurchase and cancel approximately 9,300 shares of common stock pursuant to our common stock repurchase program. At September 30, 2019, approximately $24.4 million remained available under this common stock repurchase program.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

The following exhibits are filed herewith:

| Exhibit Number | Description |
|---|---|
| 2.1 | Agreement and Plan of Merger Between Nicolet Bankshares, Inc. and Choice Bancorp, Inc. dated June 26, 2019 (1) |
| 31.1 | Certification of CEO under Section 302 of Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of CFO under Section 302 of Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of CEO Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of CFO Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002 |
| 101 | The following material from Nicolet's Form 10-Q Report for the three and nine months ended September 30, 2019, formatted in eXtensible Business Reporting Language: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Unaudited Consolidated Financial Statements. |

(1) Incorporated by reference to Exhibit 2.1 in the Registrant's Current Report on Form 8-K, filed on June 27, 2019.

**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.

| | NICOLET BANKSHARES, INC. |
|---|---|
| October 31, 2019 | /s/ Robert B. Atwell |
| | Robert B. Atwell |
| | Chairman, President and Chief Executive Officer |
| October 31, 2019 | /s/ Ann K. Lawson |
| | Ann K. Lawson |
| | Chief Financial Officer |



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# Section 2: EX-31.1 (EXHIBIT 31.1)

**EXHIBIT 31.1**

**Certification Pursuant to 18 U.S.C.**
**Section 1350, as Adopted Pursuant to**
**Section 302 of the Sarbanes-Oxley Act of 2002**

I, Robert B. Atwell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Nicolet Bankshares, Inc. (the "registrant");
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(s) 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(s) 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 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.

October 31, 2019

/s/ Robert B. Atwell

Robert B. Atwell
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

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# Section 3: EX-31.2 (EXHIBIT 31.2)

**EXHIBIT 31.2**

**Certification Pursuant to 18 U.S.C.
Section 1350, as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Ann K. Lawson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Nicolet Bankshares, Inc. (the “registrant”);
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(s) 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(s) 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 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.

October 31, 2019

/s/ Ann K. Lawson

Ann K. Lawson
Chief Financial Officer
(Principal Financial and Accounting Officer)

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# Section 4: EX-32.1 (EXHIBIT 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 this Quarterly Report of Nicolet Bankshares, Inc., (the "Company") on Form 10-Q as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, Robert B. Atwell, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. s.1350, as adopted pursuant to s.906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

October 31, 2019

/s/ Robert B. Atwell
Robert B. Atwell
Chairman, President and Chief Executive Officer

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# Section 5: EX-32.2 (EXHIBIT 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 this Quarterly Report of Nicolet Bankshares, Inc., (the "Company") on Form 10-Q as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, Ann K. Lawson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. s.1350, as adopted pursuant to s.906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

October 31, 2019

/s/ Ann K. Lawson
Ann K. Lawson
Chief Financial Officer

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