IOWA FIRST BANCSHARES CORP.

ANNUAL REPORT 2018

Contents

Iowa First Bancshares Corp.
2018 Annual Report

To Our Shareholders:

The two subsidiary banks owned by Iowa First Bancshares Corp., First National Bank of Muscatine ("Muscatine") and First National Bank in Fairfield ("Fairfield"), reported quite divergent operating results during 2018. On a positive note, Muscatine's 2018 net income of approximately $3,414,000 exceeded the prior year by $487,000. Unfortunately, Fairfield experienced a net loss for 2018 totaling $749,000. This net loss resulted primarily from the need for large provision for loan losses due to high levels of problem loans and charge-offs at Fairfield.

On a consolidated basis, Iowa First Bancshares Corp.'s net income totaled $2,311,000, which was $87,000 or 3.6% less than the prior year. Notwithstanding the Company's earnings of over $2.3 million, this level of financial performance was disappointing to management and the Board of Directors. While not guaranteed, the Company is budgeting and expecting marked improvement in 2019.

As reported in last year's Annual Report to Shareholders numerous actions had been taken, and were continuing to be implemented, to address the loan quality and credit administration weaknesses which had been identified at Fairfield. In 2017 and early 2018, significant changes occurred in the ranks of bank senior management, as well as enhancements to policies, procedures, board oversight, and training for loan officers. Notwithstanding the continued challenges in the loan portfolio which we are confronting as this report is being written, we are of the opinion that significant progress is being made and we have employed the right people to manage the process. Unfortunately, the President and CEO of the bank for the past nineteen months has chosen to accept another banking position closer to his home in Missouri. We are pleased to report, however, that our Chief Credit Officer and number two executive has agreed to continue in his present position where he has had key responsibilities in overseeing a number of the bank's more challenging credits, and he retains the full confidence of both the Boards of Directors of Iowa First Bancshares and First National Bank in Fairfield. He also has received complete endorsement of the bank's departing President and CEO with regard to the progress he has brought about to date and his ability to provide strong leadership for our Fairfield team.

In an attempt to support the efforts of the Fairfield management team, as well as strengthen the balance sheet of First National Bank in Fairfield, Iowa First Bancshares Corp. injected $2.0 million of capital (cash) into the bank in the first quarter of 2018. This amount, of which $1.4 million was borrowed, was intended to provide the Fairfield Board of Directors and management team the ability to maintain acceptable capital levels as they pursue the necessary strategies to significantly reduce the level of problem loans. A key effect has been to bring the bank's Tier 1 capital to average assets ratio and total capital to risk-weighted assets ratio to over 9.0% and 13.0%, respectively.

While challenges remain, it is our hope that the future provision for loan losses and net charge-offs will be much reduced from the levels experienced in 2018.

Despite the aforementioned issues, the Company's earnings and cash flow were sufficient to fund dividends to shareholders during 2018 of $1.16 per share, representing a 2.6% yield based on the beginning of the year stock price. The continuation of the payment of a competitive dividend to its shareholders remains a principal goal of your Company, as has been the case each year since 1989.

Iowa First Bancshares Corp. and its subsidiary banks continue to maintain sound capital ratios, more than sufficient primary and secondary liquidity sources, and an adequate allowance for loan losses.

It is not an enjoyable task to compose a letter to shareholders which contains the amount of negative information describing our most recent year's operation as this one. We clearly had budgeted for and honestly had expected better results in 2018. Nonetheless, banking is a business that can be fraught with unexpected risks, and they clearly developed in a meaningful way last year. Given several of the remaining loan challenges, it is not possible to promise immediate significant improvement in operating results. What management pledges is additional very concerted efforts to right the ship in 2019. We promise to make every attempt to manage our difficulties with commitment, intelligence, and integrity throughout 2019, and sincerely do expect better results.

We continue to appreciate the dedication and quality of our team members as well as the insight, experience and wisdom provided by our Board of Directors. And, as always, we are extremely grateful to our shareholders who continue to support our efforts, and we are especially appreciative of their patience.

Sincerely,

D. Scott Ingstad
Chairman of the Board
President and CEO

IOWA FIRST BANCSHARES CORP. AND SUBSIDIARIES

SELECTED CONSOLIDATED FINANCIAL DATA
(DOLLARS IN THOUSANDS)

Balance Sheet (at year-end)	**2018**	2017	2016	2015	2014
Gross loans	**$ 379,737**	$ 406,367	$ 401,041	$ 373,288	$ 355,093
Net loans	**373,417**	400,683	396,369	368,725	350,466
Allowance for loan losses	**6,320**	5,684	4,672	4,563	4,627
Deposits and short-term borrowings	**400,676**	418,996	421,145	392,755	382,362
Federal Home Loan Bank advances	**5,000**	9,000	10,996	11,180	7,360
Total assets	**462,159**	482,158	489,976	456,784	439,771
Stockholders' equity	**47,389**	46,494	45,330	45,241	42,355
Statement of Income (for the year)					
Net interest income	**$ 15,063**	$ 15,527	$ 14,951	$ 14,329	$ 13,886
Provision for loan losses	**3,546**	2,943	660	220	90
Other income	**3,517**	3,485	3,991	3,437	3,450
Operating expenses	**12,049**	11,916	16,414	11,282	10,726
Income before income taxes	**2,985**	4,153	1,868	6,264	6,520
Income taxes	**674**	1,755	438	2,139	2,264
Net income	**2,311**	2,398	1,430	4,125	4,256
Per Share Data					
Net income, basic and diluted	**$ 2.04**	$ 2.12	$ 1.27	$ 3.66	$ 3.78
Book value at year-end	**41.90**	41.08	40.10	40.07	37.57
Stock price at year-end	**36.27**	45.00	36.90	34.67	34.15
Cash dividends declared during the year	**1.16**	1.16	1.14	1.14	1.14
Cash dividends declared as a percentage of net income	**57%**	55%	90%	31%	30%
Key Ratios					
Return on average assets	**0.49%**	0.50%	0.30%	0.92%	0.97%
Return on average stockholders' equity	**4.89**	5.18	3.06	9.40	10.50
Net interest margin-tax equivalent	**3.42**	3.47	3.43	3.49	3.45
Average stockholders' equity to average assets	**10.07**	9.63	9.64	9.77	9.26
Total regulatory capital to risk-weighted assets	**14.20**	13.00	12.72	13.46	13.38
Efficiency ratio (all operating expenses, excluding the provision for loan losses, divided by the sum of net interest income and other income)	**64.85**	62.68	86.65	63.50	61.87
Allowance for loan losses as a percent of gross loans at year-end	**1.66**	1.40	1.16	1.22	1.30
Net loan charge-offs (recoveries) as a percent of gross loans at year-end	**0.77**	0.48	0.14	0.08	(0.07)

RSM

RSM US LLP

Independent Auditor's Report

To the Board of Directors
Iowa First Bancshares Corp.

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Iowa First Bancshares Corp. and subsidiaries which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

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

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

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

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

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

RSM US LLP

Davenport, Iowa
February 22, 2019

IOWA FIRST BANCSHARES CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017

(In Thousands, Except Share and Per Share Data)

Assets		**2018**		2017
Cash and due from banks	**$**	**8,985**	$	11,960
Interest-bearing deposits at financial institutions		**39,658**		24,185
Investment securities available for sale		**19,529**		23,352
Loans, net of allowance for loan losses 2018 $6,320; 2017 $5,684		**373,417**		400,683
Bank premises and equipment, net		**6,869**		6,529
Accrued interest receivable		**2,497**		3,427
Life insurance contracts		**7,324**		7,132
Restricted investment securities		**994**		1,103
Other assets		**2,886**		3,787
Total assets	**$**	**462,159**	$	482,158

Liabilities and Stockholders' Equity				
Liabilities:				
Deposits:				
Noninterest-bearing	**$**	**52,603**	$	53,421
Interest-bearing		**343,444**		357,331
Total deposits		**396,047**		410,752
Short-term borrowings		**4,629**		8,244
Note payable		**3,690**		2,700
Federal Home Loan Bank advances		**5,000**		9,000
Dividends payable		**328**		328
Other liabilities		**5,076**		4,640
Total liabilities		**414,770**		435,664
Commitments and Contingencies (Note 13)				
Stockholders' Equity:				
Preferred stock, stated value of $1.00 per share; shares authorized 500,000; shares issued none		**-**		-
Common stock, no par value; shares authorized 6,000,000; shares issued 1,756,831; shares outstanding 2018 1,130,966; 2017 1,131,847		**200**		200
Additional paid-in capital		**4,186**		4,186
Retained earnings		**63,590**		62,456
Accumulated other comprehensive income (loss)		**(72)**		127
Less cost of common shares acquired for the treasury 2018 625,865 shares; 2017 624,984 shares		**(20,515)**		(20,475)
Total stockholders' equity		**47,389**		46,494
Total liabilities and stockholders' equity	**$**	**462,159**	$	482,158

See Notes to Consolidated Financial Statements.

IOWA FIRST BANCSHARES CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2018 and 2017

(In Thousands, Except Share and Per Share Data)

	2018	2017
Interest and dividend income:		
Loans, including fees:		
Taxable	$ 16,808	$ 16,943
Nontaxable	242	167
Investment securities available for sale:		
Taxable	271	194
Nontaxable	134	150
Restricted investment securities	41	40
Interest-bearing deposits and other	577	256
Total interest and dividend income	**18,073**	17,750
Interest expense:		
Deposits	2,718	1,927
Note payable	168	111
Federal Home Loan Bank advances	110	181
Short-term borrowings	14	4
Total interest expense	**3,010**	2,223
Net interest income	**15,063**	15,527
Provision for loan losses	3,546	2,943
Net interest income after provision for loan losses	**11,517**	12,584
Other income:		
Trust department	349	333
Service fees	2,362	2,265
Gains on loans sold	236	255
Life insurance contracts	264	264
Other	306	368
Total other income	**3,517**	3,485
Operating expenses:		
Salaries and employee benefits	6,458	6,302
Occupancy expenses, net	955	988
Equipment expenses	616	700
Office supplies, printing and postage	221	227
Computer costs	377	349
Advertising and business promotion	191	246
FDIC insurance premiums	219	183
Other operating expenses	3,012	2,921
Total operating expenses	**12,049**	11,916
Income before income taxes	**2,985**	4,153
Income taxes	674	1,755
Net income	**$ 2,311**	$ 2,398
Net income per common share, basic and diluted	$ 2.04	$ 2.12
Weighted average common shares outstanding, basic and diluted	1,131,455	1,131,440
Dividends declared per share	$ 1.16	$ 1.16

See Notes to Consolidated Financial Statements.

IOWA FIRST BANCSHARES CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2018 and 2017

(In Thousands)

		2018		2017
Net income	$	2,311	$	2,398
Other comprehensive income:				
Unrealized gains (losses) on securities available for sale, unrealized holding gains (losses) arising during the year before tax		(300)		31
Less reclassification for adoption of ASU 2016-01		162		-
		(138)		31
Tax expense (benefit)		(74)		13
Other comprehensive income (loss), net of tax		(64)		18
Comprehensive income	$	2,247	$	2,416

See Notes to Consolidated Financial Statements.

IOWA FIRST BANCSHARES CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2018 and 2017

(In Thousands, Except Share and Per Share Data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Compre-hensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2016	$ 200	$ 4,171	$ 61,371	$ 109	$ (20,521)	$ 45,330
Comprehensive income:						
Net income	-	-	2,398	-	-	2,398
Other comprehensive income, net of tax	-	-	-	18	-	18
Comprehensive income						2,416
Cash dividends declared, $1.16 per share	-	-	(1,313)	-	-	(1,313)
Contribution of 1,411 shares of treasury stock to the retirement plan	-	15	-	-	46	61
Balance, December 31, 2017	**200**	**4,186**	**62,456**	**127**	**(20,475)**	**46,494**
Comprehensive income:						
Net income	**-**	**-**	**2,311**	**-**	**-**	**2,311**
Other comprehensive (loss), net of tax	**-**	**-**	**-**	**(64)**	**-**	**(64)**
Comprehensive income						**2,247**
Impact of adoption of ASU 2016-01	**-**	**-**	**135**	**(135)**	**-**	**-**
Cash dividends declared, $1.16 per share	**-**	**-**	**(1,312)**	**-**	**-**	**(1,312)**
Purchase of 881 shares from prior retirement plan participants	**-**	**-**	**-**	**-**	**(40)**	**(40)**
Balance, December 31, 2018	**$ 200**	**$ 4,186**	**$ 63,590**	**$ (72)**	**$ (20,515)**	**$ 47,389**

See Notes to Consolidated Financial Statements.

IOWA FIRST BANCSHARES CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

(In Thousands)

	2018	2017
Cash Flows from Operating Activities:		
Net income	**$ 2,311**	$ 2,398
Adjustments to reconcile net income to net cash provided by operating activities:		
Proceeds from loans sold	**6,982**	9,163
Loans underwritten for sale	**(6,862)**	(8,908)
Gains on loans sold	**(236)**	(255)
Provision for loan losses	**3,546**	2,943
Depreciation	**573**	650
Gain on sale of equity security	**(7)**	-
(Gain) loss on other real estate owned	**(8)**	22
Deferred income taxes	**(16)**	1,715
Deferred compensation expense	**399**	365
Amortization of premiums on investment securities, net	**4**	57
Increase in cash value of life insurance contracts	**(192)**	(195)
Changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable	**930**	(650)
Net (increase) decrease in other assets	**918**	(1,068)
Net increase (decrease) in other liabilities	**37**	(4,847)
Net cash provided by operating activities	**8,379**	1,390
Cash Flows from Investing Activities:		
Net (increase) decrease in interest-bearing deposits at financial institutions	**(15,473)**	12,452
Activity in securities portfolio:		
Purchases	**(19,400)**	(26,256)
Maturities, calls and paydowns	**22,735**	24,325
Net (increase) decrease in loans	**23,836**	(7,332)
Purchases of bank premises and equipment, net	**(913)**	(540)
Activity in restricted investment securities:		
Purchases	**(60)**	(170)
Sales	**169**	210
Proceeds from sale of equity security	**407**	-
Proceeds from sale of other real estate owned	**27**	79
Net cash provided by investing activities	**$ 11,328**	$ 2,768

(Continued)

IOWA FIRST BANCSHARES CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended December 31, 2018 and 2017

(In Thousands)

	2018	2017
Cash Flows from Financing Activities:		
Net (decrease) in noninterest-bearing deposits	$ (818)	$ (7,937)
Net increase (decrease) in interest-bearing deposits	(13,887)	4,010
Proceeds from note payable	1,400	-
Repayment of note payable	(410)	(300)
Net increase (decrease) in short-term borrowings	(3,615)	1,778
Activity in Federal Home Loan Bank advances:		
Advances	-	7,250
Repayments	(4,000)	(9,246)
Cash dividends paid	(1,312)	(1,307)
Purchases of common stock for the treasury	(40)	-
Net cash used in financing activities	(22,682)	(5,752)
Net (decrease) in cash and due from banks	(2,975)	(1,594)
Cash and due from banks:		
Beginning	11,960	13,554
Ending	$ 8,985	$ 11,960
Supplemental Disclosures of Cash Flow Information, cash payments for:		
Interest	$ 2,926	$ 2,202
Income taxes	685	369
Supplemental Schedule of Noncash Investing and Financing Activities:		
Change in accumulated other comprehensive income, unrealized gains (losses) on securities available for sale, net	(64)	18
Transfers of loans to other real estate	-	75
Contribution of shares of treasury stock to the retirement plan	-	61
Transfer of equity securities from investment securities available for sale to other assets at fair value	400	-

See Notes to Consolidated Financial Statements.

Note 1. Nature of Business and Significant Accounting Policies

Nature of business:

Iowa First Bancshares Corp. (Company) is a bank holding company headquartered in Muscatine, Iowa. The Company owns the outstanding stock of two national banks, First National Bank of Muscatine and First National Bank in Fairfield (Banks). First National Bank of Muscatine has a total of four locations in Muscatine, Iowa. First National Bank in Fairfield has two locations in Fairfield, Iowa. Each bank is engaged in the general commercial banking business and provides full service banking to individuals and businesses, including checking, savings, money market and time deposit accounts, commercial loans, consumer loans, real estate loans, safe deposit facilities, transmitting of funds, trust services, debit and credit cards, internet banking, automated teller machines and such other banking services as are usual and customary for commercial banks.

Significant accounting policies:

Accounting estimates: The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, other-than-temporary impairment of investment securities, and the fair value of financial instruments.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of the Company and all wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Presentation of cash flows: For purposes of reporting cash flows, cash and due from banks includes cash on-hand, amounts due from banks, and the cash items in process of clearing. Cash flows from interest-bearing deposits at financial institutions, loans, deposits and short-term borrowings are reported net.

Investment securities available for sale: Securities available for sale are accounted for at fair value and the unrealized holding gains or losses are presented as a separate component of accumulated other comprehensive income, net of their deferred income tax effect. Realized gains and losses, determined using the specific-identification method, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the expected life of the security. There were no investments held to maturity or for trading purposes as of December 31, 2018 or 2017.

Available for sale securities are evaluated to determine whether declines in the fair value of securities below their amortized cost are other-than-temporary. In estimating other-than-temporary impairment losses on debt securities, management considers a number of factors, including, but not limited to, (1) the length of time and extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) the current market conditions and (4) the intent of the Company to not sell the security prior to recovery, and whether it is more-likely-than-not that the Company will be required to sell the security prior to its recovery.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Loans: Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Direct loan origination fees and costs are generally being deferred and the net amounts amortized as an adjustment of the related loan's yield. The Banks generally amortize these amounts over the contractual life. Direct loan origination fees and costs related to loans sold to unrelated third parties are recognized as income or expense in the current consolidated statements of income. Commitment fees based upon a percentage of customers' unused lines of credit and fees related to standby letters of credit are not significant.

Allowance for credit losses and fair value are disclosed by portfolio segment, while credit quality information, impaired financing receivables, nonaccrual status and troubled debt restructurings are presented by class of financing receivable. A portfolio segment is defined as the level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses. A class of financing receivable is defined as a further disaggregation of a portfolio segment based on risk characteristics and the entity's method for monitoring and assessing credit risk.

The Company's portfolio segments are as follows:

- Commercial and industrial
- Commercial real estate owner occupied
- Commercial real estate nonowner occupied
- Agriculture
- Residential real estate
- Consumer and other

The Company's classes of loans are identical to their portfolio segments.

Generally, for all classes of loans, loans are considered past due when contractual payments are delinquent for 31 days or greater.

For all classes of loans, loans will generally be placed on nonaccrual status when the loan has become 90 days past due (unless the loan is well secured and in the process of collection); or if any of the following conditions exist:

- It becomes evident the borrower will not make payments, or will not or cannot meet the terms for renewal of a matured loan,
- When full repayment of principal and interest is not expected,
- When the loan is graded "substandard" and the future accrual of interest is not protected by sound collateral values,
- When the loan is graded "doubtful",
- When the borrower files bankruptcy and an approved plan of reorganization or liquidation is not anticipated in the near future, or
- When foreclosure action is initiated.

When a loan is placed on nonaccrual status, payments received will be applied to the principal balance. However, interest may be taken on a cash basis in the event the loan is fully secured and the risk of loss is minimal. Previously recorded but uncollected interest on a loan placed in nonaccrual status is accounted for as follows: if the previously accrued but uncollected interest and the principal amount of the loan is protected by sound collateral value based upon a current, independent qualified appraisal, such interest may remain on the Company's books. If such interest is not so protected, it is considered a loss with the amount thereof recorded in the current year being reversed against current earnings, and the amount recorded in the prior year being charged against the allowance for loan losses.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

For all classes of loans, nonaccrual loans may be restored to accrual status provided the following criteria are met:

- The loan is current, and all principal and interest amounts contractually due have been made,
- The loan is well secured and in the process of collection, and
- Prospects for future principal and interest payments are not in doubt.

Troubled debt restructures: Troubled debt restructuring exists when the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession (either imposed by court order, law, or agreement between the borrower and the Company) to the borrower that it would not otherwise consider. These concessions could include forgiveness of principal, extension of maturity dates, and reduction of stated interest rates or accrued interest. The Company is attempting to maximize its recovery of the balances of the loans through these various concessionary restructurings.

Allowance for loan losses: For all portfolio segments, the allowance for loan losses is maintained at the level considered adequate by management of the Banks to provide for losses that are probable. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. In determining the adequacy of the allowance balance, the Banks make continuous evaluations of the loan portfolio and related off-balance sheet commitments, consider current economic conditions, historical loan loss experience, review of specific problem loans and other factors.

A discussion of the risk characteristics and the allowance for loan losses by each portfolio segment follows:

For commercial and industrial loans, the Company focuses on small and mid-sized businesses with primary operations in transportation, warehousing and manufacturing, as well as serving as building contractors, business services companies, heath care providers, financial organizations and retailers. The Company provides a wide range of commercial and industrial loans, including lines of credit for working capital and operational purposes, and term loans for the acquisition of real estate, facilities, equipment and other purposes. Approval is generally based on the following factors:

- Sufficient cash flow to support debt repayment;
- Ability and stability of current management of the borrower;
- Positive earnings and financial trends;
- Earnings projections based on reasonable assumptions;
- Financial strength of the industry and business; and
- Value and marketability of collateral.

Collateral for commercial and industrial loans generally includes accounts receivable, inventory, equipment and real estate. The lending policy specifies approved collateral types and corresponding maximum advance percentages. The value of collateral pledged on loans typically exceeds the loan amount by a margin sufficient to absorb potential erosion of its value in the event of foreclosure and cover the loan amount plus costs incurred to convert it to cash.

The lending policy specifies maximum term limits for commercial and industrial loans. For real estate loans, the maximum term is 30 years. The lending policy includes guidelines for real estate appraisals, including minimum appraisal standards based on certain transactions. Where the purpose of the loan is to finance depreciable equipment, the term of the loan generally does not exceed the estimated useful life of the asset. For lines of credit, the typical maximum term is 365 days. However, longer maturities may be approved if the loan is secured by readily marketable collateral.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

In addition, the Company often takes personal guarantees to help assure repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower.

Commercial real estate owner occupied and commercial real estate nonowner occupied are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those standards and processes specific to real estate loans. Collateral for both owner occupied and nonowner occupied commercial real estate loans generally includes the underlying real estate and improvements, and may include additional assets as well as personal guarantees of the borrower.

The lending policy specifies maximum loan-to-value limits based on the category of commercial real estate (commercial real estate loans on improved property, raw land, land development and commercial construction). The lending policy also includes guidelines for real estate appraisals, including minimum appraisal standards based on certain transactions.

Commercial real estate owner occupied loans are generally considered to have less risk than commercial real estate nonowner occupied loans. The Company monitors each of these type of loans as a percentage of total capital plus the allowance for loan losses in an effort to identify and control loan type concentration risk.

Agriculture loans are subject to underwriting standards and processes similar to commercial and industrial and commercial real estate loans. The Company provides a wide range of agriculture loans, including lines of credit for working capital and operational purposes, and term loans for the acquisition of real estate, facilities, equipment and other purposes. Approval is generally based on the same factors considered for commercial and industrial loans.

Collateral for agriculture loans generally includes accounts receivable, inventory (typically grain or livestock), equipment and real estate. The lending policy specifies approved collateral types and corresponding maximum advance percentages. The value of collateral pledged on loans typically exceeds the loan amount by a margin sufficient to absorb potential erosion of its value in the event of foreclosure and cover the loan amount plus costs incurred to convert it to cash.

The lending policy specifies maximum term limits for agricultural loans. For real estate loans, the maximum term is 30 years. The lending policy includes guidelines for real estate appraisals, including minimum appraisal standards based on certain transactions. Where the purpose of the loan is to finance depreciable equipment, the term of the loan generally does not exceed the estimated useful life of the asset. For lines of credit, the typical maximum term is 365 days. However, longer maturities may be approved if the loan is secured by readily marketable collateral.

In addition, the Company often takes personal guarantees to help assure repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower.

In some instances for all loans, it may be appropriate to originate or purchase loans that are exceptions to the guidelines and limits established within the lending policy described above and below. In general, exceptions to the lending policy do not significantly deviate from the guidelines and limits established within the lending policy and, if there are exceptions, they are clearly noted as such and specifically identified in loan approval documents.

For commercial and industrial, commercial real estate owner occupied, commercial real estate nonowner occupied and agriculture loans, the allowance for estimated losses on loans consists of specific and general components.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The specific component relates to loans that are classified as impaired, as defined below. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

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

The general component consists of quantitative and qualitative factors and covers non-impaired loans. The quantitative factors are based on historical charge-off experience and expected loss from default derived from the Company's internal risk rating process. See below for a detailed description of the Company's internal risk rating scale. The qualitative factors are determined based on an assessment of internal and/or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

For commercial and industrial, commercial real estate owner occupied, commercial real estate nonowner occupied and agriculture loans, the Company utilizes the following internal risk rating scale:

1. Highest Quality (Pass) – loans of the highest quality with less than normal credit risk. Loans to borrowers with a sound financial condition which reflects good liquidity, a sound capital position and a history of excellent performance. In all cases, the borrower exhibits more than one source of repayment. Loans within this internal rating may also be supported by readily marketable collateral.

2. Superior Quality (Pass) – loans which possess a generally sound financial condition. The trend in financial indicators is generally constant. In all cases, the borrower exhibits more than one source of repayment. In general, these loans are of good quality with acceptable financial conditions and reasonable credit risks.

3. Satisfactory Quality (Watch) – loans with higher levels of credit risk, but where the borrower still exhibits the potential to liquidate the loan. The potential for additional problems exist in these loans, and they may lack a secondary source of repayment.

4. Special Mention – loans in this category are currently adequately collateralized, but the financial performance of the borrower has shown a downturn and needs to improve in order to generate sufficient cash flow for overall performance. Loans in this category will remain at this rating for a limited time (12 – 24 months maximum) as the performance needs to improve or the loan will be downgraded to a "5" or substandard rating.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

5. Substandard – loans with inadequate financial condition not meeting our Company's credit standards and/or ability to meet scheduled payments. Loss is possible. Loans in this category will be transferred to nonaccrual status with interest charged off if past due 90 days or more, unless well secured and in the process of collection.

6. Doubtful – loans with a weak financial condition making collection in full improbable. The possibility of principal loss is high but because of certain important and reasonably specific pending factors, full charge off is deferred until more exact status can be determined. A partial charge-off of principal may occur to more clearly exhibit the true value of the asset. Loans in this category are on nonaccrual status and interest charged off.

For commercial and industrial, commercial real estate owner occupied, commercial real estate nonowner occupied and agriculture loans, or credit relationships with aggregate exposure greater than $500,000, a loan review will be required within 15 months of the most recent credit review for First National Bank of Muscatine and within 12 months for First National Bank in Fairfield. Additionally, all loans rated "3", "4", "5" or "6" greater than $300,000 and $100,000, respectively, will be reviewed no less than every 15 months and 12 months, respectively, for First National Bank of Muscatine and First National Bank in Fairfield, respectively. The reviews shall be completed in enough detail to, at a minimum, validate the risk rating. Additionally, the reviews shall determine whether any documentation exceptions exist, appropriate written analysis is included in the loan file, and whether credit policies have been properly adhered to.

Annually, an independent review is conducted of a sampling of residential real estate as well as consumer and other loans in order to assess underwriting quality and adherence to policy.

Many of the residential real estate loans underwritten by the Company conform to the underwriting requirements of Freddie Mac or other secondary market aggregators to allow the subsidiary banks to resell loans in the secondary market. The subsidiary banks structure most loans that will not conform to those underwriting requirements as adjustable rate mortgages that mature or adjust in one to five years, and then retain these loans in their portfolios. Servicing rights are retained on many, but not all, of the residential real estate loans sold in the secondary market. The lending policy establishes minimum appraisal and other credit guidelines.

The Company provides many types of consumer and other loans including motor vehicle, home improvement, home equity, signature loans and small personal credit lines. The lending policy addresses specific credit guidelines by consumer loan type.

For residential real estate loans, and consumer and other loans, these large groups of smaller balance homogenous loans are collectively evaluated for impairment. The Company applies a quantitative factor based on historical charge-off experience in total for each of these segments. Accordingly, the Company generally does not separately identify individual residential real estate loans, and/or consumer and other loans for impairment disclosures, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Troubled debt restructures are considered impaired loans and are subject to the same allowance methodology as described above for impaired loans by portfolio segment.

Sales of loans: As part of its management of assets and liabilities, the Company periodically sells residential real estate loans. Loans which are expected to be sold in the foreseeable future are classified as held for sale and are recorded at the lower of cost or estimated market value in the aggregate.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Credit related financial instruments: In the ordinary course of business, the Company has entered into commitments to extend credit, including standby letters of credit. Such financial instruments are recorded when they are funded.

Transfers of financial assets: Transfers of financial assets are accounted for as sales, only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right to pledge or exchange the assets it received, and no condition both constrains the transferee from taking advantage of its right to pledge or exchange and provides more than a modest benefit to the transferor and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Bank premises and equipment: Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily by the straight-line method based on the estimated useful lives.

Life insurance contracts: Life insurance contracts are stated at their cash surrender value with increases/ decreases reflected as income/expense in the consolidated statements of income.

Restricted investment securities: Restricted investment securities represent Federal Home Loan Bank and Federal Reserve Bank common stock. The stock is carried at cost. These equity securities are “restricted” in that they can only be sold back to the respective institution or another member institution at par. Therefore, they are less liquid than other tradable equity securities. The Company views its investment in restricted stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value, rather than recognizing temporary declines in value. There have been no other-than-temporary write-downs recorded on these securities.

Other real estate owned: Other real estate owned (ORE), which is included with other assets on the consolidated balance sheets, represents properties acquired through foreclosure, in-substance foreclosure, or other proceedings. ORE is initially recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Any write-down to fair value at the time of transfer to ORE is charged to the allowance for loan losses. Property is evaluated regularly to ensure that the recorded amount is supported by the current fair value. Subsequent write-downs to fair value are charged to earnings. ORE totals none and $19,000 at December 31, 2018 and 2017, respectively. Residential real estate properties comprised the entire $19,000 of ORE at December 31, 2017. Foreclosure proceedings are in process on residential real estate properties totaling $31,000 at December 31, 2018.

Other revenue recognition: Revenue from trust services and other service charges and fees is recognized as the services are provided.

Comprehensive income: Comprehensive income is defined as the change in equity during a period from transactions and other events from nonowner sources. Comprehensive income is the total of net income and other comprehensive income (loss), which for the Company is comprised entirely of unrealized gains and losses on securities available for sale.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Income taxes: The Company files its tax return on a consolidated basis with its subsidiary banks. The entities follow the direct reimbursement method of accounting for income taxes under which income taxes or credits which result from the subsidiary banks' inclusion in the consolidated tax return are paid to or received from the parent company.

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company accounts for uncertainty in income taxes in accordance with ASC 740, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Company may recognize the tax benefit from an uncertain tax-position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company is generally no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before 2015.

Trust assets: Trust assets (other than cash deposits) held by the Banks in fiduciary or agency capacities for its customers are not included in the accompanying consolidated balance sheets since such items are not assets of the Banks.

Earnings per share: Basic earnings per share are arrived at by dividing net income by the weighted average number of shares of common stock outstanding for the respective period. There were no common stock equivalents outstanding during the years ended December 31, 2018 and 2017.

Subsequent events: The Company has evaluated all subsequent events through February 22, 2019, the date that the consolidated financial statements were available to be issued.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Current accounting developments: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers.* ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The standard was originally effective for the Company on January 1, 2017; however, in August 2015, the FASB issued ASU 2015-14 which deferred the effective date by one year. The standard was adopted by the Company on January 1, 2018, and adoption had no significant impact on the consolidated financial statements.

On January 5, 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The most far-reaching ramification of the ASU is the elimination of the available-for-sale classification for equity securities and a new requirement to carry those equity securities with readily determinable fair values at fair value through net income. Other notable changes brought about by the ASU involve: (a) applying a practicability exception from fair value accounting to equity securities that do not have a readily determinable fair value, (b) assessing the need for a valuation allowance for a deferred tax asset related to an available-for-sale debt security, (c) applying the fair value option to liabilities and the treatment of changes in fair value attributable to instrument-specific credit risk and (d) adding disclosures and eliminating certain disclosures. The standard was adopted by the Company on January 1, 2018, and adoption had no significant impact on the 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*. The underlying premise of the ASU is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. This is in contrast to existing guidance whereby credit losses generally are not recognized until they are incurred. Under the standard impairment of the Company's loans will be measured using the current expected credit loss model, which will entail day-one recognition of life-of-asset expected losses. The standard will be effective for the Company for the fiscal year beginning January 1, 2021. The Company is in the process of analyzing the impact of adoption on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities,* which shortens the amortization period for certain callable debt securities held at a premium to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The standard will be effective for the Company on January 1, 2019. The adoption is not expected to have a significant impact on the consolidated financial statements.

Note 2. Revenue Recognition

Effective January 1, 2018, the Company adopted ASU 2014-09 using the modified retrospective approach. The adoption of the guidance had no material impact on the measurement or recognition of revenue as approximately 86% of the Company's revenue (based on 2017 audited financial results) is outside the scope of this guidance; however, additional disclosures have been provided in accordance with the ASU. See Note 1 for additional information on this new accounting standard.

Descriptions of our revenue-generating contracts with customers that are within the scope of ASU 2014-09, which are presented in our income statements as components of noninterest income are as follows:

Trust department income: These are contracts between the Company and its customers for fiduciary and/or investment administration services on trust, investment, estate and agency accounts. Trust services income is determined as a percentage of assets under management or a flat periodic fee and is recognized over the period the underlying account is serviced. Revocable trusts and agency accounts are generally cancellable at any time, with the customer subject to a pro-rated fee in the month of termination. Irrevocable trusts and estates are not typically cancellable.

Service fees: Deposit contracts obligate the Company to serve as a custodian of the customer's deposited funds and are generally terminable at will by either party. The contract permits the customer to access the funds on deposit and request additional services related to the deposit account. Deposit account related fees, including analysis charges, nonsufficient fund charges, service charges, debit card usage fees, overdraft fees and wire transfer fees are within the scope of the guidance; however, revenue recognition practices did not change under the guidance, as deposit agreements are considered day-to-day contracts. Income for deposit accounts is recognized over the statement cycle period (typically on a monthly basis) or at the time the service is provided, if additional services are requested.

Note 3. Investment Securities Available for Sale

The amortized cost and fair value of investment securities available for sale as of December 31, 2018 and 2017 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	December 31, 2018			
	(In Thousands)			
U.S. treasury securities	**$ 14,205**	**$ -**	**$ (97)**	**$ 14,108**
U.S. government agencies	**501**	**-**	**(3)**	**498**
State and political subdivisions	**4,918**	**23**	**(18)**	**4,923**
	$ 19,624	**$ 23**	**$ (118)**	**$ 19,529**
	December 31, 2017			
	(In Thousands)			
U.S. treasury securities	$ 14,764	$ 1	$ (63)	$ 14,702
U.S. government agencies	2,503	-	(4)	2,499
State and political subdivisions	5,696	63	(8)	5,751
Other securities[1]	184	216	-	400
	$ 23,147	$ 280	$ (75)	$ 23,352

[1] Other securities were transferred to other assets on the consolidated balance sheets effective January 1, 2018 due to adoption of ASU 2016-01.

Note 3. Investment Securities Available for Sale (Continued)

The following tables show the fair values and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2018 and 2017:

	Less than 12 Months		12 Months or More		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In Thousands)					
December 31, 2018:						
U.S. treasury securities	**$ (33)**	**$ 6,928**	**$ (64)**	**$ 6,688**	**$ (97)**	**$ 13,616**
U.S. government agencies	**-**	**-**	**(3)**	**498**	**(3)**	**498**
State and political subdivisions	**(3)**	**1,078**	**(15)**	**1,609**	**(18)**	**2,687**
	$ (36)	**$ 8,006**	**$ (82)**	**$ 8,795**	**$ (118)**	**$ 16,801**
December 31, 2017:						
U.S. treasury securities	$ (61)	$ 11,693	$ (2)	$ 499	$ (63)	$ 12,192
U.S. government agencies	(3)	1,999	(1)	499	(4)	2,498
State and political subdivisions	(8)	2,371	-	-	(8)	2,371
	$ (72)	$ 16,063	$ (3)	$ 998	$ (75)	$ 17,061

As of December 31, 2018, the investment portfolio included 50 securities. Of this number, 36 securities have current unrealized losses, 21 of which have existed for longer than one year. All of the debt securities with unrealized losses are considered to be acceptable credit risks. Based upon an evaluation of the available evidence, including recent changes in market rates and credit rating information, management believes the decline in fair values for these debt securities are temporary. In addition, the Company does not have the intent to sell these debt securities and it is not more-likely-than-not that the Company will be required to sell these debt securities prior to their anticipated recovery.

The Company has not recognized other-than-temporary impairment on any securities for the years ended December 31, 2018 and 2017.

The amortized cost and fair value of investment securities available for sale as of December 31, 2018, by contractual maturity, are shown below:

	Amortized Cost	Fair Value
	(In Thousands)	
Securities available for sale:		
Due in one year or less	$ 8,961	$ 8,943
Due after one year through five years	10,663	10,586
	$ 19,624	$ 19,529

Investment securities with a carrying value of $13,278,000 and $19,496,000 as of December 31, 2018 and 2017, respectively, are pledged on short-term borrowings (specifically, securities sold under agreements to repurchase) and for other purposes as required or permitted by law.

There were no sales of investment securities available for sale during the years ended December 31, 2018 and 2017.

Note 4. Loans

The composition of loans as of December 31, 2018 and 2017 is summarized as follows:

	2018	2017
	(In Thousands)	
Commercial and industrial	**$ 57,384**	$ 63,295
Commercial real estate owner occupied	**28,468**	32,392
Commercial real estate nonowner occupied	**58,851**	60,319
Agricultural	**96,454**	105,847
Residential real estate	**127,438**	130,191
Consumer and other	**11,142**	14,323
Total loans	**379,737**	406,367
Less allowance for loan losses	**6,320**	5,684
	$ 373,417	$ 400,683

One residential real estate loan totaling $116,000 was held for sale as of December 31, 2018. There were no loans held for sale as of December 31, 2017.

The aging of the loan portfolio, by classes of loans, as of December 31, 2018 and 2017 is summarized as follows:

	Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans	Total
				2018		
				(In Thousands)		
Commercial and industrial	**$ 54,033**	**$ 586**	**$ 25**	**$ -**	**$ 2,740**	**$ 57,384**
Commercial real estate owner occupied	**26,988**	**-**	**-**	**-**	**1,480**	**28,468**
Commercial real estate nonowner occupied	**58,506**	**52**	**-**	**-**	**293**	**58,851**
Agriculture	**94,629**	**932**	**360**	**-**	**533**	**96,454**
Residential real estate	**125,992**	**574**	**418**	**-**	**454**	**127,438**
Consumer and other	**10,761**	**224**	**36**	**-**	**121**	**11,142**
	$ 370,909	**$ 2,368**	**$ 839**	**$ -**	**$ 5,621**	**$ 379,737**
				2017		
				(In Thousands)		
Commercial and industrial	$ 60,530	$ 230	$ 393	$ 409	$ 1,733	$ 63,295
Commercial real estate owner occupied	32,392	-	-	-	-	32,392
Commercial real estate nonowner occupied	57,719	2,136	-	-	464	60,319
Agriculture	100,840	1,327	2,232	1,439	9	105,847
Residential real estate	128,695	786	104	92	514	130,191
Consumer and other	13,674	296	119	37	197	14,323
	$ 393,850	$ 4,775	$ 2,848	$ 1,977	$ 2,917	$ 406,367

Note 4. Loans (Continued)

Nonperforming loans, by classes of loans, as of December 31, 2018 and 2017 are summarized as follows:

	Accruing Past Due 90 Days or More	Nonaccrual Loans *	Troubled Debt Restructures- Accruing	Total Nonperforming Loans
	2018			
	(In Thousands)			
Commercial and industrial	**$ -**	**$ 2,740**	**$ -**	**$ 2,740**
Commercial real estate owner occupied	**-**	**1,480**	**-**	**1,480**
Commercial real estate nonowner occupied	**-**	**293**	**2,948**	**3,241**
Agriculture	**-**	**533**	**-**	**533**
Residential real estate	**-**	**454**	**46**	**500**
Consumer and other	**-**	**121**	**-**	**121**
	$ -	**$ 5,621**	**$ 2,994**	**$ 8,615**

	Accruing Past Due 90 Days or More	Nonaccrual Loans *	Troubled Debt Restructures- Accruing	Total Nonperforming Loans
	2017			
	(In Thousands)			
Commercial and industrial	$ 409	$ 1,733	$ 439	$ 2,581
Commercial real estate owner occupied	-	-	-	-
Commercial real estate nonowner occupied	-	464	3,038	3,502
Agriculture	1,439	9	-	1,448
Residential real estate	92	514	51	657
Consumer and other	37	197	-	234
	$ 1,977	$ 2,917	$ 3,528	$ 8,422

* Nonaccrual loans as of December 31, 2018 include $599,000 of troubled debt restructures, including $238,000 in commercial and industrial, $271,000 in commercial real estate nonowner occupied, $81,000 in residential real estate and $9,000 in consumer and other. Nonaccrual loans as of December 31, 2017 include $447,000 of troubled debt restructures, including $334,000 in commercial and industrial, $98,000 in residential real estate and $15,000 in consumer and other.

Note 4. Loans (Continued)

Changes in the allowance for loan losses, by portfolio segment, during the years ended December 31, 2018 and 2017 are summarized as follows:

	Commercial and Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Nonowner Occupied	Agriculture	Residential Real Estate	Consumer and Other	Total
				2018 (In Thousands)			
Balance, beginning	**$ 872**	**$ 349**	**$ 1,291**	**$ 1,969**	**$ 659**	**$ 544**	**$ 5,684**
Provisions charged to expense	**1,963**	**(53)**	**6**	**1,677**	**(102)**	**55**	**3,546**
Recoveries	**76**	**-**	**306**	**125**	**17**	**63**	**587**
	2,911	**296**	**1,603**	**3,771**	**574**	**662**	**9,817**
Loans charged off	**1,307**	**-**	**330**	**1,640**	**-**	**220**	**3,497**
Balance, ending	**$ 1,604**	**$ 296**	**$ 1,273**	**$ 2,131**	**$ 574**	**$ 442**	**$ 6,320**
				2017 (In Thousands)			
Balance, beginning	$ 441	$ 377	$ 1,068	$ 1,544	$ 562	$ 680	$ 4,672
Provisions charged to expense	1,785	(28)	288	619	119	160	2,943
Recoveries	24	-	35	-	13	89	161
	2,250	349	1,391	2,163	694	929	7,776
Loans charged off	1,378	-	100	194	35	385	2,092
Balance, ending	$ 872	$ 349	$ 1,291	$ 1,969	$ 659	$ 544	$ 5,684

The allowance for loan losses, by impairment evaluation and by portfolio segment, as of December 31, 2018 and 2017, is summarized as follows:

	Commercial and Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Nonowner Occupied	Agriculture	Residential Real Estate	Consumer and Other	Total
				2018 (In Thousands)			
Allowance for loans individually evaluated for impairment	**$ 763**	**$ -**	**$ -**	**$ 27**	**$ 8**	**$ -**	**$ 798**
Allowance for loans collectively evaluated for impairment	**841**	**296**	**1,273**	**2,104**	**566**	**442**	**5,522**
	$ 1,604	**$ 296**	**$ 1,273**	**$ 2,131**	**$ 574**	**$ 442**	**$ 6,320**
Loans individually evaluated for impairment	**$ 2,859**	**$ 1,480**	**$ 3,241**	**$ 802**	**$ 497**	**$ 113**	**$ 8,992**
Loans collectively evaluated for impairment	**54,525**	**26,988**	**55,610**	**95,654**	**126,941**	**11,029**	**370,747**
	$ 57,384	**$ 28,468**	**$ 58,851**	**$ 96,456**	**$ 127,438**	**$ 11,142**	**$ 379,739**

Note 4. Loans (Continued)

	Commercial and Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Nonowner Occupied	Agriculture	Residential Real Estate	Consumer and Other	Total
	2017						
	(In Thousands)						
Allowance for loans individually evaluated for impairment	$ 52	$ -	$ -	$ 71	$ -	$ -	$ 123
Allowance for loans collectively evaluated for impairment	820	349	1,291	1,898	659	544	5,561
	$ 872	$ 349	$ 1,291	$ 1,969	$ 659	$ 544	$ 5,684
Loans individually evaluated for impairment	$ 2,191	$ -	$ 3,502	$ 830	$ 557	$ 201	$ 7,281
Loans collectively evaluated for impairment	61,104	32,392	56,817	105,017	129,634	14,122	399,086
	$ 63,295	$ 32,392	$ 60,319	$ 105,847	$ 130,191	$ 14,323	$ 406,367

Note 4. Loans (Continued)

Loans, by classes of loans, considered to be impaired as of December 31, 2018 and 2017 are summarized following. The recorded investment represents customer balances net of any partial charge-offs recognized on the loan. The unpaid principal balance represents the recorded balance outstanding on the loan without consideration of the charge-offs.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
				2018		
				(In Thousands)		
Classes of loans:						
Impaired loans with no specific allowance recorded:						
Commercial and industrial	$ 601	$ 1,924	$ -	$ 1,177	$ -	$ -
Commercial real estate owner occupied	1,480	1,480	-	740	-	-
Commercial real estate nonowner occupied	3,241	3,424	-	3,372	20	20
Agriculture	705	725	-	357	187	187
Residential real estate	466	567	-	512	9	9
Consumer and other	113	144	-	157	10	10
	6,606	8,264	-	6,315	226	226
Impaired loans with specific allowance recorded:						
Commercial and industrial	2,258	2,763	763	1,349	-	-
Commercial real estate owner occupied	-	-	-	-	-	-
Commercial real estate nonowner occupied	-	-	-	-	-	-
Agriculture	97	117	27	458	-	-
Residential real estate	31	31	8	16	-	-
Consumer and other	-	-	-	-	-	-
	2,386	2,911	798	1,823	-	-
Total impaired loans:						
Commercial and industrial	2,859	4,687	763	2,526	-	-
Commercial real estate owner occupied	1,480	1,480	-	740	-	-
Commercial real estate nonowner occupied	3,241	3,424	-	3,372	20	20
Agriculture	802	842	27	815	187	187
Residential real estate	497	598	8	528	9	9
Consumer and other	113	144	-	157	10	10
	$ 8,992	$ 11,175	$ 798	$ 8,138	$ 226	$ 226

Note 4. Loans (Continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized for Cash Payments Received
	2017					
	(In Thousands)					
Classes of loans:						
Impaired loans with no specific allowance recorded:						
Commercial and industrial	$ 1,752	$ 3,189	$ -	$ 876	$ 12	$ 12
Commercial real estate owner occupied	-	-	-	-	-	-
Commercial real estate nonowner occupied	3,502	3,949	-	3,632	-	-
Agriculture	10	12	-	331	10	10
Residential real estate	557	631	-	600	14	14
Consumer and other	201	239	-	333	6	6
	6,022	8,020	-	5,772	42	42
Impaired loans with specific allowance recorded:						
Commercial and industrial	439	439	52	220	-	-
Commercial real estate owner occupied	-	-	-	-	-	-
Commercial real estate nonowner occupied	-	-	-	-	-	-
Agriculture	820	820	71	410	-	-
Residential real estate	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	-
	1,259	1,259	123	630	-	-
Total impaired loans:						
Commercial and industrial	2,191	3,628	52	1,096	12	12
Commercial real estate owner occupied	-	-	-	-	-	-
Commercial real estate nonowner occupied	3,502	3,949	-	3,632	-	-
Agriculture	830	832	71	741	10	10
Residential real estate	557	631	-	600	14	14
Consumer and other	201	239	-	333	6	6
	$ 7,281	$ 9,279	$ 123	$ 6,402	$ 42	$ 42

Note 4. Loans (Continued)

Impaired loans for which no allowance has been provided have adequate collateral, based on management's current estimates.

For commercial and industrial, commercial real estate owner occupied, commercial real estate nonowner occupied and agriculture loans, the Company's credit quality indicator is internally assigned risk rating. See Note 1 for further information.

For residential real estate loans and consumer and other loans, the Company's credit quality indicator is performance determined by delinquency status. Delinquency status is updated daily by the Company's loan system.

For each class of loans, the following summarizes the recorded investment by credit quality indicator as of December 31, 2018 and 2017:

	Commercial and Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Nonowner Occupied	Agriculture	Total
			2018		
			(In Thousands)		
Internally assigned risk rating:					
Pass (ratings 1 and 2)	**$ 38,855**	**$ 24,410**	**$ 40,519**	**$ 45,056**	**$ 148,840**
Watch (rating 3)	**12,554**	**1,826**	**11,998**	**30,525**	**56,903**
Special mention (rating 4)	**166**	**752**	**240**	**2,339**	**3,497**
Substandard (rating 5)	**5,809**	**1,480**	**6,094**	**18,534**	**31,917**
Doubtful (rating 6)	**-**	**-**	**-**	**-**	**-**
	$ 57,384	**$ 28,468**	**$ 58,851**	**$ 96,454**	**$ 241,157**

	Residential Real Estate	Consumer and Other	Total
		2018	
		(In Thousands)	
Delinquency status*:			
Performing	**$ 126,938**	**$ 11,021**	**$ 137,959**
Nonperforming	**500**	**121**	**621**
	$ 127,438	**$ 11,142**	**$ 138,580**

Note 4. Loans (Continued)

	Commercial and Industrial	Commercial Real Estate Owner Occupied	Commercial Real Estate Nonowner Occupied	Agriculture	Total
	2017				
	(In Thousands)				
Internally assigned risk rating:					
Pass (ratings 1 and 2)	$ 45,176	$ 29,625	$ 48,526	$ 65,592	$ 188,919
Watch (rating 3)	13,522	2,767	5,348	26,441	48,078
Special mention (rating 4)	1,168	-	-	7,757	8,925
Substandard (rating 5)	3,429	-	6,445	6,057	15,931
Doubtful (rating 6)	-	-	-	-	-
	$ 63,295	$ 32,392	$ 60,319	$ 105,847	$ 261,853

	Residential Real Estate	Consumer and Other	Total
	2017		
	(In Thousands)		
Delinquency status*:			
Performing	$ 129,534	$ 14,089	$ 143,623
Nonperforming	657	234	891
	$ 130,191	$ 14,323	$ 144,514

* Performing loans are those which are accruing and less than 90 days past due. Nonperforming loans are those on nonaccrual, accruing loans that are greater than or equal to 90 days past due, and accruing TDRs.

As of December 31, 2018 and 2017 troubled debt restructurings (TDRs) total $3,593,000 and $3,975,000, respectively.

For each class of loans, the following summarizes the number and investment in TDRs, by type of concession, that were restructured during the years ended December 31, 2018 and 2017:

	Number of TDRs	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
	2018		
	(Dollars in Thousands)		
Concession - Extension of maturity:			
Commercial real estate nonowner occupied	**1**	**$ 271**	**$ 271**
	2017		
	(Dollars in Thousands)		
Concession - Extension of maturity:			
Commercial and industrial	3	$ 773	$ 773
Residential real estate	2	98	98
Consumer and other	1	14	14
	6	$ 885	$ 885

Note 4. Loans (Continued)

There was no significant financial impact for principal forgiveness or foregone interest for the TDRs described above. As of December 31, 2018, none of the allowance for loan losses was allocated to TDR's. As of December 31, 2017, $52,000 of allowance for loan losses was allocated to one of the TDRs in commercial and industrial. There were no charge-offs on TDRs during 2018 or 2017.

Subsequent to restructure, $55,000 and $334,000 of the Company's loans redefaulted during 2018 and 2017, respectively, where a default is defined as a delinquency of 90 days or more and/or placement on nonaccrual status.

The Company retains mortgage loan servicing on loans sold into the secondary market which are not included in the accompanying consolidated balance sheets. The unpaid principal balance on these loans was $56,024,000 and $57,502,000 as of December 31, 2018 and 2017, respectively. Custodial escrow balances maintained in connection with these loans were approximately $652,000 and $644,000 as of December 31, 2018 and 2017, respectively.

In the ordinary course of business, the Company has granted loans to executive officers, directors, principal stockholders and their related interests amounting to $3,390,000 and $3,968,000 as of December 31, 2018 and 2017, respectively. This includes loans outstanding as well as unfunded commitments.

Note 5. Bank Premises and Equipment

Bank premises and equipment are summarized as follows:

	December 31,	
	2018	2017
	(In Thousands)	
Land	**$ 1,091**	$ 1,091
Bank premises	**11,934**	11,653
Furniture and equipment	**4,624**	4,290
	17,649	17,034
Accumulated depreciation	**10,780**	10,505
	$ 6,869	$ 6,529

Note 6. Deposits

Included in deposits are certificates of deposit with a minimum denomination of $250,000 totaling $23,982,000 and $19,862,000 as of December 31, 2018 and 2017, respectively. Brokered deposits were $5,416,000 and $9,639,000 as of December 31, 2018 and 2017, respectively.

At December 31, 2018, the scheduled maturities of all certificates of deposit (dollars in thousands) are as follows:

Year ending December 31:		
2019	$	47,364
2020		42,341
2021		11,982
2022		10,342
2023		1,808
Thereafter		9
	$	113,846

Note 7. Short-Term Borrowings

Short-term borrowings outstanding as of December 31, 2018 and 2017 totaling $4,629,000 and $8,244,000, respectively, consist of securities sold under agreements to repurchase (repurchase agreements), which represent agreements with customers of the Banks which are collateralized with securities of the Banks held by the Federal Home Loan Bank of Des Moines. The Federal Home Loan Bank may sell, loan or otherwise dispose of such securities to other parties in the normal course of their operations with prior written approval of the Banks, and have agreed to resell to the Banks substantially identical securities at the maturities of the agreements. These short-term collateralized borrowings result in the receipt of cash by the Banks from the Banks' customers in exchange for transferring securities as collateral to an independent third-party custodian, with the Banks recognizing an obligation to repay the customers in cash at the transaction's maturity. These types of transactions are sometimes referred to as tri-party repurchase agreements as the third-party custodian is interposed between the repurchase agreement seller (the Banks) and the buyer (the Banks' customers). Such transactions create risks, including (1) the counterparty—the Federal Home Loan Bank of Des Moines—may for some reason fail to release the securities at maturity and (2) the fair value of the securities transferred may decline below the amount of the Banks' obligation to repay customers, and therefore, create an obligation for the Banks to pledge additional amounts. The Company attempts to mitigate these risks by the fact that the majority of the securities involved in these transactions are highly liquid, the financial strength and professional reputation of our counterparty is strong, and we maintain a reasonable excess between the fair value of collateral pledged relative to contractually required repurchase amounts.

As of December 31, 2018 and 2017 all of the repurchase agreements mature on an overnight or continuous basis. Further information on repurchase agreements follows:

		2018		2017
	(In Thousands)			
Securities collateralizing the agreements,				
U.S. Treasury and agency securities	**$**	**9,396**	$	10,006
Less excess collateral		**4,767**		1,762
	$	**4,629**	$	8,244

Note 7. Short-Term Borrowings (Continued)

As members of the Federal Reserve Bank, and in particular, as participants in the Borrower in Custody Program, the Banks have the ability to borrow short-term funds from the Federal Reserve Bank at variable rates. As of December 31, 2018 and 2017 no amounts were outstanding under this program. The Banks have pledged qualifying loans totaling approximately $15,126,000 as of December 31, 2018 to secure future borrowings of up to $10,989,000 should the need arise.

Note 8. Note Payable

Information regarding the Company's outstanding note payable is as follows:

	December 31,	
	2018	2017
	(In Thousands)	
Amortizing note payable to a bank, interest variable at prime rate minus 0.25% with a 3.25% floor rate and a ceiling rate of 6.00%, (5.25% and 4.25% as of December 31, 2018 and 2017, respectively), due June 30, 2021, with annual principal installments of $410,000 and $300,000 as of December 31, 2018 and 2017, respectively, secured by stock of subsidiary banks of the Company	**$ 3,690**	$ 2,700

The Company has a line of credit with a bank, which allows the Company to borrow up to $1,500,000. This line of credit has interest variable at prime rate minus 0.25% with a 3.25% floor rate and a ceiling rate of 6.00% (5.25% and 4.25% as of December 31, 2018 and 2017, respectively) and maturity of June 30, 2019. There was no amount outstanding on the line of credit as of December 31, 2018 and 2017.

The note payable agreement contains certain covenants that stipulate the maintenance of minimum capital ratios.

On behalf of one of the Company's subsidiary banks, the Federal Home Loan Bank of Des Moines has established in favor of Treasurer State of Iowa an Irrevocable Standby Letter of Credit in the amount of $5,000,000. This Standby Letter of Credit, which expires May 31, 2019, is used by the Company as an efficient, cost effective method of providing collateral for public entity deposits.

Note 9. Federal Home Loan Bank Advances

Advances from the Federal Home Loan Bank as of December 31, 2018 and 2017 bear interest and are due as follows:

	2018		2017	
	Weighted Average Interest Rate at Year-End	**Balance Due**	Weighted Average Interest Rate at Year-End	Balance Due
	(In Thousands)			
Year ending December 31:				
2018	**- %**	**$ -**	1.32%	$ 1,000
2019	**1.72**	**2,000**	1.81	5,000
2020	**1.84**	**1,750**	1.84	1,750
2021	**2.06**	**1,000**	2.06	1,000
2022	**-**	**-**	-	-
2023	**-**	**-**	-	-
Thereafter	**2.23**	**250**	2.23	250
		$ 5,000		$ 9,000

Federal Home Loan Bank advances are collateralized by Federal Home Loan Bank stock, included in restricted investment securities on the consolidated balance sheets, totaling $778,000 and $947,000 as of December 31, 2018 and 2017, respectively. Additionally, loans of approximately $120,021,000 and $97,538,000 as of December 31, 2018 and 2017, respectively, are pledged as collateral for current and future Federal Home Loan Bank advances. As of December 31, 2018, the $120,021,000 of loans pledged to the Federal Home Loan Bank included $95,196,000 of first mortgage residential real estate loans, $7,531,000 of first mortgage commercial real estate loans and $17,294,000 of first mortgage agricultural real estate loans.

Note 10. Regulatory Matters

The Company and Banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company and Banks' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Banks must meet specific capital guidelines that involve quantitative measures of the Banks' assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Banks to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), of Tier 1 capital (as defined) to average assets (as defined), and of common equity Tier 1 capital (as defined) to risk-weighted assets (as defined). Management believes, as of December 31, 2018, that the Company and Banks meet all capital adequacy requirements to which they are subject.

Note 10. Regulatory Matters (Continued)

As of December 31, 2018, the most recent notification from the Federal Deposit Insurance Corporation categorized First National Bank of Muscatine as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately or well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, Tier 1 leverage, and common equity Tier 1 ratios as set forth in the table. There are no conditions or events since the notification that management believes have changed First National Bank of Muscatine's categories.

During 2018, First National Bank in Fairfield received written notification from its primary banking regulator that it had been placed under an Individual Minimum Capital Ratios (IMCR) requirement. Under the IMCR, First National Bank in Fairfield is required to maintain a Tier I capital to average assets ratio of 9% and a total capital to risk weighted assets ratio of 12%. These are higher ratios than the ratios normally required to be considered well capitalized. As illustrated in the table below, First National Bank in Fairfield has maintained capital ratios in excess of those required by the IMCR as of December 31, 2018.

The Company and Banks' actual capital amounts and ratios are summarized in the following table:

	Actual		For Capital Adequacy Purposes		For Capital Adequacy Purposes With Capital Conservation Buffer*		To be Well Capitalized Under Prompt Corrective Action Provisions		Required by IMCR	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018										
Total Capital (to Risk-Weighted Assets):										
Consolidated	$ 51,592	14.2%	$ 29,075	≥8.0%	$ 35,890	≥9.875%	N/A	N/A	N/A	N/A
First National Bank of Muscatine	39,465	16.1	19,614	≥8.0	24,211	≥9.875	$ 24,517	≥10.0%	N/A	N/A
First National Bank in Fairfield	15,784	13.4	9,400	≥8.0	11,604	≥9.875	11,751	≥10.0%	$ 14,101	≥12.0%
Tier 1 Capital (to Risk-Weighted Assets):										
Consolidated	47,036	12.9	21,806	≥6.0	28,621	≥7.875	N/A	N/A	N/A	N/A
First National Bank of Muscatine	36,389	14.8	14,710	≥6.0	19,307	≥7.875	19,614	≥8.0	N/A	N/A
First National Bank in Fairfield	14,305	12.2	7,050	≥6.0	9,254	≥7.875	9,400	≥8.0	N/A	N/A
Tier 1 Capital (to Average Assets):										
Consolidated	47,036	10.1	18,613	≥4.0	18,613	≥4.000	N/A	N/A	N/A	N/A
First National Bank of Muscatine	36,389	11.7	12,479	≥4.0	12,479	≥4.000	15,598	≥ 5.0	N/A	N/A
First National Bank in Fairfield	14,305	9.4	6,120	≥4.0	6,120	≥4.000	7,650	≥ 5.0	13,770	≥9.0%
Common Equity Tier 1 Capital (to Risk-Weighted Assets):										
Consolidated	47,036	12.9	16,355	≥4.5	23,169	≥6.375	N/A	N/A	N/A	N/A
First National Bank of Muscatine	36,389	14.8	11,033	≥4.5	15,630	≥6.375	15,936	≥ 6.5	N/A	N/A
First National Bank in Fairfield	14,305	12.2	5,288	≥4.5	7,491	≥6.375	7,638	≥ 6.5	N/A	N/A

Note 10. Regulatory Matters (Continued)

	Actual		For Capital Adequacy Purposes		For Capital Adequacy Purposes With Capital Conservation Buffer*		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2017								
Total Capital (to Risk-Weighted Assets):								
Consolidated	$ 50,827	13.0%	$ 31,283	≥8.0%	$ 36,172	≥9.25%	N/A	N/A
First National Bank of Muscatine	38,477	15.0	20,485	≥8.0	23,685	≥9.25	$ 25,606	≥10.0%
First National Bank in Fairfield	14,737	11.0	10,713	≥8.0	12,388	≥9.25	13,392	≥10.0
Tier 1 Capital (to Risk-Weighted Assets):								
Consolidated	45,942	11.8	23,463	≥6.0	28,351	≥7.25	N/A	N/A
First National Bank of Muscatine	35,275	13.8	15,363	≥6.0	18,564	≥7.25	20,485	≥8.0
First National Bank in Fairfield	13,054	9.8	8,035	≥6.0	9,709	≥7.25	10,714	≥8.0
Tier 1 Capital (to Average Assets):								
Consolidated	45,942	9.5	19,350	≥4.0	19,350	≥4.0	N/A	N/A
First National Bank of Muscatine	35,275	11.2	12,629	≥4.0	12,629	≥4.0	15,787	≥ 5.0
First National Bank in Fairfield	13,054	7.8	6,690	≥4.0	6,690	≥4.0	8,362	≥ 5.0
Common Equity Tier 1 Capital (to Risk-Weighted Assets):								
Consolidated	45,942	11.8	17,597	≥4.5	22,485	≥5.75	N/A	N/A
First National Bank of Muscatine	35,275	13.8	11,523	≥4.5	14,723	≥5.75	16,644	≥ 6.5
First National Bank in Fairfield	13,054	9.8	6,026	≥4.5	7,700	≥5.75	8,705	≥ 6.5

* Beginning in 2016, BASEL III, raises the minimum requirements for capital adequacy purposes. Annually, beginning January 1, 2016 until January 1, 2019, the minimums increase by .625%. The fully phased in minimums are 10.5% for total risk-based capital, 8.5% for Tier 1 risk-based capital and 7.0% for common equity Tier 1 capital.

Current banking law limits the amount of dividends banks can pay. As of December 31, 2018, amounts available for payment of dividends were $1,758,000 and $97,000 for First National Bank of Muscatine and First National Bank in Fairfield, respectively. Regardless of formal regulatory restrictions the Banks may not pay dividends which would result in their capital levels being reduced below the minimum requirements shown above.

Note 11. Employee Benefits

The Company and subsidiary banks sponsor a retirement plan with 401(k) and employee stock ownership provisions. This plan owned 61,485 and 67,210 common shares of the Company as of December 31, 2018 and 2017, respectively. The plan covers substantially all employees who have reached the age of 21 and worked at least 180 days. The Company and subsidiary banks match 50% of the amount an employee contributes to the plan up to a maximum of 6% of the employee's pay. Additionally, the Company and subsidiary banks may make profit sharing contributions to the plan which are allocated to the accounts of participants in the plan on the basis of total relative compensation. The amounts expensed for the years ended December 31, 2018 and 2017 were $424,000 and $445,000, respectively.

Note 11. Employee Benefits (Continued)

An employee, upon termination of employment, has the option of retaining ownership of shares vested pursuant to the plan or selling such shares to the Plan or Company. During 2018, terminated employees opted to sell 881 shares to the Company. No shares were sold to the Company during 2017. As of December 31, 2018, 61,485 shares were held by the retirement plan at a fair value of $36.27 per share based on the last price at which shares traded in 2018, resulting in a contingent repurchase liability of approximately $2,230,000.

Annual diversification election options are available to qualifying participants of 25% or 50% of the number of common shares of Iowa First Bancshares Corp. that have been credited to their account in the Plan. Such diversifications are funded either by cash held in the Plan or, if the amount of such cash held in the Plan is insufficient to fund the diversifications, shares are sold to the Company to facilitate the elected diversifications. In conjunction with these diversifications, the Company did not purchase any shares of common stock from plan participants during the years ended December 31, 2018 and 2017.

The Company has entered into deferred compensation agreements with certain directors and executive officers of the Company and the Banks. Under the provisions of the agreements, the directors and officers may defer a portion of their compensation each year. Based upon individual performance, if Board established performance targets are met, a match of up to 50% of the officers' deferrals may be paid by the Company. The Company may make additional discretionary contributions for officers. Related to the agreements, the Company has purchased various life insurance contracts. Interest on deferrals is computed at an annual rate equal to the prime interest rate on the first day of January plus 2%, with a floor of 6% and a ceiling of 12%. For 2018 and 2017 the rate was 6.50% and 6.00%, respectively. Upon retirement, the director or officer will receive, pursuant to their prior election, the deferral balance in 60, 84, 120 or 180 substantially equal monthly installments. During the years ended December 31, 2018 and 2017, the Company expensed $399,000 and $365,000, respectively, related to the agreements, which includes the compensation deferred as well as related interest. As of December 31, 2018 and 2017, the liability related to the agreements was $4,093,000 and $3,840,000, respectively. The cash payments to participants pursuant to the agreements were $146,000 and $79,000 for the years ended December 31, 2018 and 2017, respectively.

Note 12. Income Taxes

The components of income tax expense are as follows:

	Year Ended December 31,	
	2018	2017
	(In Thousands)	
Current	**$ 690**	$ 40
Deferred	**(16)**	1,715
	$ 674	$ 1,755

Note 12. Income Taxes (Continued)

Income tax expense differs from the amount computed by applying the federal income tax rate to income before income taxes. The reasons for this difference are as follows:

	Year Ended December 31,			
	2018		2017	
	Dollar Amount	**% Of Pretax Income**	Dollar Amount	% Of Pretax Income
	(In Thousands)			
Computed "expected" income tax expense	**$ 627**	**21.0%**	$ 1,412	34.0%
Tax exempt interest and dividend income, net	**(75)**	**(2.5)**	(103)	(2.5)
State income taxes, net	**118**	**4.0**	137	3.3
Increase in cash surrender value of life insurance contracts	**(40)**	**(1.3)**	(66)	(1.6)
Re-valuation of net deferred income tax assets due to reduction in federal income tax rate	**-**	**-**	490	11.8
Other, net	**44**	**1.4**	(115)	(2.7)
	$ 674	**22.6%**	$ 1,755	42.3%

On December 22, 2017, the Tax Cuts and Jobs Act (the Act) was signed into law. The Act reduced the federal maximum corporate income tax rate from 35% to 21%, effective for 2018 and future years. The enactment of the Act required a one-time reduction in the Company's net deferred tax assets as of December 31, 2017 and an increase to tax expense of $490,000 as shown in the table above.

Note 12. Income Taxes (Continued)

Net deferred tax assets, included in other assets on the consolidated balance sheets, consist of the following components as of December 31:

	2018	2017
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 1,003	$ 916
Deferred compensation	1,022	958
Net unrealized losses on securities available for sale	23	-
Other	44	131
	2,092	2,005
Deferred tax liabilities:		
Net unrealized gains on securities available for sale	-	(51)
Bank premises and equipment	(475)	(388)
Net deferred loan origination fees	(209)	(240)
Prepaid expenses	(27)	(26)
Mortgage servicing	(49)	(53)
Other	(4)	(9)
	(764)	(767)
Net deferred tax assets	$ 1,328	$ 1,238

The change in deferred income taxes was reflected in the consolidated financial statements as follows for the years ended December 31, 2018 and 2017:

	2018	2017
	(In Thousands)	
Provision for income taxes	$ (16)	$ 1,715
Statement of stockholders' equity, accumulated other comprehensive income (loss)	(74)	13
	$ (90)	$ 1,728

Note 13. Commitments and Contingencies

Financial instruments with off-balance-sheet risk: The Banks are parties to financial instruments with off-balance-sheet risk made in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Banks' exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amounts of those instruments. The Banks use the same credit policies in making commitments and conditional obligations as they do for on-balance-sheet instruments.

	December 31,	
	2018	2017
	(In Thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	**$ 54,029**	$ 47,756
Standby letters of credit	**1,479**	1,920

The commitments to extend credit above are net of participations sold to other banks. Total participations sold to other banks related to the commitments to extend credit were $2,897,000 and $3,999,000 as of December 31, 2018 and 2017, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon and some of the commitments will be sold to other financial intermediaries if drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Banks evaluate each customer's creditworthiness on a case-by-case basis.

Standby letters of credit are conditional commitments issued by the Banks to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and, generally, have terms of one year, or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Banks hold collateral, which may include accounts receivable, inventory, property and equipment, and income-producing properties, supporting those commitments if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Banks would be required to fund the commitment. The maximum potential amount of future payments the Banks could be required to make is represented by the contractual amount shown in the preceding summary. If the commitment is funded, the Banks would be entitled to seek recovery from the customer. As of December 31, 2018 and 2017, no amounts have been recorded as liabilities for the Banks' potential obligations under these guarantees.

The Company has no executed contracts for the sale of mortgage loans in the secondary market as of December 31, 2018 and 2017.

Note 13. Commitments and Contingencies (Continued)

Concentration of credit risk: The Banks grant commercial, real estate and installment loans to customers in the Banks' primary market area of Iowa, with most loans concentrated in the Iowa counties of Muscatine and Jefferson. The Banks have reasonably diversified loan portfolios, as set forth in Note 4. The distribution of commitments to extend credit and standby letters of credit approximates the distribution of loans outstanding. The Banks' policies for requiring collateral are consistent with prudent lending practices and anticipate the potential for economic fluctuations. Collateral varies but may include accounts receivable, inventory, property and equipment, securities, residential real estate properties and income producing commercial properties. It is the policy of the Banks to file financing statements and mortgages covering collateral pledged.

Aside from cash on-hand and in-vault, the Company's cash is maintained at the Federal Reserve Bank and correspondent banks. The total amount of cash on deposit and certificates of deposit with correspondent banks exceeded federal insured limits by $1,150,000 and $2,378,000 as of December 31, 2018 and 2017, respectively. At December 31, 2018 the entire amount of cash which exceeded federal insured limits was held at one bank. At December 31, 2017 nearly all of the cash which exceeded federal insured limits was held at one bank. In the opinion of management, no material risk of loss exists due to the financial condition of this financial institution.

Contingencies: In the normal course of business, the Banks are involved in various legal proceedings. When the Banks face disputes with customers and other counterparties, those disputes can pose financial risk to the Company. The Company intends to vigorously pursue all available defenses related to legal matters, but will also consider other alternatives, including settlement, in situations where there is an opportunity to resolve such on terms that the Company considers to be favorable. Included in this determination is consideration of continued expense, as well as the distractions and inefficiencies inherent in defending such matters, and the uncertainty that is inherent in any jury trial. Except as noted, in the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Company's consolidated financial statements.

Note 14. Fair Value Measurements

Accounting guidance on fair value measurements defines fair value, establishes a framework for measuring fair value using a hierarchy system and requires disclosure of fair value measurements. The hierarchy is intended to maximize the use of observable inputs and minimize the use of unobservable inputs and includes three levels based upon the evaluation techniques used. The three levels are as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Note 14. Fair Value Measurements (Continued)

A description of the valuation methodologies used for assets measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. The Company has no liabilities measured at fair value.

Investment securities available for sale: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage−backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

Impaired loans: The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loan impairment is measured based upon the present value of expected future cash flows discounted at the loan's effective interest rate, except where more practical, at the observable market price of the loan or the fair value of the collateral, if the loan is collateral dependent. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. Fair value of real estate collateral is determined based upon appraisals by qualified licensed appraisers hired by the Company, and are, generally, considered Level 2 measurements. In some cases, adjustments are made to the appraised values due to various factors including age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral. When significant adjustments are based on unobservable inputs, the resulting fair value measurement is categorized as a Level 3 measurement. The Company records impaired loans at fair value less selling costs. The fair values reported in the table following are before the deduction for selling costs.

Other real estate owned: Other real estate owned is carried at the lower of the principal amount of the loan outstanding at the time of acquisition, plus any acquisition costs, or the estimated fair value of the property, less disposal and selling costs. The fair value of the property is determined based upon appraisals. As with impaired loans, if significant adjustments are made to the appraised value, based upon unobservable inputs, the resulting fair value measurement is categorized as a Level 3 measurement. The fair values reported in the table following are before the deduction for disposal and selling costs.

There have been no changes in valuation techniques used for any assets measured at fair value during the years ended December 31, 2018 and 2017.

Note 14. Fair Value Measurements (Continued)

Assets recorded at fair value on a recurring basis:

The following table summarizes assets measured at fair value on a recurring basis as of December 31, 2018 and 2017 segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		2018 (In Thousands)		
Investment securities available for sale:				
U.S. treasury securities	**$ 14,108**	**$ 14,108**	**$ -**	**$ -**
U.S. government agencies	**498**	**-**	**498**	**-**
State and political subdivisions	**4,923**	**-**	**4,923**	**-**
	$ 19,529	**$ 14,108**	**$ 5,421**	**$ -**
		2017 (In Thousands)		
Investment securities available for sale:				
U.S. treasury securities	$ 14,702	$ 14,702	$ -	$ -
U.S. government agencies	2,499	-	2,499	-
State and political subdivisions	5,751	-	5,751	-
Other securities	400	400	-	-
	$ 23,352	$ 15,102	$ 8,250	$ -

There were no transfers of assets or liabilities between Levels 1, 2 and 3 of the fair value hierarchy during the years ended December 31, 2018 and 2017.

Note 14. Fair Value Measurements (Continued)

Assets recorded at fair value on a nonrecurring basis:

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a nonrecurring basis, such as when there is evidence of impairment. Assets measured at fair value on a nonrecurring basis are included in the table below:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		2018		
		(In Thousands)		
Assets, impaired loans	**$ 3,016**	**$ -**	**$ -**	**$ 3,016**
		2017		
		(In Thousands)		
Assets:				
Impaired loans	$ 3,377	$ -	$ -	$ 3,377
Other real estate owned	21	-	-	21
	$ 3,398	$ -	$ -	$ 3,398

Accounting guidance on fair value measurements requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. Certain financial instruments and all nonfinancial instruments are excluded from these disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

Note 14. Fair Value Measurements (Continued)

The carrying values and estimated fair values of financial instruments as of December 31, 2018 and 2017 are summarized as follows:

	Fair Value Hierarchy Level	2018 Carrying Value	2018 Estimated Fair Value	2017 Carrying Value	2017 Estimated Fair Value
		(In Thousands)			
Financial Assets:					
Cash and due from banks	Level 1	$ 8,985	$ 8,985	$ 11,960	$ 11,960
Interest-bearing deposits at financial institutions	Level 2	39,658	39,658	24,185	24,185
Investment securities available for sale	See previous table	19,529	19,529	23,352	23,352
Loans, net of allowance	Level 3	2,671	3,016	3,059	3,377
Loans, net of allowance	Level 2	370,746	363,918	397,624	399,055
Accrued interest receivable	Level 2	2,497	2,497	3,427	3,427
Restricted investment securities	Level 1	994	994	1,103	1,103
Financial Liabilities:					
Deposits	Level 2	396,047	396,482	410,752	411,129
Short-term borrowings	Level 2	4,629	4,629	8,244	8,244
Note payable	Level 2	3,690	3,690	2,700	2,700
Federal Home Loan Bank advances	Level 2	5,000	4,946	9,000	8,961
Accrued interest payable	Level 2	271	271	187	187

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