Section 1: 10-Q (10-Q)

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2019

OR

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

For the transition period from _________ to _________

Commission File No. 001-38778

1895 Bancorp of Wisconsin, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Federal **(State or Other Jurisdiction of Incorporation or Organization)**	**83-3078306** **(I.R.S. Employer Identification No.)**
7001 West Edgerton Avenue **Greenfield, Wisconsin** **(Address of Principal Executive Offices)**	**53220** **(Zip Code)**

(414) 421-8200
(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

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

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

4,876,677 shares of the Registrant’s common stock, par value $0.01 per share, were issued and outstanding as of May 10, 2019.

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	**BCOW**	**The NASDAQ Stock Market, LLC**

Table of Contents

1895 Bancorp of Wisconsin, Inc.
Form 10-Q

Table of Contents

Table of Contents

EXPLANATORY NOTE

1895 Bancorp of Wisconsin, Inc. (the “Company,” “we” or “our”) was formed in January 2019 to serve as the mid-tier stock holding company for PyraMax Bank, FSB (“PyraMax Bank”) upon the reorganization of PyraMax Bank into the two-tier mutual holding company structure. The reorganization was completed on January 8, 2019. Prior to January 8, 2019, the Company had no assets or liabilities and had not conducted any business activities other than organizational activities. Accordingly, financial information contained in this Quarterly Report on Form 10-Q relates solely to PyraMax Bank for any period prior to January 8, 2019.

The financial information contained in this Quarterly Report on Form 10-Q should be read in conjunction with the audited financial statements, and related notes, of the Company at and for the year ended December 31, 2018 contained in the Company’s Annual Report Form 10-K, as filed with the Securities and Exchange Commission on April 1, 2019.

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

1895 BANCORP OF WISCONSIN, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands)

	March 31, 2019 (unaudited)	December 31, 2018
Assets		
Cash and due from banks	$ 32,540	$ 7,782
Fed funds sold	2,143	141
Cash and cash equivalents	34,683	7,923
Available for sale securities, stated at fair value	64,695	65,731
Loans held for sale	1,233	771
Loans, net of allowance for loan losses of $3,426 and $3,262, respectively	360,083	369,830
Premises and equipment, net	7,692	8,163
Mortgage servicing rights, net	2,117	2,103
Federal Home Loan Bank stock, at cost	984	1,261
Accrued interest receivable	1,170	1,106
Cash value of life insurance	13,500	13,400
Other assets	10,794	10,811
TOTAL ASSETS	$ 496,951	$ 481,099
Liabilities and Stockholders' Equity		
Deposits	405,665	406,137
Advance payments by borrowers for taxes and insurance	4,333	1,240
Federal Home Loan Bank advances	24,651	30,010
Accrued interest payable	503	372
Other liabilities	5,108	5,159
Total liabilities	440,260	442,918
Common stock, $0.01 par value, 90,000,000 shares authorized, 4,876,677 shares issued as of March 31, 2019	49	—
Additional paid-in capital	19,980	—
Unallocated common stock of Employee Stock Ownership Plan, 175,528 shares as of March 31, 2019	(1,755)	—
Retained earnings	39,293	39,764
Accumulated other comprehensive loss, net of income taxes	(876)	(1,583)
Total stockholders' equity	56,691	38,181
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 496,951	$ 481,099

See accompanying notes to financial statements.

Table of Contents

1895 BANCORP OF WISCONSIN, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Three months ended March 31, 2019	2018
	(unaudited)	
Interest and dividend income:		
Loans, including fees	$ 3,988	$ 3,401
Securities, taxable	392	494
Other	65	11
Total interest and dividend income	4,445	3,906
Interest expense:		
Interest-bearing deposits	1,180	795
Borrowed funds	123	144
Total interest expense	1,303	939
Net interest income	3,142	2,967
Provision for loan losses	—	—
Net interest income after provision for loan losses	3,142	2,967
Noninterest income:		
Service charges and other fees	186	191
Loan servicing	222	144
Net gain on sale of loans	124	220
Net gain on sale of securities	—	21
Increase in cash surrender value of insurance	100	99
Other	118	11
Total noninterest income	750	686
Noninterest expense:		
Salaries and employee benefits	2,427	2,087
Foreclosed assets, net	7	1
Advertising and promotions	56	12
Data processing	206	206
Occupancy and equipment	458	419
FDIC assessment	93	78
Other	1,325	707
Total noninterest expense	4,572	3,510
(Loss) income before income taxes	(680)	143
(Credit) provision for income taxes	(209)	13
Net (loss) income	$ (471)	$ 130
Earnings per common share		
Basic	$ (0.10)	$ N/A
Diluted	$ (0.10)	$ N/A
Average common shares outstanding		
Basic	4,701	N/A
Diluted	4,701	N/A

See accompanying notes to financial statements.

Table of Contents

1895 BANCORP OF WISCONSIN, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Three months ended March 31, 2019	Three months ended March 31, 2018
	(unaudited)	
Net (loss) income	$ (471)	$ 130
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period	969	(994)
Reclassification adjustment for gains realized in net income	—	(21)
Other comprehensive income (loss) before income tax effect	969	(1,015)
Income tax effect of other comprehensive income (loss) items	262	(274)
Other comprehensive income (loss), net of income tax	707	(741)
Comprehensive income (loss)	$ 236	$ (611)

See accompanying notes to financial statements.

Table of Contents

1895 BANCORP OF WISCONSIN, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands)

	Common stock	Additional paid-in capital	Unallocated common stock of ESOP	Retained earnings	Accumulated other comprehensive loss	Total
Balance as of January 1, 2019	$ —	$ —	$ —	$ 39,764	$ (1,583)	$38,181
Net loss	—	—	—	(471)	—	(471)
Other comprehensive income	—	—	—	—	707	707
Net proceeds from stock offering (4,876,677 shares issued)	49	19,980	—	—	—	20,029
Purchase of ESOP shares (175,528 shares purchased)	—	—	(1,755)	—	—	(1,755)
Balance as of March 31, 2019	$ 49	$ 19,980	$ (1,755)	$ 39,293	$ (876)	$56,691

See accompanying notes to financial statements.

1895 BANCORP OF WISCONSIN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three months ended March 31,	
	2019	2018
	(unaudited)	
Cash flows from operating activities:		
Net (loss) income	$ (471)	$ 130
Adjustments to reconcile net (loss) income to net cash from operating activities:		
Net amortization of investment securities	63	105
Depreciation	172	160
Write-down of premises and equipment	—	8
Gain on sale of premises and equipment	(97)	—
Net gain on sale of investment securities	—	(21)
Deferred income taxes	(203)	(1)
Originations of mortgage loans held for sale	(17,201)	(15,390)
Proceeds from sales of mortgage loans held for sale	16,863	13,220
Net gain on sale of mortgage loans held for sale	(124)	(220)
Net change in cash value of life insurance	(100)	(99)
Changes in operating assets and liabilities:		
Mortgage servicing rights	(14)	81
Accrued interest receivable and other assets	(106)	(67)
Accrued interest payable and other liabilities	80	(552)
Net cash used in operating activities	(1,138)	(2,646)
Cash Flows From Investing Activities		
Proceeds from sales of securities available for sale	—	9,518
Maturities, prepayments, and calls of securities available for sale	1,942	1,753
Net decrease (increase) in loans	9,747	(27,842)
Net capital receipts (expenditures) for premises and equipment	396	(103)
Net decrease (increase) in Federal Home Loan Bank stock	277	(90)
Cash paid, net of cash received, for sale of branch	(3,490)	—
Net cash provided by (used in) investing activities	8,872	(16,764)
Cash Flows From Financing Activities		
Net increase in deposits	3,018	9,107
Net increase in advance payments by borrowers for taxes and insurance	3,093	4,004
Net proceeds from stock offering	18,274	—
Proceeds from issuance of Federal Home Loan Bank advances	—	1,992
Principal payments on Federal Home Loan Bank advances	(5,359)	—
Net cash provided by financing activities	19,026	15,103
Net increase (decrease) in cash and cash equivalents	26,760	(4,307)
Cash and cash equivalents at beginning of period	7,923	12,497
Cash and cash equivalents at end of period	$ 34,683	$ 8,190
Supplemental cash flow information:		
Cash paid during the year for interest	$ 1,172	$ 939
Cash paid during the year for income taxes	—	—
Non-cash investing and financing activities		

On January 4, 2019, the Company sold its West Mitchell Street branch. The sale consisted of premises and equipment and related deposit accounts at the branch. The Company received a premium of $114. In conjunction with the sale, the values of assets and liabilities were as follows:

Cash	$3,490
Premises and equipment	686
Deposits	4,290

See accompanying notes to financial statements.

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

1895 Bancorp of Wisconsin, Inc. (the "Company") was formed in January 2019 to serve as the mid-tier stock holding company for PyraMax Bank, FSB (the "Bank") upon the reorganization of the Bank into the two-tier mutual holding company structure. As of December 31, 2018, the reorganization had not been completed, and therefore, the Company had no assets or liabilities and had not conducted any business activities other than organizational activities as of and for the year ended December 31, 2018. Accordingly, the financial information contained in these financial statements relates solely to the Bank for periods prior to January 8, 2019.

PyraMax Bank, FSB (the "Bank") is chartered as a federal savings bank. The Bank operates as a full-service financial institution, providing a full range of financial services, including the granting of commercial, residential, and consumer loans and acceptance of deposits from individual customers and small businesses in the metropolitan Milwaukee, Wisconsin, area. The Bank is subject to competition from other financial and nonfinancial institutions providing financial products. In addition, the Bank is subject to the regulations of certain regulatory agencies and undergoes periodic examination by those regulatory agencies.

On September 5, 2018, the Board of Directors of the Bank adopted a Plan of Reorganization from a Mutual Savings Bank to a Mutual Holding Company and Stock Issuance Plan (the "Plan"). The Plan was approved by the Board of Governors of the Federal Reserve System and by the affirmative vote of a majority of the total votes eligible to be cast by the voting members of the Bank at a special meeting. Pursuant to the Plan, on January 8, 2019, the Bank converted to a stock savings bank and issued all of its outstanding stock to a new holding company, named 1895 Bancorp of Wisconsin, Inc. Pursuant to the Plan, the new holding company sold 2,145,738 shares of common stock (including 175,528 shares to be issued to the Bank's employee stock ownership plan "ESOP") at $10.00 per share, for gross offering proceeds of approximately $21.5 million in its subscription offering. In addition, on January 8, 2019, 48,767 shares and $100,000 were contributed to a newly formed charitable foundation, 1895 Bancorp of Wisconsin Community Foundation. 1895 Bancorp of Wisconsin, Inc. was organized as a corporation under the laws of the United States and offered 45% of its common stock to be outstanding to the Bank's eligible members, the ESOP, a community foundation and certain other persons. 1895 Bancorp of Wisconsin, MHC was organized as a mutual holding company under the laws of the United States and owns 55% of the outstanding common stock of 1895 Bancorp of Wisconsin, Inc.

The accompanying unaudited interim financial statements and the notes thereto have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). In the opinion of management, the accompanying unaudited interim financial statements contain all normal recurring adjustments necessary to present fairly the financial positions results of operations, changes in equity and cash flows for the periods presented.

The accompanying unaudited financial statements and related notes should be read in conjunction with the audited annual financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the Securities and Exchange Commission on April 1, 2019.

In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet, and reported amounts of revenues and expenses during the reporting period. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the fair values of securities, financial instruments and mortgage servicing rights, and the valuation of deferred income tax assets. Actual results could differ from those estimates.

On April 5, 2012, the *Jumpstart Our Business Startups Act* (the "JOBS Act") was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies and define an "emerging growth company." As an emerging growth company, the Company may delay adoption of new or revised financial accounting standards until such date that the standards are required to be adopted by non-issuer companies. If such standards would not apply to non-issuer companies, no deferral would be applicable. The Company intends to take advantage of the benefits of the extended transition periods allowed under the JOBS Act.

Accordingly, the Company's financial statements may not be comparable to those of public companies that adopt new or revised financial accounting standards as of an earlier date. The effective dates of the following recent accounting standards reflect those that relate to non-issuer companies.

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

NOTE 2 – RECENT ACCOUNTING STANDARDS

The Bank recently adopted the following Accounting Standards Updates ("ASU") issued by the Financial Accounting Standards Board ("FASB"):

ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This amendment supersedes and replaces nearly all existing revenue recognition guidance. Under the amended guidance, 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. Management adopted this new accounting standard beginning with the interim period ended March 31, 2019, with no material impact on the Bank's financial statements.

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

ASU 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 326)*. ASU 2016-13 requires organizations to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. Early adoption will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Management is currently assessing the impact of adopting ASU 2016-13 on the Bank's financial statements.

ASU 2016-02, *Leases (Topic 842)*. This ASU affects any entity that enters into a lease, and is intended to increase the transparency and comparability of financial reporting. The ASU requires, among other changes, a lessee to recognize on its balance sheet a lease asset and a lease liability for those leases previously classified as operating leases. The lease asset will represent the right to use the underlying asset for the lease term, and the lease liability will represent the discounted value of the required lease payments to the lessor. The ASU will also require entities to disclose key information about leasing arrangements. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted. Management is currently evaluating the impact of adopting ASU 2016-02 on the Bank's financial statements.

ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities*. This ASU applies to all entities that hold financial assets or owe financial liabilities, and is intended to provide more useful information on the recognition, measurement, presentation and disclosure of financial instruments. Among other things, this ASU 1) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; 2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) eliminates the requirement to disclose the fair values of financial instruments measured at amortized cost for entities that are not public business entities; 4) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair values required to be disclosed for financial instruments measured at amortized cost; 5) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; 6) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and 7) clarifies that an entity should evaluate the need for a valuation allowance on deferred tax assets related to available-for-sale securities in combination with the entity's other deferred tax assets. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 31, 2019. Early adoption is permitted. The adoption of ASU 2016-01 is not expected to have a material impact on the Bank's financial statements.

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

NOTE 3 – SECURITIES AVAILABLE-FOR-SALE

The amortized costs and fair values of securities available-for-sale were as follows:

	March 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Obligations of states and political subdivisions	$ 10,829	$ 36	$ (107)	$10,758
Government-sponsored mortgage-backed securities	51,184	18	(1,145)	50,057
Corporate collateralized mortgage obligations	390	1	—	391
Asset-backed securities	3,243	—	(2)	3,241
Certificates of deposit	249	—	(1)	248
Total	$ 65,895	$ 55	$ (1,255)	$64,695

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Obligations of states and political subdivisions	$ 11,348	$ 25	$ (204)	$11,169
Government-sponsored mortgage-backed securities	52,363	4	(1,992)	50,375
Corporate collateralized mortgage obligations	410	1	(1)	410
Asset-backed securities	3,530	2	(1)	3,531
Certificates of deposit	249	—	(3)	246
Total	$ 67,900	$ 32	$ (2,201)	$65,731

The amortized costs and fair values of securities available-for-sale, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. In addition, expected maturities will differ from contractual maturities for mortgage-backed securities, as the expected repayment terms may be less than the underlying mortgage pool contractual maturities. Therefore, these securities are not included in the maturity categories in the maturity summary below.

	March 31, 2019	
	Amortized Cost	Fair Value
	(in thousands)	
Debt and other securities:		
Due in one year or less	$ 1,445	$ 1,445
Due after one through 5 years	6,435	6,388
Due after 5 through 10 years	3,198	3,173
Due after 10 years	—	—
Mortgage-related securities	51,574	50,448
Asset-backed securities	3,243	3,241
Total	$ 65,895	$64,695

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

Gross unrealized losses on securities available-for-sale and the fair values of the related securities, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position were as follows:

	March 31, 2019					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)					
Obligations of states and political subdivisions	$ —	$ —	$ 7,747	$ (107)	$ 7,747	$ (107)
Government-sponsored mortgage-backed securities	—	—	45,257	(1,145)	45,257	(1,145)
Asset-backed securities	2,558	(2)	—	—	2,558	(2)
Certificates of deposit	—	—	248	(1)	248	(1)
Total	$2,558	$ (2)	$53,252	$ (1,253)	$55,810	$ (1,255)

	December 31, 2018					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(in thousands)					
Obligations of states and political subdivisions	$1,567	$ (5)	$ 6,909	$ (199)	$ 8,476	$ (204)
Government-sponsored mortgage-backed securities	29	—	49,549	(1,992)	49,578	(1,992)
Corporate collateralized mortgage obligations	204	—	147	(1)	351	(1)
Asset-backed securities	813	(1)	—	—	813	(1)
Certificates of deposit	—	—	246	(3)	246	(3)
Total	$2,613	$ (6)	$56,851	$ (2,195)	$59,464	$ (2,201)

At March 31, 2019 and December 31, 2018, respectively, the Bank had 51 and 59 debt securities with unrealized losses representing aggregate depreciation of approximately 2.2% and 3.6% from their respective amortized cost bases. These unrealized losses relate principally to changes in interest rates and were not caused by changes in the financial condition of the issuers, the quality of any underlying assets or applicable credit enhancements. In analyzing whether unrealized losses on debt securities are other-than-temporary, management considers whether the securities are issued by a government body or agency, whether a rating agency has downgraded the securities, industry analysts' reports, the financial condition and performance of the issuer and the quality of any underlying assets or credit enhancements. As management has the intent and ability to hold these debt securities to projected recovery, none of these declines are deemed to be other-than-temporary.

The following table provides a summary of the proceeds from sales of securities available-for-sale, as well as gross gains and losses, for the periods presented:

	Three Months ended March 31,	
	2019	2018
	(in thousands)	
Proceeds from sales of securities available-for-sale	$ —	$ 9,518
Gross realized gains	—	91
Gross realized losses	—	70

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

NOTE 4 – LOANS

Major classifications of loans are summarized as follows:

	March 31, 2019	December 31, 2018
	(in thousands)	
Commercial:		
Real estate	$ 189,440	$ 191,645
Land development	2,405	2,187
Other	32,495	30,508
Residential real estate:		
First mortgages	99,944	108,084
Construction	1,797	2,097
Consumer:		
Home equity and lines of credit	35,122	36,154
Other	1,838	1,914
Subtotal	363,041	372,589
Net deferred loan fees	468	503
Allowance for loan losses	(3,426)	(3,262)
Loans, net	$ 360,083	$ 369,830

The Bank provides several types of loans to its customers, including commercial, residential, construction and consumer loans. Significant loan concentrations are considered to exist for a financial institution when there are amounts loaned to one borrower or to multiple borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. While the Bank's credit risks are geographically concentrated within the metropolitan Milwaukee, Wisconsin area, there are no concentrations with individual borrowers or groups of related borrowers.

During the normal course of business, the Bank may transfer a portion of a loan as a participation loan to another financial institution in order to manage portfolio risk. In order to be eligible for sales treatment, all cash flows from the loan must be divided proportionately, and rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties, and no loan holder can have the right to pledge or exchange the entire loan. As of March 31, 2019 and December 31, 2018, respectively, the Bank had transferred $16,739 and $61,328 in participation loans which were eligible for sales treatment to other financial institutions, all of which were being serviced by the Bank.

An analysis of past due loans is presented below:

	March 31, 2019				
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
	(in thousands)				
Commercial:					
Real estate	$ —	$ —	$ —	$189,440	$ 189,440
Land development	—	303	303	2,102	2,405
Other	—	—	—	32,495	32,495
Residential real estate:					
First mortgages	1,069	227	1,296	98,648	99,944
Construction	—	—	—	1,797	1,797
Consumer:					
Home equity and lines of credit	218	35	253	34,869	35,122
Other	—	—	—	1,838	1,838
Total	$ 1,287	$ 565	$ 1,852	$361,189	$ 363,041

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

	December 31, 2018				
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due (in thousands)	Current	Total Loans
Commercial:					
Real estate	$ —	$ —	$ —	$191,645	$ 191,645
Land development	—	303	303	1,884	2,187
Other	—	—	—	30,508	30,508
Residential real estate:					
First mortgages	1,470	91	1,561	106,523	108,084
Construction	—	—	—	2,097	2,097
Consumer:					
Home equity and lines of credit	215	13	228	35,926	36,154
Other	2	—	2	1,912	1,914
Total	$ 1,687	$ 407	$ 2,094	$370,495	$ 372,589

There were no loans 90 days or more past due and accruing interest as of March 31, 2019 or December 31, 2018.

A summary of activity in the allowance for loan losses for the three months ended March 31, 2019 and 2018 is presented below:

	Commercial	Residential (in thousands)	Consumer	Total
Three months ended March 31, 2019				
Allowance for loan losses				
Beginning balance	$ 1,448	$ 1,250	$ 564	$3,262
Provision for loan losses	—	—	—	—
Loans charged-off	—	(37)	(1)	(38)
Recoveries	196	—	6	202
Ending balance	$ 1,644	$ 1,213	$ 569	$3,426
Three months ended March 31, 2018				
Allowance for loan losses				
Beginning balance	$ 1,369	$ 1,246	$ 478	$3,093
Provision for loan losses	—	—	—	—
Loans charged-off	—	—	(5)	(5)
Recoveries	3	—	12	15
Ending balance	$ 1,372	$ 1,246	$ 485	$3,103

Table of Contents

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

A summary of the allowance for loan losses for loans evaluated individually and collectively for impairment is presented below:

	March 31, 2019			
	Commercial	Residential	Consumer	Total
	(in thousands)			
Loans:				
Individually evaluated for impairment	$ 1,152	$ 1,153	$ 35	$ 2,340
Collectively evaluated for impairment	223,188	100,588	36,925	360,701
Total loans	$ 224,340	$ 101,741	$ 36,960	$363,041
Allowance for loan losses:				
Individually evaluated for impairment	$ —	$ 6	$ 6	$ 12
Collectively evaluated for impairment	1,644	1,207	563	3,414
Total allowance for loan losses	$ 1,644	$ 1,213	$ 569	$ 3,426

	December 31, 2018			
	Commercial	Residential	Consumer	Total
	(in thousands)			
Loans:				
Individually evaluated for impairment	$ 1,165	$ 1,176	$ 36	$ 2,377
Collectively evaluated for impairment	223,175	109,005	38,032	370,212
Total loans	$ 224,340	$ 110,181	$ 38,068	$372,589
Allowance for loan losses:				
Individually evaluated for impairment	$ —	$ 6	$ 6	$ 12
Collectively evaluated for impairment	1,448	1,244	558	3,250
Total allowance for loan losses	$ 1,448	$ 1,250	$ 564	$ 3,262

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

Pass ratings are assigned to loans with adequate collateral and debt service ability such that collectability of the contractual loan payments is highly probable.

Watch and Special Mention ratings are assigned to loans where management has some concern that the collateral or debt service ability may not be adequate, though the collectability of the contractual loan payments is still probable.

Substandard ratings are assigned to loans that do not have adequate collateral and/or debt service ability such that collectability of the contractual loan payments is no longer probable.

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

A summary of the Bank's internal risk ratings of loans is presented below:

	March 31, 2019			
	Pass	Watch and Special Mention	Substandard	Total
	(in thousands)			
Commercial:				
Real estate	$182,533	$ 5,974	$ 933	$189,440
Land development	401	1,701	303	2,405
Other	28,654	3,690	151	32,495
Total	$211,588	$ 11,365	$ 1,387	$224,340

	December 31, 2018			
	Pass	Watch and Special Mention	Substandard	Total
	(in thousands)			
Commercial:				
Real estate	$186,303	$ 4,403	$ 939	$191,645
Land development	158	1,726	303	2,187
Other	25,939	4,408	161	30,508
Total	$212,400	$ 10,537	$ 1,403	$224,340

There were no loans rated *Doubtful* or *Loss* as of March 31, 2019 and December 31, 2018.

Residential real estate and consumer loans are generally evaluated based on whether or not loans are performing in accordance with their contractual terms. Information regarding the credit quality indicators most closely monitored for residential real estate and consumer loans is presented below:

	March 31, 2019		
	Performing	Non Performing	Total
	(in thousands)		
Residential real estate:			
First mortgages	$ 98,709	$ 1,235	$ 99,944
Construction	1,797	—	1,797
Consumer:			
Home equity and lines of credit	34,923	199	35,122
Other	1,838	—	1,838
Total	$ 137,267	$ 1,434	$138,701

	December 31, 2018		
	Performing	Non Performing	Total
	(in thousands)		
Residential real estate:			
First mortgages	$ 107,018	$ 1,066	$108,084
Construction	2,097	—	2,097
Consumer:			
Home equity and lines of credit	35,984	170	36,154
Other	1,914	—	1,914
Total	$ 147,013	$ 1,236	$148,249

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

Information regarding impaired loans is presented below:

	As of and for the Three Months Ended March 31, 2019				
	Recorded Investment	Unpaid Principal	Reserve (in thousands)	Average Investment	Interest Recognized
Impaired loans with reserve:					
Commercial:					
Real estate	$ —	$ —	$ —	$ —	$ —
Land development	—	—	—	—	—
Other	—	—	—	—	—
Residential real estate:					
First mortgages	91	91	6	91	—
Construction	—	—	—	—	—
Consumer:					
Home equity and lines of credit	6	6	6	6	—
Other	—	—	—	—	—
Total impaired loans with reserve	97	97	12	97	—
Impaired loans with no reserve:					
Commercial:					
Real estate	698	698	NA	700	8
Land development	303	303	NA	303	—
Other	151	151	NA	156	2
Residential real estate:					
First mortgages	1,062	1,369	NA	1,067	4
Construction	—	—	NA	—	—
Consumer:					
Home equity and lines of credit	29	56	NA	30	—
Other	—	—	NA	—	—
Total impaired loans with no reserve	2,243	2,577	NA	2,256	14
Total impaired loans	$ 2,340	$ 2,674	$ 12	$ 2,353	$ 14

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

	As of and for the Year Ended December 31, 2018				
	Recorded Investment	Unpaid Principal	Reserve	Average Investment	Interest Recognized
			(in thousands)		
Impaired loans with reserve:					
Commercial:					
Real estate	$ —	$ —	$ —	$ —	$ —
Land development	—	—	—	—	—
Other	—	—	—	—	—
Residential real estate:					
First mortgages	91	91	6	154	3
Construction	—	—	—	—	—
Consumer:					
Home equity and lines of credit	6	6	6	124	—
Other	—	—	—	—	—
Total impaired loans with reserve	97	97	12	278	3
Impaired loans with no reserve:					
Commercial:					
Real estate	701	701	NA	658	40
Land development	303	303	NA	303	—
Other	161	161	NA	46	2
Residential real estate:					
First mortgages	1,085	1,375	NA	1,235	25
Construction	—	—	NA	—	—
Consumer:					
Home equity and lines of credit	30	56	NA	32	—
Other	—	—	NA	—	—
Total impaired loans with no reserve	2,280	2,596	NA	2,274	67
Total impaired loans	$ 2,377	$ 2,693	$ 12	$ 2,552	$ 70

Management regularly monitors impaired loan relationships. In the event facts and circumstances change, additional reserves may be necessary.

There were no additional funds committed to impaired loans as of March 31, 2019 and December 31, 2018.

Nonperforming loans are as follows:

	March 31, 2019	December 31, 2018
	(in thousands)	
Nonaccrual loans, other than troubled debt restructurings	$ 1,114	$ 906
Nonaccrual loans, troubled debt restructurings	635	649
Total nonperforming loans (NPLs)	$ 1,749	$ 1,555
Restructured loans, accruing	$ 456	$ 459

There were no loans modified as troubled debt restructurings during the three months ended March 31, 2019 and 2018.

Table of Contents

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

The Bank considers a troubled debt restructuring in default if it becomes past due more than 90 days. There were no troubled debt restructurings within the past twelve months for which there was a default during the three months ended March 31, 2019 and 2018.

Information on non-accrual loans is presented below:

	March 31, 2019	December 31, 2018
	(in thousands)	
Non-accrual loans:		
Commercial:		
Real estate	$ —	$ —
Land development	303	303
Other	13	16
Residential real estate:		
First mortgages	1,234	1,066
Construction	—	—
Consumer:		
Home equity and lines of credit	—	170
Other	199	—
Total non-accrual loans	$ 1,749	$ 1,555
Total non-accrual loans to total loans	0.48%	0.42%
Total non-accrual loans to total assets	0.35%	0.32%

NOTE 5 – MORTGAGE SERVICING RIGHTS

Loans serviced for others are not included in the balance sheets. The unpaid principal balance of mortgage loans serviced for others was $335,591 and $332,515 as of March 31, 2019 and December 31, 2018, respectively.

A summary of activity in the Bank's mortgage servicing rights is presented below:

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	(in thousands)	
Mortgage servicing rights beginning balance	$ 2,103	$ 2,270
Additions	79	32
Amortization	(65)	(113)
Mortgage servicing rights ending balance	$ 2,117	$ 2,189
Fair value at beginning of period	$ 3,371	$ 3,158
Fair value at end of period	$ 3,386	$ 3,109

The estimated fair value of mortgage servicing rights was determined using a valuation model that calculates the present value of expected future servicing and ancillary income, net of expected servicing costs. The model incorporates various assumptions such as discount rates, prepayment speeds and ancillary income and servicing costs. At March 31, 2019 and December 31, 2018, the model used discount rates ranging from 10% to 14%, respectively, and prepayment speeds ranging from 7% to 43%, respectively, both of which were based on market data from independent organizations.

Table of Contents

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

The following table summarizes the estimated future amortization expense for mortgage servicing rights for the periods indicated. The projections of amortization expense are based on existing asset balances as of March 31, 2019. The actual amortization expense the Bank recognizes in any given period may vary significantly depending on changes in interest rates, market conditions and regulatory requirements.

Estimated future amortization as of March 31, 2019:	(in thousands)
2019	$ 447
2020	420
2021	391
2022	364
2023	333
Thereafter	162
Total	$ 2,117

NOTE 6 – DEPOSITS

The composition of deposits is summarized below:

	March 31, 2019	December 31, 2018
	(in thousands)	
Non-interest bearing checking	$ 54,328	$ 85,988
Interest bearing checking	25,681	25,556
Money market	57,425	59,071
Statement savings	51,004	53,245
Certificates of deposit	217,227	182,277
Total	$ 405,665	$ 406,137

The Bank held $17,493 and $12,787 in certificates of deposit which met or exceeded the FDIC insurance limit of $250 as of March 31, 2019 and December 31, 2018, respectively.

The scheduled maturities of certificates of deposit are presented below:

	March 31, 2019
	(in thousands)
2019	$ 58,658
2020	72,262
2021	17,104
2022	16,768
2023	44,890
Thereafter	7,545
Total	$ 217,227

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

NOTE 7 – FEDERAL HOME LOAN BANK ADVANCES

Federal Home Loan Bank advances consist of the following:

	March 31, 2019		December 31, 2018	
	Rate	Amount	Rate	Amount
	(dollars in thousands)			
Open line of credit	— %	$ —	2.61%	$ 5,350
Fixed rate, fixed term advances	1.13% to 1.50%	24,000	1.13% to 1.50%	24,000
Advance structured note, payments due monthly, maturing February 2030	7.47%	651	7.47%	660
Total		$ 24,651		$ 30,010

The scheduled maturities of Federal Home Loan Bank advances are presented below:

	March 31, 2019	
	Weighted Average Rate	Amount
	(dollars in thousands)	
2019	1.25%	$ 17,027
2020	7.47%	39
2021	1.45%	7,042
2022	7.47%	46
2023	7.47%	49
Thereafter	7.47%	448
Total		$ 24,651

Actual maturities may differ from scheduled maturities due to call options on various Federal Home Loan Bank advances.

The Bank maintains a master contract agreement with the Federal Home Loan Bank, which provides for borrowing up to the lesser of 22.22 times the Federal Home Loan Bank stock owned, a determined percentage of the book value of the Bank's qualifying real estate loans, or a determined percentage of the Bank's assets. The Federal Home Loan Bank provides both fixed and floating rate advances. Floating rates are tied to short-term market rates of interest such as the London InterBank Offered Rate, federal funds or Treasury bill rates. Federal Home Loan Bank advances are subject to a prepayment penalty if they are repaid prior to maturity. The Bank has pledged approximately $151,093 and $151,708 of qualifying loans as collateral for Federal Home Loan Bank advances as of March 31, 2019 and December 31, 2018, respectively. Federal Home Loan Bank advances are also secured by approximately $984 and $1,261 of Federal Home Loan Bank stock held by the Bank as of March 31, 2019 and December 31, 2018, respectively. The Bank's available and unused portion of this borrowing agreement totaled $0 and $800 as of March 31, 2019 and December 31, 2018, respectively.

NOTE 8 – EMPLOYEE BENEFIT PLANS

The Bank sponsors a 401(k) profit sharing covering substantially all employees certain age and minimum service requirements. The Bank may then match a discretionary percentage of each eligible participant's contribution. Matching contributions were $89 and $85 for the three months ended March 31, 2019 and 2018, respectively.

NOTE 9 – INCOME TAXES

Deferred tax assets are deferred tax consequences attributable to deductible temporary differences and carryforwards. After the deferred tax asset has been measured using the applicable enacted tax rate and provisions of the enacted tax law, it is then necessary to assess the need for a valuation allowance. A valuation allowance is needed when, based on the weight of the available evidence, it is more likely than not that some portion of the deferred asset will not be realized. As required by generally accepted accounting principles, available evidence is weighted heavily on cumulative losses, with less weight placed on future projected profitability. Realization of the deferred tax asset is dependent on whether there will be sufficient future taxable income of the appropriate character in the period during which deductible temporary differences reverse or within the carryforward periods available under tax law.

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

Income tax expense for the three months ended March 31, 2019 was ($209) compared to $13 for the three months ended March 31, 2018.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank may be involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Bank’s financial statements. No material legal proceedings existed at March 31, 2019.

In the normal course of business, the Bank is party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These instruments include commitments to extend credit and commitments to sell loans. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the balance sheets.

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

The contractual amounts of off-balance-sheet credit-related financial instruments are summarized below:

	March 31, 2019		
	Fixed Rate	Variable Rate	Total
		(in thousands)	
Commitments to extend credit	$ 17,360	$ 36,204	$53,564
Standby letters of credit	—	23	23
Credit enhancement under the FHLB of Chicago Mortgage Partnership Finance Program	680	—	680
Commitments to sell loans	9,464	—	9,464
Overdraft protection program commitments	3,861	—	3,861
Total	$ 31,365	$ 36,227	$67,592

	December 31, 2018		
	Fixed Rate	Variable Rate	Total
		(in thousands)	
Commitments to extend credit	$ 19,255	$ 37,258	$56,513
Standby letters of credit	—	33	33
Credit enhancement under the FHLB of Chicago Mortgage Partnership Finance Program	612	—	612
Commitments to sell loans	6,617	—	6,617
Overdraft protection program commitments	3,894	—	3,894
Total	$ 30,378	$ 37,291	$67,669

Commitments to extend credit and commitments to sell loans are agreements to lend to a customer at fixed or variable rates, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The amount of collateral obtained upon extension of credit is based on management’s credit evaluation of the customer. Collateral held varies but may include accounts receivable; inventory; property, plant and equipment; real estate; and stocks and bonds.

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

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

The Bank participates in the Federal Home Loan Bank of Chicago Mortgage Partnership Finance Program (the “Program”). In addition to entering into forward commitments to sell mortgage loans to a secondary market agency, the Bank enters into firm commitments to deliver loans to the Federal Home Loan Bank of Chicago through the Program. Under the Program, loans are funded by the Federal Home Loan Bank of Chicago, and the Bank receives an agency fee reported as a component of gain on sale of loans. The Bank had $2,549 and $1,882 of commitments to deliver loans through the Program as of March 31, 2019 and December 31, 2018, respectively. Once delivered to the Program, the Bank provides a contractually agreed-upon credit enhancement and performs servicing of the loans. Under the credit enhancement, the Bank is liable for losses on loans delivered through the Program after application of any mortgage insurance and a contractually agreed-upon credit enhancement provided by the Program, subject to an agreed-upon maximum. The Bank receives a fee for this credit enhancement. The Bank records a liability for expected losses in excess of anticipated credit enhancement fees. As of March 31, 2019 and December 31, 2018, the Bank had no liability outstanding related to the Program.

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

NOTE 11 – EMPLOYEE STOCK OWNERSHIP PLAN

The Bank established a tax qualified Employee Stock Ownership Plan (“ESOP”) for the benefit of its employees in conjunction with the Reorganization, effective January 1, 2019. Eligible employees become 20% vested in their accounts after 1 year of service, 40% vested after 2 years of service, 60% vested after 3 years of service, 80% vested after 4 years of service, and 100% vested after 5 or more years of service, or earlier, upon death, disability or attainment of normal retirement age.

The ESOP purchased 175,528 shares of the Company’s common stock, which was funded by a loan from the Company. Unreleased ESOP shares collateralize the loan payable, and the cost of the shares is recorded as contra-equity account in the stockholders’ equity of the Company. Shares are to be released as debt payments are made by the ESOP to the loan. The ESOP’s sources of repayment of the loan can included dividends, if any, on the unallocated stock held by the ESOP, and discretionary contributions from the Company to the ESOP and earnings thereon.

Compensation expense for the ESOP is recorded at an amount equal to the shares allocated by the ESOP multiplied by the average fair market value of the shares during the period. The Company recognizes compensation expense ratably over the year based upon the Company’s estimate of the number of shares expected to be allocated by the ESOP. Unearned compensation applicable to the ESOP is reflected as a reduction of stockholders’ equity in the consolidated balance sheet. The difference between the average fair market value and the cost of the shares allocated by the ESOP is recorded as an adjustment to stockholders’ equity. The Company recognized $17 in compensation expense for the three months ended March 31, 2019.

NOTE 12 – RELATED PARTY TRANSACTIONS

A summary of loans to directors, executive officers, and their affiliates follows:

	March 31, 2019	December 31, 2018
	(in thousands)	
Beginning balance	$ 1,289	$ 1,477
New loans	—	62
Repayments	(52)	(250)
Ending balance	$ 1,237	$ 1,289

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

Deposits from directors, executive officers, and their affiliates totaled $925 and $938 at March 31, 2019 and December 31, 2018, respectively.

The Bank utilizes the services of law firms in which certain of the Bank's directors are partners. Fees paid to the firms for these services were $12 and $13 during the three months ended March 31, 2019 and 2018, respectively.

NOTE 13 – FAIR VALUE MEASUREMENTS

ASC Topic 820, *Fair Value Measurements and Disclosures* defines fair values, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This accounting standard applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements. The standard also emphasizes that fair value (i.e., the price that would be received in an orderly transaction that is not a forced liquidation or distressed sale at the measurement date), among other things, is based on exit price versus entry price, should include assumptions about risk such as nonperformance risk in liability fair values, and is a market-based measurement, not an entity-specific measurement. When considering the assumptions that market participants would use in pricing an asset or liability, this accounting standard establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The fair value hierarchy prioritizes inputs used to measure fair value into three broad levels.

Level 1 inputs – In general, fair values determined by Level 1 inputs use quoted market prices in active markets for identical assets or liabilities that we have the ability to access.

Level 2 inputs – Fair values determined by Level 2 inputs use inputs other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets where there are few transactions and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs – Level 3 inputs are unobservable inputs for the asset or liability and include situations where there is little, if any, market activity for the asset or liability.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Bank's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Some assets and liabilities, such as securities available-for-sale, are measured at fair value on a recurring basis under accounting principles generally accepted in the United States. Other assets and liabilities, such as impaired loans, may be measured at fair value on a nonrecurring basis.

Following is a description of the Bank's valuation methodology and significant inputs used for each asset and liability measured at fair value on a recurring or nonrecurring basis.

Securities available-for-sale – Securities available-for-sale may be classified as Level 1 or Level 2 measurements within the fair value hierarchy. Level 1 securities include equity securities traded on a national exchange. The fair value measurements of Level 1 securities are based on the quoted market price of those securities. Level 2 securities include U.S. government and agency securities, obligations of states and political subdivisions, corporate debt securities and mortgage-related securities. The fair value measurements of Level 2 securities are obtained from independent pricing services and are based on recent sales of similar securities and other observable market data.

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

Impaired loans – Loans are not measured at fair value on a recurring basis. However, loans determined to be impaired may be measured at fair value on a nonrecurring basis. The fair value measurements of collateral-dependent impaired loans are based on the fair values of the underlying collateral. Independent appraisals are obtained to determine the fair values of underlying collateral, and generally utilize one or more valuation methodologies, typically includes comparable sales and income approaches. Management routinely evaluates the fair value measurements of independent appraisers and adjusts those valuations based on differences noted between actual selling prices of collateral and the most recently appraised value. Such adjustments are usually significant, which results in a Level 3 classification. All other impaired loan measurements are based on the present value of expected future cash flows discounted at the applicable effective interest rate and are not considered fair value measurements.

Assets measured at fair value on a recurring basis are summarized below, along with the level of the fair value hierarchy of the inputs utilized to determine such fair value.

		Recurring Fair Value Measurements Using		
	March 31, 2019	Level 1	Level 2	Level 3
		(in thousands)		
Securities available-for-sale:				
Obligations of states and political subdivisions	$ 10,758	$ —	$ 10,758	$ —
Government-sponsored mortgage-backed securities	50,057	—	50,057	—
Corporate collateralized mortgage obligations	391	—	391	—
Asset-backed securities	3,241	—	3,241	—
Certificates of deposit	248	—	248	—
Total	$ 64,695	$ —	$ 64,695	$ —

		Recurring Fair Value Measurements Using		
	December 31, 2018	Level 1	Level 2	Level 3
		(in thousands)		
Securities available-for-sale:				
Obligations of states and political subdivisions	$ 11,169	$ —	$ 11,169	$ —
Government-sponsored mortgage-backed securities	50,375	—	50,375	—
Corporate collateralized mortgage obligations	410	—	410	—
Asset-backed securities	3,531	—	3,531	—
Certificates of deposit	246	—	246	—
Total	$ 65,731	$ —	$ 65,731	$ —

Assets measured at fair value on a nonrecurring basis are summarized below, along with the level of the fair value hierarchy of the inputs utilized to determine such fair value.

		Recurring Fair Value Measurements Using		
	March 31, 2019	Level 1	Level 2	Level 3
		(in thousands)		
Loans	$ 85	$ —	$ —	$ 85

		Recurring Fair Value Measurements Using		
	December 31, 2018	Level 1	Level 2	Level 3
		(in thousands)		
Loans	$ 85	$ —	$ —	$ 85

Loans with a carrying amount of $97 were considered impaired and written down to their estimated fair value of $85 as of March 31, 2019 and December 31, 2018. As a result, the Bank recognized a specific valuation allowance against these impaired loans totaling $12 as of March 31, 2019 and December 31, 2018.

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

The following table presents quantitative information about nonrecurring Level 3 fair value measurements:

	March 31, 2019			
	Fair Value	Valuation Technique	Significant Unobservable Input(s)	Range/Weighted Average
	(dollars in thousands)			
Impaired loans	$ 85	Market and/or income approach	Management discount to appraised rates	10-20%

	December 31, 2018			
	Fair Value	Valuation Technique	Significant Unobservable Input(s)	Range/Weighted Average
	(dollars in thousands)			
Impaired loans	$ 85	Market and/or income approach	Management discount to appraised rates	10-20%

The Bank estimates fair values for all financial instruments, regardless of whether such instruments are measured at fair value. The following methods and assumptions were used by the Bank to estimate fair value of financial instruments not previously discussed.

Cash and cash equivalents – Fair value approximates the carrying value.

Loans held-for-sale – Fair value is based on commitments on hand from investors or prevailing market prices.

Loans – Fair values of variable rate loans that reprice frequently are based on carrying values. Fair values of other loans are estimated by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings. Fair values of impaired and other nonperforming loans are estimated using discounted expected future cash flows or the fair value of the underlying collateral, as applicable.

Accrued interest receivable and payable – Fair value approximates the carrying value.

Cash surrender value of bank-owned life insurance – Fair value is based on third-party reported values of the assets.

Federal Home Loan Bank stock – Fair value is the redeemable (carrying) value based on the redemption provisions of the Federal Home Loan Bank of Chicago.

Deposits and advance payments by borrowers for taxes and insurance – Fair values of deposits with no stated maturity, such as demand deposits, savings and money market accounts, including advance payments by borrowers for taxes and insurance, by definition, are the amounts payable on demand on the reporting date. Fair values of fixed rate time deposits are estimated using discounted cash flows applying interest rates currently being offered on similar time deposits.

Federal Home Loan Bank advances – Fair values of fixed rate, fixed term borrowings are estimated by discounting future cash flows using the current rates at which similar borrowings would be made. Fair values of borrowings with variable rates, or maturing within 90 days, approximate the carrying values of those borrowings.

Commitments – These financial instruments are not generally marketable or subject to sale. Further, interest rates on any amounts drawn under these financial instruments would generally be established at market rates at the time of the draw(s). Fair values of the Bank's commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, the counterparty's credit rating and discounted cash flow analyses. The fair values of the Bank's commitments were not material at March 31, 2019 and December 31, 2018. The contractual amounts of commitments are presented in Note 10.

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

The carrying values and estimated fair values of financial instruments are presented below:

	March 31, 2019			
	Carrying Value	Level 1	Level 2	Level 3
		(in thousands)		
Financial assets:				
Cash and cash equivalents	$ 34,683	$ 34,683	$ —	$ —
Available for sale securities	64,695	—	64,695	—
Loans held for sale	1,233	—	1,233	—
Loans	360,083	—	—	359,445
Accrued interest receivable	1,170	1,170	—	—
Federal Home Loan Bank stock	984	—	—	984
Cash value of life insurance	13,500	—	—	13,500
Financial liabilities:				
Deposits	405,665	188,438	—	216,419
Advance payments by borrowers for taxes and insurance	4,333	4,333	—	—
Federal Home Loan Bank advances	24,651	—	—	24,451
Accrued interest payable	503	503	—	—

	December 31, 2018			
	Carrying Value	Level 1	Level 2	Level 3
		(in thousands)		
Financial assets:				
Cash and cash equivalents	$ 7,923	$ 7,923	$ —	$ —
Available for sale securities	65,731	—	65,731	—
Loans held for sale	771	—	771	—
Loans	369,830	—	—	362,233
Accrued interest receivable	1,106	1,106	—	—
Federal Home Loan Bank stock	1,261	—	—	1,261
Cash value of life insurance	13,400	—	—	13,400
Financial liabilities:				
Deposits	406,137	223,860	—	180,703
Advance payments by borrowers for taxes and insurance	1,240	1,240	—	—
Federal Home Loan Bank advances	30,010	—	—	29,499
Accrued interest payable	372	372	—	—

The fair value of a financial instrument is the current amount that would be exchanged between market participants, other than in a forced liquidation. Fair value is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Consequently, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Bank.

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates to not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters that could affect the estimates. Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business.

Table of Contents

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

Deposits with no stated maturities are defined as having a fair value equivalent to the amount payable on demand. This prohibits adjusting fair value derived from retaining those deposits for an expected future period of time. This component, commonly referred to as a deposit base intangible, is neither considered in the above amounts, nor is it recorded as an intangible assets on the balance sheets. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

NOTE 14 – EQUITY AND REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of 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 their components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1, Tier 1 and Total capital to risk-weighted assets, and of Tier 1 capital to average assets. It is management's opinion that the Bank met all applicable capital adequacy requirements as of March 31, 2019 and December 31, 2018.

As of March 31, 2019 and December 31, 2018, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum regulatory capital ratios as set forth in the table below. The Bank's actual and required capital amounts and ratios are presented below:

	March 31, 2019					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
Leverage (Tier 1)	$ 45,189	9.3%	$ 19,358	4.0%	$ 24,197	5.0%
Risk-based:						
Common Tier 1	45,189	12.5%	16,282	4.5%	23,519	6.5%
Tier 1	45,189	12.5%	21,710	6.0%	28,946	8.0%
Total	48,615	13.4%	28,946	8.0%	36,183	10.0%

	December 31, 2018					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
Leverage (Tier 1)	$ 35,955	7.5%	$ 19,110	4.0%	$ 23,887	5.0%
Risk-based:						
Common Tier 1	35,955	10.0%	16,153	4.5%	23,333	6.5%
Tier 1	35,955	10.0%	21,538	6.0%	28,717	8.0%
Total	39,217	10.9%	28,717	8.0%	35,897	10.0%

Table of Contents

1895 BANCORP OF WISCONSIN, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
(in thousands)

NOTE 15 – EARNINGS PER SHARE

Earnings per common share for the three months ended March 31, 2019 are presented in the following table. Earnings per common share for the three months ended March 31, 2018 are not presented as the Company's initial public offering was completed on January 8, 2019.

	Three months ended March 31, 2019
Net loss	$ (471)
Shares outstanding for basic EPS	
Average shares outstanding	4,877
Less: Average unallocated ESOP shares	176
Subtotal	4,701
Additional dilutive shares	—
Shares outstanding for basic and dilutive EPS	4,701
Basic and diluted loss per share	$ (0.10)

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

General

Management's discussion and analysis of financial condition and results of operations at March 31, 2019 and for the three months ended March 31, 2019 is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the unaudited financial statements and the notes thereto appearing in Part I, Item 1, of this Quarterly Report on Form 10-Q.

Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements, which can be identified by the use of words such as "estimate," "project," "believe," "intend," "anticipate," "assume," "plan," "seek," "expect," "will," "may," "should," "indicate," "would," "contemplate," "continue," "target" and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this Quarterly Report.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses;
- our ability to access cost-effective funding;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- our ability to implement and change our business strategies;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins and yields, our mortgage banking revenues, the fair value of financial instruments or our level of loan originations, or increase the level of defaults, losses and prepayments on loans we have made and make;
- adverse changes in the securities or secondary mortgage markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements, including as a result of Basel III;
- the impact of the Dodd-Frank Act and the implementing regulations;
- changes in the quality or composition of our loan or investment portfolios;
- technological changes that may be more difficult or expensive than expected;
- the inability of third-party providers to perform as expected;
- our ability to manage market risk, credit risk and operational risk in the current economic environment;
- our ability to enter new markets successfully and capitalize on growth opportunities;

- our ability to successfully integrate into our operations any assets, liabilities, customers, systems and management personnel we may acquire and our ability to realize related revenue synergies and cost savings within expected time frames, and any goodwill charges related thereto;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- our ability to retain key employees;
- our compensation expense associated with equity allocated or awarded to our employees; and
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. Additional factors that may affect our results are discussed in our Annual Report on Form 10-K under the heading "Risk Factors."

Critical Accounting Policies

The discussion and analysis of the financial condition and results of operations are based on our financial statements, which are prepared in conformity with generally accepted accounting principles used in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. We consider the accounting policies discussed below to be critical accounting policies. The estimates and assumptions that we use are based on historical experience and various other factors and are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, resulting in a change that could have a material impact on the carrying value of our assets and liabilities and our results of operations.

The Jumpstart Our Business Startups Act (the "JOBS Act") contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company" we may delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We intend to take advantage of the benefits of this extended transition period. Accordingly, our financial statements may not be comparable to companies that comply with such new or revised accounting standards.

The following represent our critical accounting policies:

***Allowance for Loan Losses*.** The allowance for loan losses is the estimated amount considered necessary to cover inherent, but unconfirmed, credit losses in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses which is charged against income. In determining the allowance for loan losses, management makes significant estimates and has identified this policy as one of our most critical accounting policies.

Management performs a quarterly evaluation of the allowance for loan losses. Consideration is given to a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic and industry concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal loan reviews and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change.

The analysis has two components, specific and general allowances. The specific allowance is for unconfirmed losses related to loans that are determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral, adjusted for market conditions and selling expenses. If the fair value of the loan is less than the loan's carrying value, a charge is recorded for the difference. The general allowance, which is for loans reviewed collectively, is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions and geographic and industry concentrations.

This analysis establishes historical loss percentages and qualitative factors that are applied to the loan groups to determine the amount of the allowance for loan losses necessary for loans that are reviewed collectively. The qualitative component is critical in determining the allowance for loan losses as certain trends may indicate the need for changes to the allowance for loan losses based on factors beyond the historical loss history. Not incorporating a qualitative component could misstate the allowance for loan losses. Actual loan losses may be significantly more than the allowances we have established which could result in a material negative effect on our financial results.

Fair Value. The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The Bank estimates the fair value of a financial instrument and any related asset impairment using a variety of valuation methods. Where financial instruments are actively traded and have quoted market prices, quoted market prices are used for fair value. When the financial instruments are not actively traded, other observable market inputs, such as quoted prices of securities with similar characteristics, may be used, if available, to determine fair value. When observable market prices do not exist, the Bank estimates fair value. These estimates are subjective in nature and any imprecision in estimating these factors can impact the amount of gain or loss recorded. A more detailed description of the fair values measured at each level of the fair value hierarchy and the methodology utilized by the Bank can be found in Note 12 of the Notes to Financial Statements.

Comparison of Financial Condition at March 31, 2019 and December 31, 2018

Total Assets. Total assets increased $15.9 million, or 3.3%, to $497.0 million at March 31, 2019 from $481.1 million at December 31, 2018. The increase was due primarily to a $26.8 million increase in cash and cash equivalents related to the Company’s initial stock offering and normal seasonal fluctuations in deposit and escrow accounts, partially offset by a decrease of $9.7 million in net loans.

Cash and Cash Equivalents. Cash and cash equivalents increased $26.8 million, or 337.8%, to $34.7 million at March 31, 2019 from $7.9 million at December 31, 2018. The change was due primarily to the completion of the Company’s initial stock offering, the sale of a branch and normal seasonal fluctuations in deposit and escrow accounts.

Net Loans. Net loans decreased $9.7 million, or 2.6%, to $360.1 million at March 31, 2019 from $369.8 million at December 31, 2018. The decrease was due primarily to a decrease in residential first mortgage loans of $8.1 million, due primarily to the sale of $8.3 million residential first mortgage loans into the secondary market to manage credit and interest rate risk. During the first quarter of 2019, we reevaluated our interest rate and credit risk profile and determined that the sale of certain portions of our loan portfolio may be necessary to mitigate such risks. We transferred $8.3 million of residential mortgage loans to available for sale, and sold such loans into the secondary market. We may determine to continue to sell portions of our loan portfolio if our risk profile warrants such sales.

Available-for-Sale Securities. Available-for-sale securities decreased $1.0 million, or 1.6%, to $64.7 million at March 31, 2019 from $65.7 million at December 31, 2018, due primarily to the receipt of $1.9 million in normal payments related to the maturity, prepayment or call of available-for-sale securities, offset by a $1.0 decrease in unrealized losses, due to the falling interest rate environment.

Deposits. Deposits decreased $472,000, or 0.1%, to $405.7 million at March 31, 2019 from $406.1 million at December 31, 2018. Despite this minimal decrease, the composition of deposits changed significantly, with non-interest-bearing checking decreasing $31.7 million, or 36.8%, and certificates of deposit increasing $35.0 million, or 19.2%. Money market and savings account balances also decreased $1.6 million and $2.2 million, respectively, as a result of normal account activity. Deposits also decreased $4.3 million due to the sale of the West Mitchell Street branch. Our strategy for deposit generation is to use targeted, special duration certificates of deposit and money market accounts which do not have a negative impact on our normal pricing structure for existing accounts.

Borrowings. Borrowings, consisting entirely of Federal Home Loan Bank of Chicago (“FHLB”) advances, totaled $24.7 million at March 31, 2019 compared to $30.0 million at December 31, 2018.

Other Liabilities. Other liabilities decreased $51,000, or 1.0%, to $5.1 million at March 31, 2019 from $5.2 million at December 31, 2018.

Total Equity. Total equity increased $18.5 million, or 48.5%, to $56.7 million at March 31, 2019 from $38.2 million at December 31, 2018. The increase was due primarily to the issuance of 4.9 million shares of common stock resulting in net proceeds of $20.0 million, offset by the issuance of 176,000 shares, or $1.8 million, of unallocated common stock of the ESOP during the three months ended March 31, 2019. The change in total equity was also impacted by a net loss of $471,000 and other comprehensive income of $707,000 for the three months ended March 31, 2019.

[Table of Contents](#)

Average Balances and Yields

The following tables present information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. Average balances have been calculated using daily balances. Nonaccrual loans are included in average balances only. Loan fees are included in interest income on loans and are not material.

	Three Months Ended March 31,					
	2019			2018		
	Average Outstanding Balance	Interest and Dividends	Yield/Cost Rate	Average Outstanding Balance	Interest and Dividends	Yield/Cost Rate
	(Dollars in thousands)					
Interest-earning assets:						
Loans	$ 370,284	$ 3,988	4.37%	$ 343,474	$ 3,401	4.02%
Securities available-for-sale	65,063	392	2.44%	82,219	494	2.44%
Other interest-earning assets	12,264	65	2.16%	2,494	11	1.81%
Total interest-earning assets	447,611	4,445	4.03%	428,187	3,906	3.70%
Non-interest-earning assets	37,288			36,005		
Total assets	$ 485,484			$ 464,192		
Interest-earning liabilities:						
NOW accounts	$ 24,900	$ 17	0.27%	$ 27,615	$ 10	0.15%
Money market accounts	57,118	140	0.99%	56,281	58	0.42%
Savings accounts	50,655	16	0.13%	57,952	17	0.12%
Certificates of deposit	201,424	1,007	2.03%	183,979	710	1.56%
Total interest-bearing deposits	334,097	1,180	1.43%	325,827	795	0.99%
Federal Home Loan Bank advances	29,669	123	1.68%	42,969	144	1.36%
Other interest-bearing liabilities	3,285	—	— %	3,406	—	— %
Total interest-bearing liabilities	367,051	1,303	1.44%	372,202	939	1.02%
Non-interest-bearing deposits	70,564			51,559		
Other non-interest-bearing liabilities	2,781			1,970		
Total liabilities	440,396			425,731		
Total stockholders' equity	45,088			38,461		
Total liabilities and stockholders' equity	$ 485,484			$ 464,192		
Net interest income		$ 3,142			$ 2,967	
Net interest-earning assets	$ 80,560			$ 59,469		
Interest rate spread(1)			2.59%			2.68%
Net interest margin(2)			2.81%			2.77%
Average interest-earning assets to average interest-bearing liabilities	121.95%			115.04%		

(1) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate of interest-bearing liabilities.

(2) Net interest margin represents net interest income divided by average total interest-earning assets.

Table of Contents

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in average rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior period average rate). The total column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume.

	Three Months Ended March 31, 2019 vs. 2018		
	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate	
	(Dollars in thousands)		
Interest-earning assets:			
Loans	$ 276	311	587
Securities	(104)	2	(102)
Other	51	3	54
Total interest-earning assets	223	316	539
Interest-bearing liabilities:			
NOW	1	(8)	(7)
Money market deposits	(1)	(81)	(82)
Savings	3	(2)	1
Certificates of deposit	(72)	(225)	(297)
Total interest-bearing deposits	(69)	(316)	(385)
Borrowings	86	(65)	21
Other	—	—	—
Total interest-bearing liabilities	17	(381)	(364)
Change in net interest income	$ 240	(65)	175

Comparison of Operating Results for the Three Months Ended March 31, 2019 and 2018

General. We recorded a net loss of $471,000 for the three months ended March 31, 2019, compared to net income of $130,000 for the three months ended March 31, 2018, a decrease of $601,000. The decrease in net income was primarily due to increases in interest and noninterest expenses, which were partially offset by increases in interest and dividend income, as described below.

Interest and Dividend Income. Interest and dividend income increased $539,000, or 13.8%, to $4.4 million for the three months ended March 31, 2019 from $3.9 million for the three months ended March 31, 2018. The increase was primarily attributable to a $561,000, or 28.1% increase in interest earned on commercial loans for the 2019 period.

Interest Expense. Interest expense increased $364,000, or 38.8%, to $1.3 million for the three months ended March 31, 2019, from $939,000 for the three months ended March 31, 2018, as rates on interest-bearing liabilities increased 42 basis points due to the rising interest rate environment and competitive pressures within the Bank's primary market area.

Net Interest Income. Net interest income increased $175,000, or 5.9%, to $3.1 million for the three months ended March 31, 2019 from $3.0 million for the three months ended March 31, 2018. Average interest-earning assets increased $19.4 million, or 4.5%, to $447.6 million for the 2019 quarter from $428.2 million for the 2018 quarter. The increase was due primarily to an increase in the average balance of loans. Our net interest rate spread decreased to 2.59% for the three months ended March 31, 2019 from 2.68%, for the three months ended March 31, 2018, and our net interest margin increased to 2.81% from 2.77%.

Provision for Loan Losses. We recorded no provision for loan losses for the three months ended March 31, 2019 or March 31, 2018, respectively. The allowance for loan losses was $3.4 million, or 0.9%, of total loans, at March 31, 2019, compared to $3.1 million, or 0.9% of total loans, at March 31, 2018. Non-performing loans constituted 0.5% of total gross loans at March 31, 2019 compared to 0.4% of total gross loans, at March 31, 2018. Net recoveries for the three months ended March 31, 2019 were $164,000 compared to net recoveries of $10,000 for the prior year period.

Non-interest Income. Non-interest income increased $64,000, or 9.3%, to $750,000 for the three months ended March 31, 2019 from $686,000 for the three months ended March 31, 2018. The increase was due primarily to a $114,000 gain recognized on the January 2019 sale of one of the Bank's branch locations and related assets and a $78,000 increase in loan servicing fees.

Non-interest Expense. Non-interest expense increased $1.1 million, or 30.3%, to $4.6 million for the three months ended March 31, 2019 from $3.5 million for the three months ended March 31, 2018. The increase was due primarily to a $340,000, or 16.3%, increase in salaries and employee benefits, and $588,000 in consulting fees incurred in connection with the conversion and initial public stock offering, as well as expenses associated with the establishment and funding of our charitable foundation in the 2019 quarter. Increases in salaries and employee benefits during 2019 were primarily related to discretionary incentive compensation and rate increases for health and wellness benefits.

Income Tax Expense. We recorded an income tax benefit of $209,000 for the three months ended March 31, 2019, compared to an income tax expense of $13,000 for the three months ended March 31, 2018.

Management of Market Risk

General. Our most significant form of market risk is interest rate risk because, as a financial institution, the majority of our assets and liabilities are sensitive to changes in interest rates. Therefore, a principal part of our operations is to manage interest rate risk and limit the exposure of our financial condition and results of operations to changes in market interest rates. Our Asset/Liability Committee is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the policy and guidelines approved by our board of directors.

Our asset/liability management strategy attempts to manage the impact of changes in interest rates on net interest income, our primary source of earnings. Among the techniques we use to manage interest rate risk are:

- originating commercial real estate and commercial loans, which tend to have shorter terms and higher interest rates than owner occupied one- to four-family residential real estate loans, and which generate customer relationships that can result in larger non-interest-bearing checking accounts;
- selling substantially all of our conforming and eligible jumbo, longer-term, fixed-rate one- to four-family residential real estate loans and retaining the non-conforming and shorter-term, fixed-rate and adjustable-rate one- to four-family residential real estate loans that we originate, subject to market conditions and periodic review of our asset/liability management needs; and
- reducing our dependence on jumbo and brokered certificates of deposit to support lending and investment activities and increasing our reliance on core deposits, including checking accounts and savings accounts, which are less interest rate sensitive than certificates of deposit.

Our board of directors is responsible for the review and oversight of our executive management team and other essential operational staff which are responsible for our asset/liability analysis. These officers act as an asset/liability committee and are charged with developing and implementing an asset/liability management plan, and they meet at least quarterly to review pricing and liquidity needs and assess our interest rate risk. We currently utilize a third-party modeling program, prepared on a quarterly basis, to evaluate our sensitivity to changing interest rates, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the board of directors.

We do not engage in hedging activities, such as engaging in futures, options or swap transactions, or investing in high-risk mortgage derivatives, such as collateralized mortgage obligation residual interests, real estate mortgage investment conduit residual interests or stripped mortgage-backed securities.

Table of Contents

The table below sets forth, as of March 31, 2019, the calculation of the estimated changes in our net interest income that would result from the designated immediate changes in the United States Treasury yield curve.

Change in Interest Rates (basis points) (1)	Net Interest Income Year 1 Forecast	Year 1 Change from Level
	(Dollars in thousands)	
+400	$ 11,648	(0.98)%
+300	11,727	(0.31)%
+200	11,843	0.68%
+100	11,911	1.25%
Level	11,764	— %
-100	11,717	(0.40%)

(1) Assumes an immediate uniform change in interest rates at all maturities.

Economic Value of Equity. We monitor interest rate risk through the use of a simulation model that estimates the amounts by which the fair value of our assets and liabilities (our economic value of equity or "EVE") would change in the event of a range of assumed changes in market interest rates. The quarterly reports developed in the simulation model assist us in identifying, measuring, monitoring and controlling interest rate risk to ensure compliance within our policy guidelines.

The table below sets forth, as of March 31, 2019, the estimated changes in our EVE that would result from the designated instantaneous changes in market interest rates. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results.

Basis Point ("bp") Change in Interest Rates(1)	Estimated EVE(2)	Estimated Increase (Decrease) in EVE	
		Amount	Percent
		(Dollars in thousands)	
400	$ 49,103	$ (10,782)	(18.00)%
300	51,775	(8,110)	(13.54)%
200	54,654	(5,231)	(8.74)%
100	57,585	(2,300)	(3.84)%
—	59,855	—	—
(100)	61,188	1,303	2.18%

(1) Assumes an instantaneous uniform change in interest rates at all maturities.
(2) EVE is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.

The table above indicates that at March 31, 2019, in the event of a 100-basis point decrease in interest rates, we would have experienced a 2.18% increase in our EVE. In the event of a 200-basis point increase in interest rates at March 31, 2019, we would have experienced a 8.74% decrease in our EVE.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurement. Modeling changes in EVE require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the EVE table presented assumes that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the EVE table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on EVE and will differ from actual results.

EVE calculations also may not reflect the fair values of financial instruments. For example, decreases in market interest rates can increase the fair values of our loans, deposits and borrowings.

Liquidity and Capital Resources

Liquidity describes our ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund current and planned expenditures. Our primary sources of funds are deposits, principal and interest payments on loans and securities, proceeds from the sale of loans, and proceeds from maturities of securities. We also have the ability to borrow from the FHLB. At March 31, 2019, we had $24.7 million outstanding in advances from the FHLB. At March 31, 2019, we had no additional FHLB advance availability. Additionally, at March 31, 2019, we had a $10.0 million federal funds line of credit with the BMO Harris Bank, none of which was drawn at March 31, 2019.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. Our most liquid assets are cash and cash equivalents and available-for-sale investment securities. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period.

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash used in operating activities was $1.1 million for the three months ended March 31, 2019. Net cash provided by investing activities, which consists primarily of disbursements for loan originations and the purchase of investment securities, offset by principal collections on loans, proceeds from the sale of loans and the sale of securities, and proceeds from maturing securities and pay downs on securities, was $12.4 million for the three months ended March 31, 2019, primarily due to a net decrease in loans of $9.7 million, and $1.9 million in maturities, prepayments and calls of securities available for sale. Net cash provided by financing activities, consisting primarily of activity in deposit accounts and FHLB advances, was $15.5 million for the three months ended March 31, 2019, primarily due to $18.3 million in net proceeds from the stock offering, offset by $5.4 million in net principal payments on FHLB advances.

We are committed to maintaining a strong liquidity position. We monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments based on our current strategy to increase core deposits, along with the continued use of FHLB advances as well as brokered certificates of deposit as needed, to fund loan growth.

At March 31, 2019, we exceeded all of our regulatory capital requirements with a Tier 1 leverage capital level of $45.2 million, or 9.3% of adjusted total assets, which is above the well-capitalized required level of $24.2 million, or 5.0%; and total risk-based capital of $48.6 million, or 13.4% of risk-weighted assets, which is above the well-capitalized required level of $36.2 million, or 10.0%. Management is not aware of any conditions or events since the most recent notification that would change our category. For additional information, see Note 14 of the Notes to Financial Statements.

Off-Balance Sheet Arrangements and Contractual Obligations

Commitments. As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our potential future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. For additional information, see Note 10 of the Notes to Financial Statements.

Contractual Obligations. In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include operating leases for premises and equipment, agreements with respect to borrowings and deposits, and agreements with respect to securities.

The following tables present contractual obligations at March 31, 2019 and December 31, 2018.

Contractual Obligations	Total	Payments Due by Period Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
		(Dollars in thousands)			
At March 31, 2019:					
Long-term debt obligations	$24,651	$ 17,027	$ 7,127	$ 497	$ —
Operating lease obligations	270	188	82	—	—
Total	$24,921	$ 17,215	$ 7,209	$ 497	$ —
At December 31, 2018:					
Long-term debt obligations	$30,010	$ 22,386	$ 7,081	$ 95	$ 448
Operating lease obligations	325	224	101	—	—
Total	$30,335	$ 22,610	$ 7,182	$ 95	$ 448

Impact of Inflation and Changing Prices

The financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles in the United States of America which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates, generally, have a more significant impact on a financial institution's performance than does inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of March 31, 2019. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

During the quarter ended March 31, 2019, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are not involved in any pending legal proceedings as a plaintiff or defendant other than routine legal proceedings occurring in the ordinary course of business, and at March 31, 2019, we were not involved in any legal proceedings, the outcome of which would be material to our financial condition or results of operations.

Item 1A. Risk Factors

There have been no material changes in the "Risk Factors" disclosed in the Company's December 31, 2018 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
3.1	Charter of 1895 Bancorp of Wisconsin, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form S-1, as amended (Commission File No. 333-227223))
3.2	Bylaws of 1895 Bancorp of Wisconsin, Inc. (incorporated by reference to Exhibit 3.2 of the Company's Registration Statement on Form S-1, as amended (Commission File No. 333-227223))
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.0	The following materials for the quarter ended March 31, 2019, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements

Table of Contents

SIGNATURES

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

1895 BANCORP OF WISCONSIN, INC.

Date: May 10, 2019

/s/ Richard B. Hurd
Richard B. Hurd
President and Chief Executive Officer

Date: May 10, 2019

/s/ Richard J. Krier
Richard J. Krier
Chief Financial Officer
(Principal Financial and Accounting Officer)

(Back To Top)

Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Richard B. Hurd, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of 1895 Bancorp of Wisconsin, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors:
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 10, 2019

/s/ Richard B. Hurd
Richard B. Hurd
President and Chief Executive Officer

(Back To Top)

Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Richard J. Krier, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of 1895 Bancorp of Wisconsin, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

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

   c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

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

Date: May 10, 2019

/s/ Richard J. Krier
Richard J. Krier
Senior Vice President and Chief Financial Officer

(Back To Top)

Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Richard B. Hurd, President and Chief Executive Officer of 1895 Bancorp of Wisconsin, Inc. (the “Company”), and Richard J. Krier, Senior Vice President and Chief Financial Officer of the Company, each certify in his capacity as an executive officer of the Company that he has reviewed the Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 (the “Report”) and that, to the best of his knowledge:

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

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

1895 BANCORP OF WISCONSIN, INC.

Date: May 10, 2019

/s/ Richard B. Hurd
Richard B. Hurd
President and Chief Executive Officer

Date: May 10, 2019

/s/ Richard J. Krier
Richard J. Krier
Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

(Back To Top)