

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

FORM 10-K

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

For the fiscal year ended December 31, 2018

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

For the transition period from.....to.....

Commission file number 001-37700

NICOLET BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

WISCONSIN

(State or other jurisdiction of incorporation or organization)

47-0871001

(I.R.S. Employer Identification No.)

**111 North Washington Street
Green Bay, Wisconsin 54301
(920) 430-1400**

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class

Name of each exchange on which registered

Common Stock, par value \$0.01 per share

The NASDAQ Stock Market LLC

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

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

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

As of June 30, 2018, (the last business day of the registrant's most recently completed second fiscal quarter) the aggregate market value of the common stock held by nonaffiliates of the registrant was approximately \$440.9 million based on the closing sale price of \$55.11 per share as reported on Nasdaq on June 30, 2018.

As of February 28, 2019 9,462,138 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of Form 10-K – Portions of the Proxy Statement for the 2019 Annual Meeting of Shareholders.

Nicolet Bankshares, Inc.
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Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities law. Statements in this report that are not strictly historical are forward-looking and based upon current expectations that may differ materially from actual results. These forward-looking statements, identified by words such as “will”, “expect”, “believe” and “prospects”, involve risks and uncertainties that could cause actual results to differ materially from those anticipated by the statements made herein. These risks and uncertainties include, but are not limited to, general economic trends and changes in interest rates, increased competition, regulatory or legislative developments affecting the financial industry generally or Nicolet Bankshares, Inc. specifically, the interpretations and impact of recently enacted tax legislation, changes in consumer demand for financial services, the possibility of unforeseen events affecting the industry generally or Nicolet Bankshares, Inc. specifically, the uncertainties associated with newly developed or acquired operations and market disruptions. Nicolet Bankshares, Inc. undertakes no obligation to release revisions to these forward-looking statements publicly to reflect events or circumstances after the date hereof or to reflect the occurrence of unforeseen events, except as required to be reported under the rules and regulations of the Securities and Exchange Commission (“SEC”).

PART I

ITEM 1. BUSINESS

General

Nicolet Bankshares, Inc. (individually referred to herein as the “Parent Company” and together with all its subsidiaries collectively referred to herein as “Nicolet,” the “Company,” “we,” “us” or “our”) is a registered bank holding company under the Bank Holding Company Act of 1956, as amended, and under the bank holding company laws of the State of Wisconsin. At December 31, 2018, Nicolet had total assets of \$3.1 billion, loans of \$2.2 billion, deposits of \$2.6 billion and total stockholders’ equity of \$387 million. For the year ended December 31, 2018, Nicolet earned net income of \$41.0 million, or \$4.12 per diluted common share. For 2018, Nicolet’s return on average assets was 1.38%.

The Parent Company is a Wisconsin corporation, originally incorporated on April 5, 2000 as Green Bay Financial Corporation, a Wisconsin corporation, to serve as the holding company for and the sole shareholder of Nicolet National Bank. The Parent Company amended and restated its articles of incorporation and changed its name to Nicolet Bankshares, Inc. on March 14, 2002. It subsequently became the holding company for Nicolet National Bank upon the completion of the bank’s reorganization into a holding company structure on June 6, 2002. Nicolet elected to become a financial holding company in 2008.

Nicolet conducts its primary operations through its wholly owned subsidiary, Nicolet National Bank, a commercial bank which was organized in 2000 as a national bank under the laws of the United States and opened for business, in Green Bay, Wisconsin, on November 1, 2000 (referred to herein as the “Bank”). Structurally, the Parent Company also wholly owns a registered investment advisory firm, Brookfield Investment Partners, LLC (“Brookfield”), that principally provides investment strategy and transactional services to select community banks, wholly owns a registered investment advisory firm, Nicolet Advisory Services, LLC (“Nicolet Advisory”), that conducts brokerage and financial advisory services primarily to individual consumers, and entered into a joint venture that provides for 50% ownership of the building in which Nicolet is headquartered. Structurally, the Bank wholly owns an investment subsidiary based in Nevada, a subsidiary in Green Bay that provides a web-based investment management platform for financial advisor trades and related activity, and the Bank owns 99.2% of United Financial Services, Inc, which in turn owns 50.2% of UFS, LLC, a data processing services company located in Grafton, Wisconsin (collectively referred to herein as “UFS”). Other than the Bank, these subsidiaries are closely related to or incidental to the business of banking and none are individually or collectively significant to Nicolet’s financial position or results as of December 31, 2018.

Nicolet’s profitability is significantly dependent upon net interest income (interest income earned on loans and other interest-earning assets such as investments, net of interest expense on deposits and other borrowed funds), and noninterest income sources (including but not limited to service charges on deposits, trust and brokerage fees, and mortgage income from sales of residential mortgages into the secondary market), offset by the level of the provision for loan losses, noninterest expenses (largely employee compensation and overhead expenses tied to processing and operating the Bank’s business), and income taxes.

Since its opening in late 2000, Nicolet has supplemented its organic growth with branch purchase and acquisition transactions. For information on recent transactions, see Note 2, “Acquisitions,” of the Notes to Consolidated Financial Statements under Part II, Item 8.

Products and Services Overview

Nicolet’s principal business is banking, consisting of lending and deposit gathering, as well as ancillary banking-related products and services, to businesses and individuals of the communities it serves, and the operational support to deliver, fund and manage such banking products and services. Additionally, through the Bank and Nicolet Advisory, trust, brokerage and other investment management services for individuals and retirement plan services for business customers are offered. Nicolet delivers its products

and services principally through 38 bank branch locations, on-line banking, mobile banking and an interactive website. Nicolet's call center also services customers.

Nicolet offers a variety of loans, deposits and related services to business customers (especially small and medium-sized businesses and professional concerns), including but not limited to: business checking and other business deposit products and cash management services, international banking services, business loans, lines of credit, commercial real estate financing, construction loans, agricultural real estate or production loans, and letters of credit, as well as retirement plan services. Similarly, Nicolet offers a variety of banking products and services to consumers, including but not limited to: residential mortgage loans and mortgage refinancing, home equity loans and lines of credit, residential construction loans, personal loans, checking, savings and money market accounts, various certificates of deposit and individual retirement accounts, safe deposit boxes, and personal brokerage, trust and fiduciary services. Nicolet also provides on-line services including commercial, retail and trust on-line banking, automated bill payment, mobile banking deposits and account access, remote deposit capture, and telephone banking, and other services such as wire transfers, debit cards, credit cards, pre-paid gift cards, direct deposit, and official bank checks.

Lending is critical to Nicolet's balance sheet and earnings potential. Nicolet seeks creditworthy borrowers principally within the geographic area of its branch locations. As a community bank with experienced commercial lenders and residential mortgage lenders, the primary lending function is to make loans in the following categories:

- commercial-related loans, consisting of:
 - commercial, industrial, and business loans and lines of credit;
 - owner-occupied commercial real estate ("owner-occupied CRE");
 - agricultural ("AG") production and AG real estate;
 - commercial real estate investment loans ("CRE investment");
 - construction and land development loans;
- residential real estate loans, consisting of:
 - residential first lien mortgages;
 - residential junior lien mortgages;
 - home equity loans and lines of credit;
 - residential construction loans; and
- other loans (mainly consumer in nature).

Lending involves credit risk. Nicolet has and follows extensive loan policies and procedures to standardize processes, meet compliance requirements and prudently manage underwriting, credit and other risks. Credit risk is further controlled and monitored through active asset quality management including the use of lending standards, thorough review of current and potential borrowers through Nicolet's underwriting process, close relationships with and regular check-ins with borrowers, and active asset quality administration. For further discussion of the loan portfolio composition and credit risk management, see "Management's Discussion and Analysis of Financial Condition and Results of Operation," under Part II, Item 7.

Employees

At December 31, 2018, Nicolet had approximately 550 full-time equivalent employees. None of our employees are represented by unions.

Market Area and Competition

The Bank is a full-service community bank, providing a full range of traditional commercial, wealth and retail banking products and services throughout northeastern and central Wisconsin and in Menominee, Michigan. Nicolet markets its services to owner-managed companies, the individual owners of these businesses, and other residents of its market area, which at December 31, 2018 is through 38 branches located principally in its trade area of northeastern and central Wisconsin, and in Menominee, Michigan. Based on deposit market share data published by the FDIC as of June 30, 2018, the Bank ranks in the top three of market share for Brown, Door, Kewaunee, Taylor and Clark counties and in the top five for Menominee and Marinette counties.

The financial services industry is highly competitive. Nicolet competes for loans, deposits and wealth management or financial services in all its principal markets. Nicolet competes directly with other bank and nonbank institutions located within our markets (some that may have an established customer base or name recognition), internet-based banks, out-of-market banks that advertise or otherwise serve its markets, money market and other mutual funds, brokerage houses, mortgage companies, insurance companies or other commercial entities that offer financial services products. Competition involves efforts to retain current or procure new customers, obtain new loans and deposits, increase the scope and type of products or services offered, and offer competitive interest rates paid on deposits or earned on loans, as well as to deliver other aspects of banking competitively. Many of Nicolet's competitors may enjoy competitive advantages, including greater financial resources, broader geographic presence, more accessible branches or more advanced technologic delivery of products or services, more favorable pricing alternatives and lower origination or operating costs.

We believe our competitive pricing, personalized service and community engagement enable us to effectively compete in our markets. Nicolet employs seasoned banking and wealth management professionals with experience in its market areas and who are active in their communities. Nicolet's emphasis on meeting customer needs in a relationship-focused manner, combined with local decision making on extensions of credit, distinguishes Nicolet from its competitors, particularly in the case of large financial institutions. Nicolet believes it further distinguishes itself by providing a range of products and services characteristic of a large financial institution while providing the personalized service, real conversation, and convenience characteristic of a local, community bank.

Supervision and Regulation

Set forth below is an explanation of the major pieces of legislation and regulation affecting the banking industry and how that legislation and regulation affects Nicolet's business. The following summary is qualified by reference to the statutory and regulatory provisions discussed. Changes in applicable laws or regulations may have a material effect on the business and prospects of Nicolet or the Bank, and legislative changes and the policies of various regulatory authorities may significantly affect their operations. We cannot predict the effect that fiscal or monetary policies, or new federal or state legislation or regulation may have on the future business and earnings of Nicolet or the Bank.

Both the scope of the laws and regulations and intensity of supervision to which Nicolet's business is subject have increased over the past decade in response to the financial crisis as well as other factors such as technological and market changes. Many of these changes have occurred as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and its implementing regulations, most of which are now in place. In 2018, with the passage of the Economic Growth, Regulatory Relief and Consumer Protection Act ("EGRRCPA"), as described below, there has been some recalibration of the post-financial crisis framework; however, Nicolet's business remains subject to extensive regulation and supervision.

EGRRCPA was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Act. While the EGRRCPA maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than \$10 billion, which could result in meaningful regulatory relief for community banks such as the Bank. Several of the reforms implemented by EGRRCPA are discussed below. In addition, the EGRRCPA includes regulatory relief for community banks regarding regulatory examination cycles, call reports, the Volcker Rule (proprietary trading prohibitions), mortgage disclosures and risk weights for certain high-risk commercial real estate loans. It is difficult at this time to predict when or how any new standards under the EGRRCPA will ultimately be applied to us or what specific impact the EGRRCPA and the yet-to-be-written implementing rules and regulations will have on community banks.

Regulation of Nicolet

Because Nicolet owns all of the capital stock of the Bank, it is a bank holding company under the federal Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"). As a result, Nicolet is primarily subject to the supervision, examination, and reporting requirements of the Bank Holding Company Act and the regulations of the Board of Governors of the Federal Reserve System (the "Federal Reserve"). As a bank holding company located in Wisconsin, the Wisconsin Department of Financial Institutions (the "WDFI") also regulates and monitors all significant aspects of its operations.

Acquisitions of Banks . The Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve before:

- acquiring direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the bank's voting shares;
- acquiring all or substantially all of the assets of any bank; or
- merging or consolidating with any other bank holding company.

Additionally, the Bank Holding Company Act provides that the Federal Reserve may not approve any of these transactions if it would result in or tend to create a monopoly, substantially lessen competition, or otherwise function as a restraint of trade, unless the anti-competitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks involved in the transaction and the convenience and needs of the community to be served. The Federal Reserve's consideration of financial resources generally focuses on capital adequacy, which is discussed below.

Change in Bank Control . Subject to various exceptions, the Bank Holding Company Act and the Change in Bank Control Act, together with related regulations, require Federal Reserve approval prior to any person or company acquiring "control" of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Control is rebuttably presumed to exist if a person or company acquires 10% or

more, but less than 25%, of any class of voting securities of the bank holding company. The regulations provide a procedure for challenging rebuttable presumptions of control.

Permitted Activities . The Bank Holding Company Act has generally prohibited a bank holding company from engaging in activities other than banking or managing or controlling banks or other permissible subsidiaries and from acquiring or retaining direct or indirect control of any company engaged in any activities other than those determined by the Federal Reserve to be closely related to banking or managing or controlling banks as to be a proper incident thereto. Provisions of the Gramm-Leach-Bliley Act have expanded the permissible activities of a bank holding company that qualifies as a financial holding company to engage in activities that are financial in nature or incidental or complementary to financial activities. Those activities include, among other activities, certain insurance, advisory and security activities.

Nicolet meets the qualification standards applicable to financial holding companies, and elected to become a financial holding company in 2008. In order to remain a financial holding company, Nicolet must continue to be considered well managed and well capitalized by the Federal Reserve, and the Bank must continue to be considered well managed and well capitalized by the Office of the Comptroller of the Currency (the “OCC”) and have at least a “satisfactory” rating under the Community Reinvestment Act.

Support of Subsidiary Institutions . Under Federal Reserve policy and the Dodd-Frank Act, Nicolet is expected to act as a source of financial strength for the Bank and to commit resources to support the Bank. This support may be required at times when, without this Federal Reserve policy or the related rules, Nicolet might not be inclined to provide it.

In addition, any capital loans made by Nicolet to the Bank will be repaid only after the Bank’s deposits and various other obligations are repaid in full.

Capital Adequacy . Nicolet is subject to capital requirements applied on a consolidated basis, which are substantially similar to those required of the Bank, which are summarized under “Regulation of the Bank” below.

Dividend Restrictions . Under Federal Reserve policies, bank holding companies may pay cash dividends on common stock only out of income available over the past year if prospective earnings retention is consistent with the organization's expected future needs and financial condition and if the organization is not in danger of not meeting its minimum regulatory capital requirements. Federal Reserve policy also provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries.

Regulation of the Bank

Because the Bank is chartered as a national bank, it is primarily subject to the supervision, examination, and reporting requirements of the National Bank Act and the regulations of the OCC. The OCC regularly examines the Bank’s operations and has the authority to approve or disapprove mergers, the establishment of branches and similar corporate actions. The OCC also has the power to prevent the continuance or development of unsafe or unsound banking practices or other violations of law. Because the Bank’s deposits are insured by the FDIC to the maximum extent provided by law, it is also subject to certain FDIC regulations and the FDIC also has examination authority and back-up enforcement power over the Bank. The Bank is also subject to numerous state and federal statutes and regulations that affect Nicolet, its business, activities, and operations.

Branching. National banks are required by the National Bank Act to adhere to branching laws applicable to state banks in the states in which they are located. Under Wisconsin law and the Dodd-Frank Act, and with the prior approval of the OCC, the Bank may open branch offices within or outside of Wisconsin, provided that a state bank chartered by the state in which the branch is to be located would also be permitted to establish a branch. In addition, with prior regulatory approval, the Bank may acquire branches of existing banks located in Wisconsin or other states.

Capital Adequacy. Banks and bank holding companies, as regulated institutions, are required to maintain minimum levels of capital. The Federal Reserve and the OCC have adopted minimum risk-based capital requirements (Tier 1 capital, common equity Tier 1 capital (“CET1”) and total capital) and leverage capital requirements, as well as guidelines that define components of the calculation of capital and the level of risk associated with various types of assets. Financial institutions are expected to maintain a level of capital commensurate with the risk profile assigned to their assets in accordance with the guidelines.

In addition to the minimum risk-based capital and leverage ratios, banking organizations must maintain a “capital conservation buffer” consisting of CET1 in an amount equal to 2.5% of risk-weighted assets in order to avoid restrictions on their ability to make capital distributions and to pay certain discretionary bonus payments to executive officers. In order to avoid those restrictions, the capital conservation buffer effectively increases the minimum CET1 capital, Tier 1 capital, and total capital ratios for U.S. banking organizations to 7.0%, 8.5%, and 10.5%, respectively. Banking organizations with capital levels that fall within the buffer will be required to limit dividends, share repurchases or redemptions (unless replaced within the same calendar quarter by capital instruments of equal or higher quality), and discretionary bonus payments. The capital conservation buffer was fully phased in on January 1, 2019. The following table presents the risk-based and leverage capital requirements applicable to the Bank:

	Adequately Capitalized Requirement	Well-Capitalized Requirement	Well-Capitalized with Buffer
Leverage	4.0%	5.0%	5.0%
CET1	4.5%	6.5%	7.0%
Tier 1	6.0%	8.0%	8.5%
Total Capital	8.0%	10.0%	10.5%

Although capital instruments such as trust preferred securities and cumulative preferred shares are excluded from Tier 1 capital for certain larger banking organizations, Nicolet’s trust preferred securities are permanently grandfathered as Tier 1 capital (provided they do not exceed 25% of Tier 1 capital) as a result of Nicolet qualifying as a smaller entity.

The capital rules require that goodwill and other intangible assets (other than mortgage servicing assets), net of associated deferred tax liabilities (“DTLs”), be deducted from CET1 capital. Additionally, deferred tax assets (“DTAs”) that arise from net operating loss and tax credit carryforwards, net of associated DTLs and valuation allowances, are fully deducted from CET1 capital. However, DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, along with mortgage servicing assets and “significant” (defined as greater than 10% of the issued and outstanding common stock of the unconsolidated financial institution) investments in the common stock of unconsolidated “financial institutions” are partially includible in CET1 capital, subject to deductions defined in the rules.

The OCC also considers interest rate risk (arising when the interest rate sensitivity of the Bank’s assets does not match the sensitivity of its liabilities or its off-balance sheet position) in the evaluation of the bank’s capital adequacy. Banks with excessive interest rate risk exposure are required to hold additional amounts of capital against their exposure to losses resulting from that risk. Through the risk-weighting of assets, the regulators also require banks to incorporate market risk components into their risk-based capital. Under these market risk requirements, capital is allocated to support the amount of market risk related to a bank’s lending and trading activities.

The Bank’s capital categories are determined solely for the purpose of applying the “prompt corrective action” rules described below and they are not necessarily an accurate representation of its overall financial condition or prospects for other purposes. Failure to meet capital guidelines could subject a bank or bank holding company to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting brokered deposits, and certain other restrictions on its business. See “Prompt Corrective Action” below.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) establishes a system of prompt corrective action to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, in which all institutions are placed. The federal banking agencies have also specified by regulation the relevant capital levels for each category.

A “well-capitalized” bank is one that is not required to meet and maintain a specific capital level for any capital measure pursuant to any written agreement, order, capital directive, or prompt corrective action directive, and has a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 8%, a CET1 capital ratio of at least 6.5%, and a Tier 1 leverage ratio of at least 5%. Generally, a classification as well-capitalized will place a bank outside of the regulatory zone for purposes of prompt corrective action. However, a well-capitalized bank may be reclassified as “adequately capitalized” based on criteria other than capital, if the federal regulator determines that a bank is in an unsafe or unsound condition, or is engaged in unsafe or unsound practices, which requires certain remedial action.

As of December 31, 2018, the Bank satisfied the requirements of “well-capitalized” under the regulatory framework for prompt corrective action. See Note 17, “Regulatory Capital Requirements,” in the Notes to Consolidated Financial Statements, under Part II, Item 8, for Nicolet and the Bank regulatory capital ratios.

Section 201 of EGRRCPA requires the Federal banking agencies to promulgate a rule establishing a new “Community Bank Leverage Ratio” of 8%-10% for depository institutions and depository institution holding companies, including banks and bank holding companies, with less than \$10 billion in total consolidated assets. If such a depository institution or holding company maintains tangible equity in excess of this leverage ratio, it would be deemed to be in compliance with (1) the leverage and risk-based capital requirements promulgated by the Federal banking agencies; (2) in the case of a depository institution, the capital ratio requirements to be considered “well-capitalized” under the Federal banking agencies’ “prompt corrective action” regime; and (3) “any other capital or leverage requirements” to which the depository institution or holding company is subject, in each case unless the appropriate Federal banking agency determines otherwise based on the particular institution’s risk profile. The EGRRCPA also expands the category of holding companies that may rely on the “Small Bank Holding Company and Savings and

Loan Holding Company Policy Statement” by raising the maximum amount of assets a qualifying holding company may have from \$1 billion to \$3 billion. This expansion also excludes such holding companies from the minimum capital requirements of the Dodd-Frank Act.

As a bank’s capital position deteriorates, federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories: undercapitalized, significantly undercapitalized, and critically undercapitalized. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized.

FDIC Insurance Assessments. The Bank’s deposits are insured by the Deposit Insurance Fund of the FDIC up to \$250,000, the maximum amount permitted by law. The FDIC uses the Deposit Insurance Fund to protect against the loss of insured deposits if an FDIC-insured bank or savings association fails. The Bank is thus subject to FDIC deposit premium assessments. The cost of premium assessments are impacted by, among other things, a bank’s capital category under the prompt corrective action system.

Commercial Real Estate Lending. The federal banking regulators have issued the following guidance to help identify institutions that are potentially exposed to significant commercial real estate lending risk and may warrant greater supervisory scrutiny:

- total reported loans for construction, land development and other land represent 100% or more of the institution’s total capital, or
- total commercial real estate loans represent 300% or more of the institution’s total capital, and the outstanding balance of the institution’s commercial real estate loan portfolio has increased by 50% or more.

At December 31, 2018 the Bank’s commercial real estate lending levels are below the guidance levels noted above.

Enforcement Powers . The Financial Institution Reform Recovery and Enforcement Act (“FIRREA”) expanded and increased civil and criminal penalties available for use by the federal regulatory agencies against depository institutions and certain “institution-affiliated parties.” Institution-affiliated parties primarily include management, employees, and agents of a financial institution, as well as independent contractors and consultants such as attorneys and accountants and others who participate in the conduct of the financial institution’s affairs. These practices can include the failure of an institution to timely file required reports or the filing of false or misleading information or the submission of inaccurate reports. Civil penalties may be as high as \$1,963,870 per day for such violations. Criminal penalties for some financial institution crimes have been increased to 20 years.

Community Reinvestment Act. The Community Reinvestment Act requires that, in connection with examinations of financial institutions within their respective jurisdictions, the federal banking agencies evaluate the record of each financial institution in meeting the credit needs of its local community, including low- and moderate-income neighborhoods. These facts are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on the Bank. Additionally, the Bank must publicly disclose the terms of various Community Reinvestment Act-related agreements.

Payment of Dividends. Statutory and regulatory limitations apply to the Bank’s payment of dividends to the Parent Company. If, in the opinion of the OCC, the Bank were engaged in or about to engage in an unsafe or unsound practice, the OCC could require that the Bank stop or refrain from engaging in the practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution’s capital base to an inadequate level would be an unsafe and unsound banking practice.

The Bank is required by federal law to obtain prior approval of the OCC for payments of dividends if the total of all dividends declared by the Bank in any year will exceed (1) the total of the Bank’s net profits for that year, plus (2) the Bank’s retained net profits of the preceding two years. The payment of dividends may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines or any conditions or restrictions that may be imposed by regulatory authorities.

Transactions with Affiliates and Insiders . The Bank is subject to the provisions of Regulation W promulgated by the Federal Reserve, which implements Sections 23A and 23B of the Federal Reserve Act. Regulation W places limits and conditions on the amount of loans or extensions of credit to, investments in, or certain other transactions with, affiliates and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. Regulation W also prohibits, among other things, an institution from engaging in certain transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies. Federal law also places restrictions on the Bank’s ability to extend credit to its executive officers, directors, principal shareholders and their related interests. These extensions of credit must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated third parties; and must not involve more than the normal risk of repayment or present other unfavorable features.

USA PATRIOT Act . The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act") requires each financial institution to: (i) establish an anti-money laundering program; and (ii) establish due diligence policies, procedures and controls with respect to its private and correspondent banking accounts involving foreign individuals and certain foreign banks. In addition, the USA PATRIOT Act encourages cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities.

Customer Protection . The Bank is also subject to consumer laws and regulations intended to protect consumers in transactions with depository institutions, as well as other laws or regulations affecting customers of financial institutions generally. While the list set forth herein is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Real Estate Settlement and Procedures Act, the Fair Credit Reporting Act and the Federal Trade Commission Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers.

Consumer Financial Protection Bureau. The Dodd-Frank Act centralized responsibility for consumer financial protection including implementing, examining and enforcing compliance with federal consumer financial laws with the Consumer Financial Protection Bureau (the "CFPB"). Depository institutions with less than \$10 billion in assets, such as the Bank, are subject to rules promulgated by the CFPB but will continue to be examined and supervised by federal banking regulators for consumer compliance purposes.

UDAP and UDAAP. Bank regulatory agencies have increasingly used a general consumer protection statute to address "unethical" or otherwise "bad" business practices that may not necessarily fall directly under the purview of a specific banking or consumer finance law. The law of choice for enforcement against such business practices has been Section 5 of the Federal Trade Commission Act—the primary federal law that prohibits "unfair or deceptive acts or practices" and unfair methods of competition in or affecting commerce ("UDAP" or "FTC Act"). "Unjustified consumer injury" is the principal focus of the FTC Act. Prior to the Dodd-Frank Act, there was little formal guidance to provide insight to the parameters for compliance with the UDAP law. However, the UDAP provisions have been expanded under the Dodd-Frank Act to apply to "unfair, deceptive or abusive acts or practices" ("UDAAP"). The CFPB has brought a variety of enforcement actions for violations of UDAAP provisions and CFPB guidance continues to evolve.

Mortgage Reform. The CFPB has adopted final rules implementing minimum standards for the origination of residential mortgages, including standards regarding a customer's ability to repay, restricting variable-rate lending by requiring that the ability to repay variable-rate loans be determined by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions. In addition, the Dodd-Frank Act allows borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. EGRRCPA, among other matters, expands the definition of qualified mortgages which may be held by a financial institution.

Available Information

Nicolet became a public reporting company under Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") on March 26, 2013, when Nicolet's registration statement related to its acquisition of Mid-Wisconsin Financial Services, Inc. (Registration Statement on Form S-4, Regis. No. 333-186401) became effective. Nicolet registered its common stock under Section 12(b) of the Exchange Act on February 24, 2016 in connection with listing on the Nasdaq Capital Market. Nicolet files annual, quarterly, and current reports, and other information with the SEC. These filings are available to the public on the Internet at the SEC's website at www.sec.gov.

Nicolet's internet address is www.nicoletbank.com. We make available free of charge on or through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

ITEM 1A. RISK FACTORS

An investment in our common stock involves risks. If any of the following risks, or other risks which have not been identified or which we may believe are immaterial or unlikely, actually occurs, our business, financial condition and results of operations could be harmed. In such a case, the trading price of our common stock could decline, and you could lose all or part of your investment. The risks discussed below also include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements.

Risks Relating to Nicolet's Business

Nicolet may not be able to sustain its historical rate of growth, or may encounter issues associated with its growth, either of which could adversely affect our financial condition, results of operations, and share price.

We have grown over the past several years and intend to continue to pursue a significant growth strategy for our business. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in significant growth stages of development. We may not be able to further expand our market presence in existing markets or to enter new markets successfully, nor can we guarantee that any such expansion would not adversely affect our results of operations. Failure to manage growth effectively could have a material adverse effect on the business, future prospects, financial condition or results of our operations, and could adversely affect our ability to successfully implement business strategies. Also, if such growth occurs more slowly than anticipated or declines, our operating results could be materially adversely affected.

Our ability to grow successfully will depend on a variety of factors including the continued availability of desirable business opportunities, the competitive responses from other financial institutions in our market areas and the ability to manage our growth. While we believe we have the management resources and internal systems in place to manage future growth successfully, there can be no assurance that growth opportunities will be available or that any growth will be managed successfully. In addition, our recent growth may distort some of our historical financial ratios and statistics.

As part of our growth strategy, we regularly evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, negotiations may take place and future mergers or acquisitions involving cash, debt, or equity securities may occur at any time. We seek merger or acquisition partners that are culturally similar, have experienced management, and possess either significant market presence or have potential for improved profitability through financial management, economies of scale, or expanded services.

Acquiring other banks, businesses, or branches involves potential adverse impact to our financial results and various other risks commonly associated with acquisitions, including, among other things, difficulty in estimating the value of the target company, payment of a premium over book and market values that may dilute our tangible book value and earnings per share in the short and long term, potential exposure to unknown or contingent liabilities of the target company, exposure to potential asset quality issues of the target company, potential volatility in reported income as goodwill impairment losses could occur irregularly and in varying amounts, difficulty and expense of integrating the operations and personnel of the target company, inability to realize the expected revenue increases, cost savings, increases in geographic or product presence, and / or other projected benefits, potential disruption to our business, potential diversion of our management's time and attention, and the possible loss of key employees and customers of the target company.

As a community bank, Nicolet's success depends upon local and regional economic conditions and has different lending risks than larger banks.

We provide services to our local communities. Our ability to diversify economic risks is limited by our own local markets and economies. We lend primarily to individuals and small- to medium-sized businesses, which may expose us to greater lending risks than those of banks lending to larger, better-capitalized businesses with longer operating histories.

We manage our credit exposure through careful monitoring of loan applicants and loan concentrations in particular industries, and through loan approval and review procedures. We have established an evaluation process designed to determine the appropriateness of our allowance for loan losses. While this evaluation process uses historical and other objective information, the classification of loans and the establishment of loan losses is an estimate based on experience, judgment and expectations regarding borrowers and economic conditions, as well as regulator judgments. We can make no assurance that our loan loss reserves will be sufficient to absorb future loan losses or prevent a material adverse effect on our business, profitability or financial condition.

The core industries in our market area are manufacturing, wholesaling, paper, packaging, food production and processing, agriculture, forest products, retail, service, and businesses supporting the general building industry. The area has a broad range of diversified equipment manufacturing services related to these core industries and others. The residential and commercial real estate markets throughout these areas depend primarily on the strength of these core industries. A material decline in any of these sectors will affect the communities we serve and could negatively impact our financial results and have a negative impact on profitability.

If the communities in which we operate do not grow or if the prevailing economic conditions locally or nationally are less favorable than we have assumed, our ability to maintain our low volume of nonperforming loans and other real estate owned and implement our business strategies may be adversely affected and our actual financial performance may be materially different from our projections.

Nicolet may experience increased delinquencies and credit losses, which could have a material adverse effect on our capital, financial condition, results of operations, and share price.

Our success depends to a significant extent upon the quality of our assets, particularly loans. In originating loans, there is a substantial likelihood that we will experience credit losses. The risk of loss will vary with, among other things, general economic conditions, the type of loan, the creditworthiness of the borrower over the term of the loan, and, in the case of a collateralized loan, the quality of the collateral for the loan.

Our loan customers may not repay their loans according to the terms of these loans, and the collateral securing the payment of these loans may be insufficient to assure repayment. As a result, we may experience significant loan losses, which could have a material adverse effect on our operating results. Management makes various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. We maintain an allowance for loan losses in an attempt to cover any loan losses that may occur. In determining the size of the allowance, we rely on an analysis of our loan portfolio based on historical loss experience, volume and types of loans, trends in classification, volume and trends in delinquencies and nonaccruals, national and local economic conditions, and other pertinent information.

If management's assumptions are wrong, our current allowance may not be sufficient to cover future loan losses, and we may need to make adjustments to allow for different economic conditions or adverse developments in our loan portfolio. Material additions to our allowance would materially decrease net income. We expect our allowance to continue to fluctuate; however, given current and future market conditions, we can make no assurance that our allowance will be appropriate to cover future loan losses.

In addition, the market value of the real estate securing our loans as collateral could be adversely affected by the economy and unfavorable changes in economic conditions in our market areas. As of December 31, 2018, approximately 40% of our loans were secured by commercial-based real estate, 2% of loans were secured by agriculture-based real estate, and 23% of our loans were secured by residential real estate. Any sustained period of increased payment delinquencies, foreclosures, or losses caused by adverse market and economic conditions, including another downturn in the real estate market, in our markets could adversely affect the value of our assets, results of operations, and financial condition.

Nicolet is subject to extensive regulation that could limit or restrict our activities, which could have a material adverse effect on our results of operations or share price.

We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by various regulatory agencies. Our compliance with these regulations, including compliance with regulatory commitments, is costly and restricts certain of our activities, including the declaration and payment of cash dividends to stockholders, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits, and locations of offices. We are also subject to capitalization guidelines established by our regulators, which require us to maintain adequate capital to support our growth and operations.

The laws and regulations applicable to the banking industry have recently changed and may continue to change, and we cannot predict the effects of these changes on our business and profitability. Some or all of the changes, including the rulemaking authority granted to the CFPB, may result in greater reporting requirements, assessment fees, operational restrictions, capital requirements, and other regulatory burdens for us, and many of our competitors that are not banks or bank holding companies may remain free from such limitations. This could affect our ability to attract and retain depositors, to offer competitive products and services, and to expand our business. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, the cost of compliance could adversely affect our ability to operate profitably.

Congress may consider additional proposals to substantially change the financial institution regulatory system and to expand or contract the powers of banking institutions, bank holding companies and financial holding companies. Such legislation may change existing banking statutes and regulations, as well as the current operating environment significantly. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities, or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether new legislation will be enacted and, if enacted, the effect that it, or any regulations, would have on our business, financial condition, or results of operations.

Nicolet's profitability is sensitive to changes in the interest rate environment.

As a financial institution, our earnings significantly depend on net interest income, which is the difference between the interest income that we earn on interest-earning assets, such as investment securities and loans, and the interest expense that we pay on interest-bearing liabilities, such as deposits and borrowings. Therefore, any change in general market interest rates, including changes in federal fiscal and monetary policies, affects us more than non-financial institutions and can have a significant effect on our net interest income and total income. Our assets and liabilities may react differently to changes in overall market rates or

conditions because there may be mismatches between the repricing or maturity characteristics of the assets and liabilities. As a result, an increase or decrease in market interest rates could have material adverse effects on our net interest margin and results of operations.

In addition, we cannot predict whether interest rates will continue to remain at present levels, or the timing of any anticipated changes. Changes in interest rates may cause significant changes, up or down, in our net interest income. If the interest rates paid on deposits and borrowings increase at a faster rate than the interest rates received on loans and investment securities, our net interest income, and therefore earnings, could be adversely affected. Earnings also could be adversely affected if the interest rates received on loans and investment securities fall more quickly than the interest rates paid on deposits and borrowings. In addition, if there is a substantial increase in interest rates, our investment portfolio is at risk of experiencing price declines that may negatively impact our total capital position through changes in other comprehensive income. Any significant increase in prevailing interest rates could also adversely affect our mortgage banking business because higher interest rates could cause customers to request fewer refinancing and purchase money mortgage originations.

Nicolet faces significant operational risk, including risk of loss related to cybersecurity breaches, due to the financial services industry's increased reliance on technology.

We rely heavily on communications and information systems to conduct our business, and we rely on third party vendors to provide key components of these systems, including our core application processing. Any failure, interruption or breach in security of these systems could result in failures or disruptions in customer relationship management, general ledger, deposit, loan functionality and the effective operation of other systems. While we have policies and procedures designed to prevent or limit the effect of a failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

We do not control the actions of the third party vendors we have selected to provide key components of our business infrastructure. Any problems caused by these third parties, including as a result of their not providing us their services for any reason or their performing their services poorly, or any failure, interruption or breach in security of the services they provide, could adversely affect our ability to deliver products and services to our customers and otherwise to conduct our business. Replacing these third party vendors could also entail significant delay and expense.

Our business may be adversely affected by an increasing prevalence of fraud and other financial crimes.

As a financial institution, we are also susceptible to fraudulent activity that may be committed against us, our third party vendors, or our clients, which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our clients' information, misappropriation of assets, privacy breaches against our clients, litigation, or damage to our reputation. These risks may increase in the future as we continue to increase our mobile-payment and other internet-based product offerings and expand our internal usage of web-based products and applications.

Negative publicity could damage our reputation.

Reputation risk, or the risk to our earnings and capital from negative public opinion, is inherent in our business. Negative public opinion could adversely affect our ability to keep and attract customers and expose us to adverse legal and regulatory consequences. Negative public opinion could result from our actual or alleged conduct in any number of activities, including lending or foreclosure practices, corporate governance, regulatory compliance, mergers and acquisitions, and disclosure, sharing or inadequate protection of customer information, and from actions taken by government regulators and community organizations in response to that conduct.

Competition in the banking industry is intense and Nicolet faces strong competition from larger, more established competitors.

The banking business is highly competitive, and we experience strong competition from many other financial institutions. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other financial institutions that operate in our primary market areas and elsewhere.

We compete with these institutions both in attracting deposits and in making loans. In addition, we have to attract our customer base from other existing financial institutions and from new residents. Many of our competitors are well-established, much larger financial institutions. While we believe we can and do successfully compete with these other financial institutions, we may face a competitive disadvantage as compared to large national or regional banks as a result of our smaller size and relative lack of geographic diversification.

Although we compete by concentrating our marketing efforts in our primary market area with local advertisements, personal contacts, and greater flexibility in working with local customers, we can give no assurance that this strategy will be successful.

Nicolet continually encounters technological change, we may have fewer resources than our competition to continue to invest in technological improvements.

The banking and financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that enhance customer convenience, as well as create additional efficiencies in operations. Many of our competitors have greater resources to invest in technological improvements, and we may not be able to effectively implement new technology-driven products and services, which could reduce our ability to effectively compete.

Risks Related to Ownership of Nicolet's Common Stock

Our stock price can be volatile.

Stock price volatility may make it more difficult for you to sell your common stock when you want and at prices you find attractive. Our stock price can fluctuate widely in response to a variety of factors including, among other things:

- actual or anticipated variations in quarterly results of operations or financial condition;
- operating results and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns, and other issues in the financial services industry;
- perceptions in the marketplace regarding us and / or our competitors;
- new technology used or services offered by competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures, or capital commitments by or involving us or our competitors;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- changes in government regulations;
- geopolitical conditions such as acts or threats of terrorism or military conflicts;
- available supply and demand of investors interested in trading our common stock;
- our own participation in the market through our buyback program; and
- recommendations by securities analysts.

General market fluctuations, industry factors, and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes, or credit loss trends, could also cause our stock price to decrease regardless of our operating results.

Nicolet has not historically paid dividends to our common shareholders, and we cannot guarantee that it will pay dividends to such shareholders in the future.

The holders of our common stock receive dividends if and when declared by the Nicolet board of directors out of legally available funds. Nicolet's board of directors has not declared a dividend on the common stock since our inception in 2000. Any future determination relating to dividend policy will be made at the discretion of Nicolet's board of directors and will depend on a number of factors, including the company's future earnings, capital requirements, financial condition, future prospects, regulatory restrictions and other factors that the board of directors may deem relevant.

Our principal business operations are conducted through the Bank. Cash available to pay dividends to our shareholders is derived primarily, if not entirely, from dividends paid by the Bank. The ability of the Bank to pay dividends to us, as well as our ability to pay dividends to our shareholders, is subject to and limited by certain legal and regulatory restrictions, as well as contractual restrictions related to our junior subordinated debentures. Further, any lenders making loans to us may impose financial covenants that may be more restrictive than regulatory requirements with respect to the payment of dividends by us. There can be no assurance of whether or when we may pay dividends in the future.

Nicolet may need to raise additional capital in the future but that capital may not be available when it is needed or may be dilutive to our shareholders.

We are required by federal and state regulatory authorities to maintain adequate capital levels to support our operations. In order to support our growth and operations and to comply with regulatory standards, we may need to raise capital in the future. Our ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital, if needed, on favorable terms. The capital and credit markets have experienced significant volatility in recent years. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying

financial strength. If current levels of volatility worsen, our ability to raise additional capital may be disrupted. If we cannot raise additional capital when needed, our results of operations and financial condition may be adversely affected, and our banking regulators may subject us to regulatory enforcement action, including receivership. In addition, the issuance of additional shares of our equity securities will dilute the economic ownership interest of our common shareholders.

Nicolet's directors and executive officers own a significant portion of our common stock and can influence shareholder decisions.

Our directors and executive officers, as a group, beneficially owned approximately 17% of our fully diluted issued and outstanding common stock as of December 31, 2018. As a result of their ownership, our directors and executive officers have the ability, if they voted their shares in concert, to influence the outcome of matters submitted to our shareholders for approval, including the election of directors.

Holders of Nicolet's subordinated debentures have rights that are senior to those of its common shareholders.

We have supported our continued growth by issuing trust preferred securities and accompanying junior subordinated debentures and by assuming the trust preferred securities and accompanying junior subordinated debentures issued by companies we have acquired. As of December 31, 2018, we had outstanding trust preferred securities and associated junior subordinated debentures with an aggregate par principal amount of approximately \$37.1 million and \$38.2 million, respectively.

We have unconditionally guaranteed the payment of principal and interest on our trust preferred securities. Also, the junior debentures issued to the special purpose trusts that relate to those trust preferred securities are senior to our common stock. As a result, we must make payments on the junior subordinated debentures before we can pay any dividends on our common stock, and in the event of our bankruptcy, dissolution or liquidation, holders of our junior subordinated debentures must be satisfied before any distributions can be made on our common stock. We do have the right to defer distributions on our junior subordinated debentures (and related trust preferred securities) for up to five years, but during that time would not be able to pay dividends on our common stock.

Because Nicolet is a regulated bank holding company, your ability to obtain "control" or to act in concert with others to obtain control over Nicolet without the prior consent of the Federal Reserve or other applicable bank regulatory authorities is limited and may subject you to regulatory oversight.

Nicolet is a bank holding company and, as such, is subject to significant regulation of its business and operations. In addition, under the provisions of the Bank Holding Company Act and the Change in Bank Control Act, certain regulatory provisions may become applicable to individuals or groups who are deemed by the regulatory authorities to "control" Nicolet or our subsidiary bank. The Federal Reserve and other bank regulatory authorities have very broad interpretive discretion in this regard and it is possible that the Federal Reserve or some other bank regulatory authority may, whether through a merger or through subsequent acquisition of Nicolet's shares, deem one or more of Nicolet's shareholders to control or to be acting in concert for purposes of gaining or exerting control over Nicolet. Such a determination may require a shareholder or group of shareholders, among other things, to make voluminous regulatory filings under the Change in Bank Control Act, including disclosure to the regulatory authorities of significant amounts of confidential personal or corporate financial information. In addition, certain groups or entities may also be required to either register as a bank holding company under the Bank Holding Company Act, becoming themselves subject to regulation by the Federal Reserve under that Act and the rules and regulations promulgated thereunder, which may include requirements to materially limit other operations or divest other business concerns, or to divest immediately their investments in Nicolet.

In addition, these limitations on the acquisition of our stock may generally serve to reduce the potential acquirers of our stock or to reduce the volume of our stock that any potential acquirer may be able to acquire. These restrictions may serve to generally limit the liquidity of our stock and, consequently, may adversely affect its value.

Nicolet's securities are not FDIC insured.

Our securities are not savings or deposit accounts or other obligations of the Bank, and are not insured by the Deposit Insurance Fund, or any other agency or private entity and are subject to investment risk, including the possible loss of some or all of the value of your investment.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The corporate headquarters of both the Parent Company and the Bank are located at 111 North Washington Street, Green Bay, Wisconsin. At year-end 2018, including the main office, the Bank operated 38 bank branch locations, 29 of which are owned and nine that are leased. In addition, Nicolet owns or leases other real property that, when considered in aggregate, is not significant to its financial position. Most of the offices are free-standing, newer buildings that provide adequate access, customer parking,

and drive-through and/or ATM services. The properties are in good condition and considered adequate for present and near term requirements. None of the owned properties are subject to a mortgage or similar encumbrance.

Three of the leased locations involve directors, executive officers, or direct relatives of a director or executive officer, each with lease terms that management considers arms-length. For additional disclosure, see Note 15 , “ Related Party Transactions ,” of the Notes to Consolidated Financial Statements under Part II, Item 8.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Nicolet registered its common stock under Section 12(b) of the Exchange Act on February 24, 2016, in connection with listing on the Nasdaq Capital Market, and trades under the symbol “NCBS”. As of February 28, 2019, Nicolet had approximately 2,115 shareholders of record.

Nicolet has not paid dividends on its common stock since its inception in 2000. Any cash dividends paid by Nicolet on its common stock must comply with applicable Federal Reserve policies described further in “Business—Regulation of Nicolet—Dividend Restrictions.” The Bank is also subject to regulatory restrictions on the amount of dividends it is permitted to pay to Nicolet as further described in “Business—Regulation of the Bank – Payment of Dividends” and in Note 17 , “ Regulatory Capital Requirements ,” in the Notes to Consolidated Financial Statements under Part II, Item 8.

Following are Nicolet’s monthly common stock purchases during the fourth quarter of 2018 .

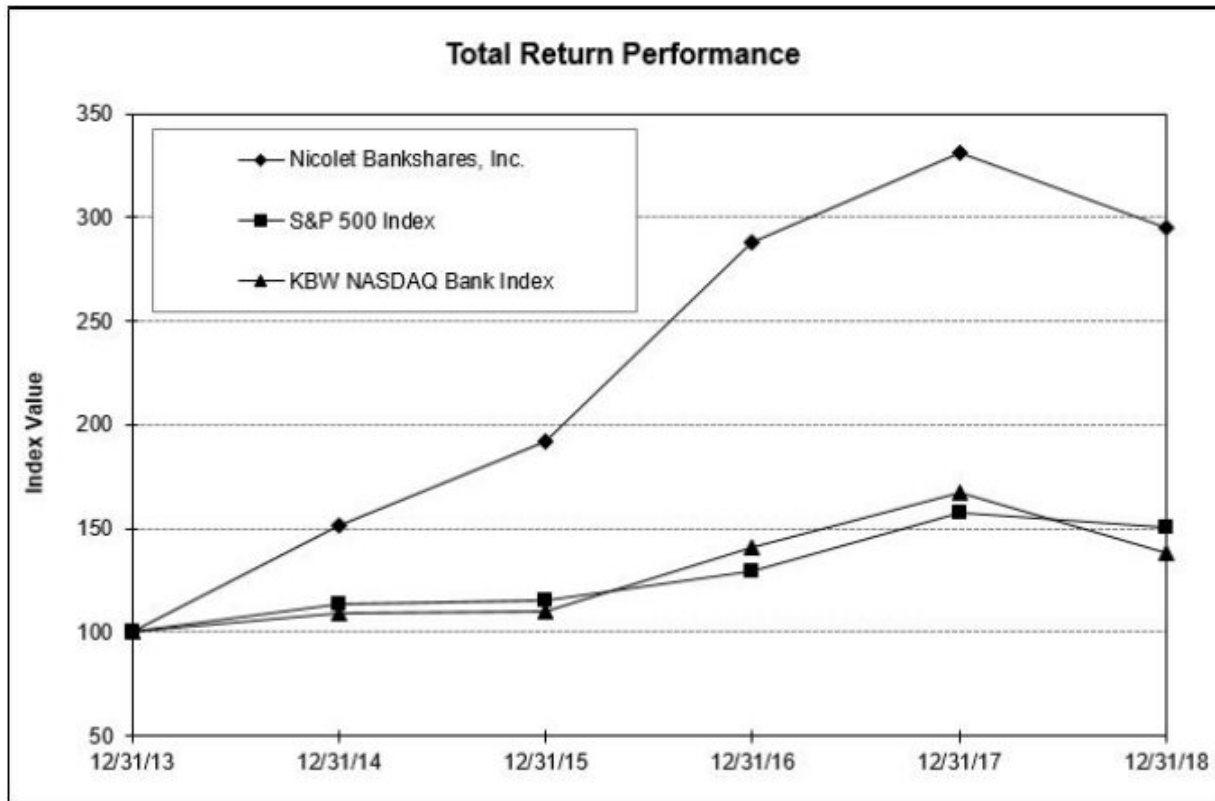
Period:	Total Number of Shares Purchased (#) (a) (b)	Average Price Paid per Share (\$)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (#) (b)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (#) (a) (b)
October 1 – October 31, 2018	57,106	\$ 53.46	57,083	378,000
November 1– November 30, 2018	16,412	\$ 52.23	14,595	363,000
December 1 – December 31, 2018	32,528	\$ 49.94	28,567	335,000
Total	106,046	\$ 52.19	100,245	335,000

(a) During fourth quarter 2018 , the Company repurchased 2,333 shares for minimum tax withholding settlements on restricted stock and repurchased 3,468 shares to satisfy the exercise price and/or tax withholding requirements of stock options, respectively. These purchases do not count against the maximum number of shares that may yet be purchased under the board of directors’ authorization.

(b) During 2014 the board of directors approved a common stock repurchase program which authorized, with subsequent modifications, the use of up to \$54 million to repurchase up to 1,450,000 shares of outstanding common stock. The common stock repurchase program has no expiration date. During fourth quarter 2018 , Nicolet spent \$5.2 million to repurchase and cancel 100,245 shares at a weighted average price of \$52.21 per share, bringing the life-to-date cumulative totals to \$46.3 million to repurchase and cancel 1.1 million shares at a weighted average price of \$41.52 per share. At December 31, 2018 , approximately \$7.7 million remained available to repurchase common shares.

Performance Graph

The following graph shows the cumulative stockholder return on our common stock compared with the KBW NASDAQ Bank Index and the S&P 500 Index for the period of December 31, 2013 to December 31, 2018. The graph assumes the value of the investment in the Company's common stock and in each index was \$100 on December 31, 2013. Historical stock price performance shown on the graph is not necessarily indicative of the future price performance.



Index	Period Ending					
	2013	2014	2015	2016	2017	2018
Nicolet Bankshares, Inc.	\$ 100.00	\$ 151.15	\$ 192.20	\$ 288.33	\$ 330.96	\$ 295.04
S&P 500 Index	100.00	113.69	115.26	129.05	157.22	150.33
KBW Nasdaq Bank Index	100.00	109.37	109.91	141.24	167.50	137.83

Source: S&P Global Market Intelligence

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data presented as of December 31, 2018 and 2017 and for each of the years in the three-year period ended December 31, 2018 is derived from the audited consolidated financial statements and related notes included in this report and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The selected consolidated financial data for all other periods shown is derived from audited consolidated financial statements that are not required to be included in this report.

EARNINGS SUMMARY AND SELECTED FINANCIAL DATA

	At and for the years ended December 31,				
(in thousands, except per share data)	2018	2017	2016	2015	2014
Results of operations:					
Interest income	\$ 125,537	\$ 109,253	\$ 75,467	\$ 48,597	\$ 48,949
Interest expense	18,889	10,511	7,334	7,213	7,067
Net interest income	106,648	98,742	68,133	41,384	41,882
Provision for loan losses	1,600	2,325	1,800	1,800	2,700
Net interest income after provision for loan losses	105,048	96,417	66,333	39,584	39,182
Noninterest income	39,509	34,639	26,674	17,708	14,185
Noninterest expense	89,758	81,356	64,942	39,648	38,709
Income before income tax expense	54,799	49,700	28,065	17,644	14,658
Income tax expense	13,446	16,267	9,371	6,089	4,607
Net income	41,353	33,433	18,694	11,555	10,051
Net income attributable to noncontrolling interest	317	283	232	127	102
Net income attributable to Nicolet Bankshares, Inc.	41,036	33,150	18,462	11,428	9,949
Preferred stock dividends	—	—	633	212	244
Net income available to common shareholders	\$ 41,036	\$ 33,150	\$ 17,829	\$ 11,216	\$ 9,705
Earnings per common share:					
Basic	\$ 4.26	\$ 3.51	\$ 2.49	\$ 2.80	\$ 2.33
Diluted	\$ 4.12	\$ 3.33	\$ 2.37	\$ 2.57	\$ 2.25
Weighted average common shares outstanding:					
Basic	9,640	9,440	7,158	4,004	4,165
Diluted	9,956	9,958	7,514	4,362	4,311
Year-End Balances:					
Loans	\$ 2,166,181	\$ 2,087,925	\$ 1,568,907	\$ 877,061	\$ 883,341
Allowance for loan losses ("ALLL")	13,153	12,653	11,820	10,307	9,288
Securities available for sale, at fair value	400,144	405,153	365,287	172,596	168,475
Goodwill and other intangibles, net	124,307	128,406	87,938	3,793	4,820
Total assets	3,096,535	2,932,433	2,300,879	1,214,439	1,215,285
Deposits	2,614,138	2,471,064	1,969,986	1,056,417	1,059,903
Short-term and long-term borrowings	77,305	78,046	37,617	39,788	33,503
Common equity	386,609	364,178	275,947	97,301	86,608
Stockholders' equity	386,609	364,178	275,947	109,501	111,008
Book value per common share	\$ 40.72	\$ 37.09	\$ 32.26	\$ 23.42	\$ 21.34
Tangible book value per common share *	\$ 27.62	\$ 24.01	\$ 21.98	\$ 22.51	\$ 20.15
Average Balances:					
Loans	\$ 2,127,470	\$ 1,899,225	\$ 1,346,304	\$ 883,904	\$ 859,256
Interest-earning assets	2,671,560	2,351,451	1,723,600	1,083,967	1,084,408
Goodwill and other intangibles, net	126,284	115,447	61,588	4,287	5,389
Total assets	2,977,457	2,648,754	1,934,770	1,185,921	1,191,348
Deposits	2,508,952	2,228,408	1,641,894	1,021,155	1,028,336
Interest-bearing liabilities	1,951,846	1,750,099	1,307,471	851,957	892,872
Common equity	371,635	332,897	217,432	90,787	84,033
Stockholders' equity	371,635	332,897	226,265	112,012	108,433
Financial Ratios:					
Return on average assets	1.38%	1.25%	0.95%	0.96%	0.84%
Return on average equity	11.04	9.96	8.16	10.20	9.18
Return on average common equity	11.04	9.96	8.20	12.35	11.55
Return on average tangible common equity *	16.73	15.24	11.44	12.97	12.34
Average equity to average assets	12.48	12.57	11.69	9.45	9.10
Net interest margin	4.04	4.30	4.01	3.88	3.89
Stockholders' equity to assets	12.49	12.42	11.99	9.02	9.13

Tangible common equity to tangible assets *	8.83	8.41	8.50	7.72	6.76
Net loan charge-offs to average loans	0.05	0.08	0.02	0.09	0.31
Nonperforming loans to total loans	0.25	0.63	1.29	0.40	0.61
Nonperforming assets to total assets	0.19	0.49	0.97	0.32	0.61

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is management's analysis to assist in the understanding and evaluation of the consolidated financial condition and results of operations of Nicolet. It should be read in conjunction with the consolidated financial statements and footnotes and the selected financial data presented elsewhere in this report.

The detailed financial discussion that follows focuses on 2018 results compared to 2017. See "2017 Compared to 2016" for the summary comparing 2017 and 2016 results. Some tabular information is shown for trends of three years or for five years as required under SEC regulations.

Evaluation of financial performance and average balances between 2018 and 2017 was generally impacted, though to a modest degree, from the timing and size of Nicolet's 2017 acquisition. The inclusion of the First Menasha Bancshares, Inc. ("First Menasha") balance sheet (at about 20% of Nicolet's then pre-merger asset size) and operational results for 12 months in 2018 and 8 months in 2017, analytically explains a portion of the increase in certain average balances and income statement line items between 2018 and 2017, and there was approximately \$0.5 million of non-recurring direct merger expense in 2017 noninterest expense. At consummation in April 2017, First Menasha added \$480 million in assets, loans of \$351 million, deposits of \$375 million, core deposit intangible of \$4 million and goodwill of \$41 million, for a total purchase price that included \$62 million of common equity (or 1.3 million shares) and \$19 million of cash. Additionally, the tax expense comparison between 2018 and 2017 was impacted by the Tax Cuts and Jobs Act passed on December 22, 2017, with 2018 tax expense favorably affected by the lower corporate tax rate (from 35% to 21%, effective January 1, 2018), and 2017 tax expense unfavorably affected by \$0.9 million related to write-downs associated with the impact of the new tax law on deferred tax assets and investment securities.

Overview

Nicolet provides a diversified range of traditional commercial and retail banking services, as well as wealth management services, to individuals, business owners, and businesses in its market area primarily through, as of year-end 2018, the 38 bank branch offices of its banking subsidiary, located in northeast and central Wisconsin and Menominee, Michigan.

In 2018, Nicolet delivered on organic growth, asset quality, capital management and profitability. At December 31, 2018, Nicolet had total assets of \$3.1 billion, loans of \$2.2 billion, deposits of \$2.6 billion and stockholders' equity of \$387 million, representing increases over December 31, 2017 of 6%, 4%, 6% and 6%, in assets, loans, deposits and total equity, respectively. While Nicolet has used acquisitions as part of its growth strategy over the past few years and has successfully integrated and realized cost efficiencies related to scale quickly after each acquisition, the growth between year-end 2018 and 2017 was fully organic. Asset quality improved from an already strong level, with net charge-offs to average loans of 0.05% for 2018 (0.08% for 2017) and nonperforming assets to assets of 0.19% at December 31, 2018 (down from 0.49% at year-end 2017). Nicolet repurchased nearly 408,100 shares of common stock for \$22.2 million in 2018 under Nicolet's common stock repurchase program. At December 31, 2018 there remained \$7.7 million authorized under the repurchase program which Nicolet may from time to time repurchase shares in the open market or through block transactions as market conditions warrant or in private transactions as an alternative use of capital. With total stockholders' equity to assets of 12.49% at year-end 2018 (largely from earnings exceeding stock repurchases for the year), Nicolet has capacity to act on targets of interest in relevant markets that provide a path to or support our position as the lead-local community bank.

For 2018, net income attributable to Nicolet was \$41.0 million (24% higher than 2017), and return on average assets was 1.38% (compared to 1.25% for 2017). Diluted earnings per common share for 2018 was \$4.12 (\$0.79 or 24% higher than 2017), with increased earnings and flat diluted average shares, aided by common stock repurchases in 2018 offsetting the acquisition shares issued in mid-2017.

Net income before taxes was \$54.8 million (10% higher than 2017), on overall stronger revenues, lower provision for loan losses and controlled expenses. Net interest income increased \$7.9 million or 8% over 2017, as we exercised discipline in the consistently rising rate environment of 2018. Interest income grew \$16.3 million (overcoming \$4.2 million lower aggregate discount income on purchased loans), aided by a 14% increase in average interest-earning assets and the elevated rate environment particularly on new, renewed and variable rate loans. Interest expense increased \$8.4 million, primarily due to rising rates on a larger average deposit base, up 13% over 2017. Noninterest income, excluding net asset gains, increased \$5.7 million (18% over 2017), most notably in trust and brokerage fees combined (up \$1.8 million or 15%), card interchange income (up \$1.0 million or 22%), and net mortgage income (up \$1.0 million or 18%) benefiting from increased business, and BOLI income (up \$0.6 million, largely due to a death benefit in third quarter 2018). Noninterest expense increased \$8.4 million or 10%, on the larger operating base and given continued investment in people and improvements. Personnel expense increased (up \$5.0 million or 11% over 2017), partly due to the full period contribution of the expanded workforce (with average full-time equivalent employees up 6% between the years), as well as merit increases, additional competitive market-based wage increases made after tax reform passed, higher cash and equity incentives, and higher health costs. Non-personnel expenses also increased on a combined basis (up \$3.4 million or 9%), mostly due to the larger operating base, but also from \$0.6 million higher charitable giving, \$0.6 million accelerated

depreciation given branch facility upgrades, and a \$0.5 million fraud contingency loss in fourth quarter 2018. Tax expense declined (down \$2.8 million or 17% versus 2017), despite 10% higher pre-tax earnings. The 2018 effective tax rate was 24.5%, due mostly to the lower corporate tax rate, compared to 32.7% for 2017, which carried a higher corporate tax rate, an unfavorable \$0.9 million adjustment (related to write-downs associated with the impact of the new tax law on deferred tax assets and investment securities), and a favorable \$1.9 million benefit (the tax impact of large option exercises, particularly in the fourth quarter).

For 2019, Nicolet's focus will remain on achieving strong organic growth in loans, deposits, wealth management services and other revenue lines within all our markets, in a cost-effective, profitable manner to sustain a healthy return on average assets. Acquisition growth remains a key goal, and we are well-positioned to capitalize on the opportunities in bank consolidations. That said, when evaluating transactions, quantitative and qualitative factors need to make sense in combination with each other, including but not limited to the economics of the transaction, cultural and strategic fit, geographic and business line relevance, and current or potential talent. Additional resources are planned for innovation preparedness efforts, personnel expenses (in support of growing talent and leadership), and for capital investment related to two existing branch locations in 2019. Nicolet believes delivering strong earnings, return on assets, and disciplined capital management in 2019 will provide upward pressure on our common stock performance throughout the year.

INCOME STATEMENT ANALYSIS

Net Interest Income

Net interest income in the consolidated statements of income (which excludes any tax-equivalent adjustment) was \$106.6 million in 2018, up \$7.9 million or 8% compared to \$98.7 million in 2017, aided partly by the timing of the 2017 acquisition and overcoming \$4.2 million lower aggregate discount accretion between the years. Tax-equivalent adjustments (adjustments to bring tax-exempt interest to a level that would yield the same after-tax income had that been subject to a 21% tax rate in 2018 and a 35% rate in 2017) were \$1.2 million for 2018 and \$2.4 million for 2017, resulting in tax-equivalent net interest income of \$107.8 million for 2018 and \$101.1 million for 2017. Had both years been subject to the 21% tax rate, the tax-equivalent adjustment would have been down \$0.1 million or 6%, led mostly by the 7% decline in average tax-exempt investment securities.

Tax-equivalent net interest income is a non-GAAP measure, but is a preferred industry measurement of net interest income (and its use in calculating a net interest margin) as it enhances the comparability of net interest income arising from taxable and tax-exempt sources.

Net interest income is the primary source of Nicolet's revenue, and is the difference between interest income on earning assets, such as loans and investment securities, and interest expense on interest-bearing liabilities, such as deposits and other borrowings. Net interest income is directly impacted by the sensitivity of the balance sheet to changes in interest rates and by the amount, mix and composition of interest-earning assets and interest-bearing liabilities, including characteristics such as the fixed or variable nature of the financial instruments, contractual maturities, and repricing frequencies.

Tables 1, 2, and 3 present information to facilitate the review and discussion of selected average balance sheet items, tax-equivalent net interest income, interest rate spread, and net interest margin.

Table 1 : Average Balance Sheet and Net Interest Income Analysis - Tax-Equivalent Basis

(in thousands)	Years Ended December 31,								
	2018			2017			2016		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
ASSETS									
Interest-earning assets									
Loans, including loan fees ⁽¹⁾⁽²⁾	\$ 2,127,470	\$ 114,140	5.37%	\$ 1,899,225	\$ 100,905	5.31%	\$ 1,346,304	\$ 69,687	5.11%
Investment securities:									
Taxable	261,107	6,068	2.32%	238,433	4,728	1.98%	159,421	3,029	1.90%
Tax-exempt ⁽²⁾	149,900	3,259	2.17%	160,328	4,365	2.72%	131,250	3,292	2.51%
Other interest-earning assets	133,083	3,220	2.42%	53,465	1,624	3.04%	86,625	1,327	1.53%
Total non-loan earning assets	544,090	12,547	2.31%	452,226	10,717	2.37%	377,296	7,648	2.03%
Total interest-earning assets	2,671,560	\$ 126,687	4.74%	2,351,451	\$ 111,622	4.75%	1,723,600	\$ 77,335	4.44%
Other assets, net	305,897			297,303			211,170		
Total assets	<u>\$ 2,977,457</u>			<u>\$ 2,648,754</u>			<u>\$ 1,934,770</u>		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing liabilities									
Savings	\$ 285,777	\$ 1,181	0.41%	\$ 254,961	\$ 405	0.16%	\$ 193,933	\$ 221	0.11%
Interest-bearing demand	524,924	4,530	0.86%	432,513	2,408	0.56%	325,383	1,786	0.55%
Money market accounts ("MMA")	634,947	3,926	0.62%	583,708	1,781	0.31%	451,373	599	0.13%
Core time deposits	337,100	5,266	1.56%	292,084	2,323	0.80%	259,730	2,220	0.85%
Brokered deposits	91,379	517	0.57%	119,234	769	0.65%	28,329	318	1.12%
Total interest-bearing deposits	1,874,127	15,420	0.82%	1,682,500	7,686	0.46%	1,258,748	5,144	0.41%
Other interest-bearing liabilities	77,719	3,469	4.46%	67,599	2,825	4.18%	48,723	2,190	4.44%
Total interest-bearing liabilities	1,951,846	18,889	0.97%	1,750,099	10,511	0.60%	1,307,471	7,334	0.56%
Noninterest-bearing demand	634,825			545,908			383,146		
Other liabilities	19,151			19,850			17,888		
Stockholders' equity	371,635			332,897			226,265		
Total liabilities and stockholders' equity	<u>\$ 2,977,457</u>			<u>\$ 2,648,754</u>			<u>\$ 1,934,770</u>		
Tax-equivalent net interest income and rate spread		<u>\$ 107,798</u>	<u>3.77%</u>		<u>\$ 101,111</u>	<u>4.15%</u>		<u>\$ 70,001</u>	<u>3.88%</u>
Tax-equivalent adjustment and net free funds		<u>1,150</u>	<u>0.27%</u>		<u>2,369</u>	<u>0.15%</u>		<u>1,868</u>	<u>0.13%</u>
Net interest income and net interest margin		<u>\$ 106,648</u>	<u>4.04%</u>		<u>\$ 98,742</u>	<u>4.30%</u>		<u>\$ 68,133</u>	<u>4.01%</u>

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

(2) The yield on tax-exempt loans and tax-exempt investment securities is computed on a tax-equivalent basis using a federal tax rate of 21% for 2018 and 35% for 2017 and 2016, and adjusted for the disallowance of interest expense.

Table 2 : Volume/Rate Variance - Tax-Equivalent Basis

(in thousands)	2018 Compared to 2017			2017 Compared to 2016		
	Increase (Decrease) Due to Changes in			Increase (Decrease) Due to Changes in		
	Volume	Rate	Net ⁽¹⁾	Volume	Rate	Net ⁽¹⁾
Interest-earning assets						
Loans ^{(2) (3)}	\$ 12,551	\$ 684	\$ 13,235	\$ 28,599	\$ 2,619	\$ 31,218
Investment securities:						
Taxable	991	349	1,340	1,773	(74)	1,699
Tax-exempt ⁽³⁾	(272)	(834)	(1,106)	774	299	1,073
Other interest-earning assets	1,480	116	1,596	(400)	697	297
Total non-loan earning assets	2,199	(369)	1,830	2,147	922	3,069
Total interest-earning assets	<u>\$ 14,750</u>	<u>\$ 315</u>	<u>\$ 15,065</u>	<u>\$ 30,746</u>	<u>\$ 3,541</u>	<u>\$ 34,287</u>
Interest-bearing liabilities						
Savings	\$ 54	\$ 722	\$ 776	\$ 82	\$ 102	\$ 184
Interest-bearing demand	594	1,528	2,122	596	26	622
MMA	168	1,977	2,145	218	964	1,182
Core time deposits	406	2,537	2,943	264	(161)	103
Brokered deposits	(165)	(87)	(252)	637	(186)	451
Total interest-bearing deposits	1,057	6,677	7,734	1,797	745	2,542
Other interest-bearing liabilities	298	346	644	656	(21)	635
Total interest-bearing liabilities	<u>1,355</u>	<u>7,023</u>	<u>8,378</u>	<u>2,453</u>	<u>724</u>	<u>3,177</u>
Net interest income	<u>\$ 13,395</u>	<u>\$ (6,708)</u>	<u>\$ 6,687</u>	<u>\$ 28,293</u>	<u>\$ 2,817</u>	<u>\$ 31,110</u>

- (1) The change in interest due to both rate and volume has been allocated in proportion to the relationship of dollar amounts of change in each.
- (2) Nonaccrual loans and loans held for sale are included in the daily average loan balances outstanding.
- (3) The yield on tax-exempt loans and tax-exempt investment securities is computed on a tax-equivalent basis using a federal tax rate of 21% for 2018 and 35% for 2017 and 2016, and adjusted for the disallowance of interest expense.

Table 3 : Interest Rate Spread, Margin and Average Balance Mix - Tax-Equivalent Basis

(in thousands)	Years Ended December 31,								
	2018 Average			2017 Average			2016 Average		
	Balance	% of Earning Assets	Yield/Rate	Balance	% of Earning Assets	Yield/Rate	Balance	% of Earning Assets	Yield/Rate
Loans	\$ 2,127,470	80%	5.37%	\$ 1,899,225	81%	5.31%	\$ 1,346,304	78%	5.11%
Non-loan earning assets	544,090	20%	2.31%	452,226	19%	2.37%	377,296	22%	2.03%
Total interest-earning assets	<u>\$ 2,671,560</u>	<u>100%</u>	<u>4.74%</u>	<u>\$ 2,351,451</u>	<u>100%</u>	<u>4.75%</u>	<u>\$ 1,723,600</u>	<u>100%</u>	<u>4.44%</u>
Interest-bearing liabilities	\$ 1,951,846	73%	0.97%	\$ 1,750,099	74%	0.60%	\$ 1,307,471	76%	0.56%
Noninterest-bearing funds, net	719,714	27%		601,352	26%		416,129	24%	
Total funds sources	<u>\$ 2,671,560</u>	<u>100%</u>	<u>0.73%</u>	<u>\$ 2,351,451</u>	<u>100%</u>	<u>0.47%</u>	<u>\$ 1,723,600</u>	<u>100%</u>	<u>0.41%</u>
Interest rate spread			3.77%			4.15%			3.88%
Contribution from net free funds			0.27%			0.15%			0.13%
Net interest margin			<u>4.04%</u>			<u>4.30%</u>			<u>4.01%</u>

Comparison of 2018 versus 2017

Tax-equivalent net interest income was \$107.8 million for 2018, up \$6.7 million or 7%, compared to 2017, overcoming \$4.2 million lower aggregate discount accretion income and \$1.2 million lower tax-equivalent adjustment between the years, both impacting the rate variance on interest-earning assets. The \$6.7 million increase consisted of \$13.4 million from net favorable volume and mix variances, partially offset by \$6.7 million from net unfavorable rate variances from a flat earning asset yield and higher overall cost of funds between the periods. Tax-equivalent interest income on earning assets increased \$15.1 million between the years, with \$13.2 million more interest from loans (\$12.6 million from greater volume and \$0.6 million from rates, despite \$4.2 million lower aggregate discount accretion income), \$0.2 million more interest from total investments (despite the lower tax-equivalent adjustment), and \$1.6 million more interest from other earning assets (mostly volume-based with higher cash balances carried throughout the year). Interest expense increased \$8.4 million, led by \$7.0 million higher interest from net unfavorable rate variances due to a rising cost of funds, and \$1.4 million higher interest on interest-bearing liabilities due to volume and mix variances. All rate variances were impacted by the general rising interest rate environment.

Since December 1, 2016, the Federal Reserve raised short-term interest rates by 200 bps to 2.50% as of December 31, 2018 (increases of 25 bps in each of the nine preceding quarters except third quarter 2017). These increases impacted the rate earned on short-term assets and pressured the cost of shorter-term borrowings, but have not proportionately influenced rates further out on the yield curve.

The net interest margin was 4.04% for 2018, down 26 bps versus 2017. The interest rate spread decreased 38 bps between the periods, with an unfavorable decrease in the earning asset yield (down 1 bp to 4.74% for 2018) and an increase in the cost of funds (up 37 bps to 0.97% for 2018). The contribution from net free funds increased 12 bps due to the 16% increase in average noninterest-bearing demand deposits and the higher cost of funds. While both years experienced favorable income from discount accretion on purchased loans, such favorable interest flow diminished in 2018.

The earning asset yield was influenced largely by the mix of underlying earning assets, particularly carrying a higher proportion of low-earning cash partly offset by loans and taxable investments (each at higher yields in 2018 than 2017). Loans, investments and other interest earning assets (mostly low-earning cash) represented 80%, 15% and 5% of average earning assets, respectively, for 2018, and 81%, 17%, and 2%, respectively, for 2017. Loans yielded 5.37% and 5.31%, respectively, for 2018 and 2017. The 6 bps increase in loan yield between the years resulted from new, renewed, and variable rate loans repricing in the higher interest rate environment, which more than offset the 22 bps of downward pressure from \$4.2 million lower aggregate discount accretion on purchased loans between periods. Total non-loan earning assets yielded 2.31% for 2018 and 2.37% for 2017, down 6 bps. However, had both years been subject to the 21% tax rate, the non-loan earning asset yield showed an increase of 15 bps, benefiting from new purchases in the higher rate environment and a larger mix of higher-yielding corporate debt securities, offset partially by the higher cash balances carried in 2018.

Average interest-earning assets were \$2.7 billion for 2018, \$320 million or 14% higher than 2017, attributable partly to the timing of the 2017 acquisition, strong organic loan growth, and higher cash levels as a result of strong core deposit growth. The change consisted primarily of a \$228 million increase in average loans (up 12% to \$2.1 billion) and an \$80 million increase in other interest-earning assets, predominantly lower earning cash.

Nicolet's cost of funds increased 37 bps to 0.97% for 2018 compared to 2017, driven by the average cost of interest-bearing deposits, of 0.82% for 2018, up 36 bps from 2017. The cost of funds was largely influenced by general rate pressures of the 100 bps increase in the federal funds rate since January 1, 2018. The cost of savings, interest-bearing demand and money market accounts increased over 2017 by 25 bps, 30 bps, and 31 bps, respectively, as product rate changes lagged the incremental rise in the rate environment. Time deposits cost 76 bps more in 2018 over 2017, commensurate with paying more for a customer's commitment of term in the rising rate environment.

Average interest-bearing liabilities were \$2.0 billion for 2018, up \$202 million or 12% from 2017, attributable partly to the timing of the 2017 acquisition and organic deposit growth. Average interest-bearing deposits (which represented 96% of average interest-bearing liabilities for both 2018 and 2017) grew \$192 million or 11% from 2017. The mix of average interest-bearing deposits moved modestly, mostly from brokered deposits to core customer deposits. Average brokered deposits were \$91 million for 2018, down \$28 million from 2017 (largely due to decreases in brokered deposits assumed in the 2017 acquisition), with average rates declining from 0.65% to 0.57%, as a larger proportion of brokered deposits were lower-costing transaction-based deposits versus time deposits.

Provision for Loan Losses

The provision for loan losses in 2018 was \$1.6 million, exceeding \$1.1 million of net charge-offs. Comparatively, 2017 provision for loan losses and net charge-offs were \$2.3 million and \$1.5 million, respectively. The higher provision for loan losses in 2017 was largely attributable to a \$1.0 million commercial loan charge-off. At December 31, 2018, the ALLL was \$13.2 million or 0.61% of loans compared to \$12.7 million or 0.61% of loans at December 31, 2017.

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

Noninterest Income
Table 4 : Noninterest Income

(in thousands)

	Years Ended December 31,			Change From Prior Year			
	2018	2017	2016	\$ Change 2018	% Change 2018	\$ Change 2017	% Change 2017
Trust services fee income	\$ 6,498	\$ 6,031	\$ 5,435	\$ 467	8 %	\$ 596	11 %
Brokerage fee income	7,042	5,736	3,624	1,306	23 %	2,112	58 %
Mortgage income, net	6,344	5,361	5,494	983	18 %	(133)	(2)%
Service charges on deposit accounts	4,845	4,604	3,571	241	5 %	1,033	29 %
Card interchange income	5,665	4,646	3,167	1,019	22 %	1,479	47 %
Bank owned life insurance (“BOLI”) income	2,418	1,778	1,284	640	36 %	494	38 %
Other income	5,528	4,454	4,045	1,074	24 %	409	10 %
Noninterest income without net gains	38,340	32,610	26,620	5,730	18 %	5,990	23 %
Asset gains (losses), net	1,169	2,029	54	(860)	(42)%	1,975	N/M
Total noninterest income	\$ 39,509	\$ 34,639	\$ 26,674	\$ 4,870	14 %	\$ 7,965	30 %

N/M means not meaningful.

Comparison of 2018 versus 2017

Noninterest income grew \$4.9 million or 14% over 2017 , with all categories increasing except net asset gains. Removing net asset gains from both periods, noninterest income increased \$5.7 million or 18% . Notable contributions to the change in noninterest income were:

- Trust service fees were \$6.5 million for 2018 , up \$0.5 million or 8% over 2017 , due to higher average assets under management. Brokerage fee income was \$7.0 million for 2018 , up \$1.3 million or 23% over 2017 , attributable to growth within the financial advisor business.
- Mortgage income represents net gains received from the sale of residential real estate loans service-released and service-retained into the secondary market, capitalized gains on mortgage servicing rights (“MSRs”), servicing fees, offsetting MSR amortization, valuation changes if any, and to a smaller degree some related income. Net mortgage income was \$6.3 million for 2018 , up \$1.0 million or 18% over 2017 , commensurate with higher sales volume, favorable changes to MSR capitalization assumptions in mid-2018, and to a lesser degree increased net servicing fees on the growing portfolio of mortgage loans serviced for others.
- Service charges on deposit accounts for 2018 were \$4.8 million , up \$0.2 million or 5% over 2017 , resulting from an increased number of accounts and an increase to the fee charged on overdrafts implemented during mid-2017.
- Card interchange income grew \$1.0 million or 22% in 2018 due to higher volume and activity.
- BOLI income was \$2.4 million , up \$0.6 million or 36% over 2017 , fully attributable to a BOLI death benefit.
- Other income was \$5.5 million , up \$1.1 million or 24% over 2017 , mostly attributable to an increase of \$0.5 million in income from the equity interest in UFS and \$0.3 million of annual card contract incentives.
- The \$1.2 million net asset gains in 2018 were primarily attributable to net gains on the sale of OREO and other assets. Net asset gains in 2017 were \$2.0 million , and consisted largely of a \$1.2 million gain to record the fair value of Nicolet's pre-acquisition interest in First Menasha and a \$0.7 million gain on the sale of assets. Additional information on the net gains is also included in Note 16 , “ Asset Gains (Losses), Net ,” in the Notes to Consolidated Financial Statements, under Part II, Item 8.

Noninterest Expense

Table 5 : Noninterest Expense

(\$ in thousands)

	Years Ended December 31,			Change From Prior Year			
	2018	2017	2016	Change 2018	% Change 2018	Change 2017	% Change 2017
Personnel	\$ 49,476	\$ 44,458	\$ 34,030	\$ 5,018	11 %	\$ 10,428	31 %
Occupancy, equipment and office	14,574	13,308	10,276	1,266	10 %	3,032	30 %
Business development and marketing	5,324	4,700	3,488	624	13 %	1,212	35 %
Data processing	9,514	8,715	6,370	799	9 %	2,345	37 %
Intangibles amortization	4,389	4,695	3,458	(306)	(7)%	1,237	36 %
Other expense	6,481	5,480	7,320	1,001	18 %	(1,840)	(25)%
Total noninterest expense	\$ 89,758	\$ 81,356	\$ 64,942	\$ 8,402	10 %	\$ 16,414	25 %
Non-personnel expenses	\$ 40,282	\$ 36,898	\$ 30,912	\$ 3,384	9 %	\$ 5,986	19 %
Average full-time equivalent employees	553	522	415	31	6 %	107	26 %

Comparison of 2018 versus 2017

Noninterest expense increased \$8.4 million or 10% over 2017 , mostly due to the expanded workforce and larger operating base. Notable contributions to the change in noninterest expense were:

- Personnel expense (including salaries, brokerage variable pay, overtime, cash and equity incentives, and employee benefit and payroll-related expenses) was \$49.5 million for 2018 , up \$5.0 million or 11% over 2017 , partly due to the expanded workforce, with average full-time equivalent employees up 6% . Also contributing to the increase were merit increases between the years, additional competitive market-based wage increases made more broadly across staff positions after tax reform was passed, cash and equity incentives (with expense related to equity awards up \$1.6 million, mostly attributable to the sizable option grants made to a broad group in second quarter 2017 aligning incentives with future strategic goals), and higher health and other benefit costs.
- Occupancy, equipment and office expense was \$14.6 million for 2018 , up \$1.3 million or 10% from 2017 , and included \$0.6 million of accelerated depreciation for branch facility upgrades. The larger operating base and investments in software and technology solutions to drive operational efficiency and product or service enhancements also contributed to the higher expense.
- Business development and marketing expense was \$5.3 million for 2018 , up \$0.6 million or 13% , largely due to \$0.6 million higher charitable giving, as well as the timing and extent of marketing campaigns, promotions, and media.
- Data processing expenses, which are primarily volume-based, were \$9.5 million for 2018 , up \$0.8 million or 9% over 2017 , in line with the higher volume of accounts and activity.
- Intangible amortization decreased \$0.3 million as higher expense from intangibles added in recent acquisitions was more than offset by declining amortization on the aging intangibles of previous acquisitions.
- Other expense was \$6.5 million for 2018 , up \$1.0 million or 18% , due primarily to a \$0.5 million fraud contingency loss and \$0.2 million of director expense for a restricted stock grant with immediate vesting to directors.

Income Taxes

Income tax expense was \$13.4 million (effective tax rate of 24.5%) for 2018 and \$16.3 million (effective tax rate of 32.7%) for 2017 . The underlying federal corporate tax rate for 2018 declined to 21% from 35% for 2017 as a result of the Tax Cuts and Jobs Act passed in December 2017, impacting the effective tax rates between the years and resulting in \$0.9 million of additional tax expense in 2017 for the write-down associated with the tax impact of the new law on deferred tax assets and investment securities. Additionally, the BOLI death benefit recognized in 2018 was not taxable, and a tax benefit of \$0.2 million and \$1.9 million was recorded against income tax expense for the years ended December 31, 2018 and 2017 , respectively, related to the tax impact of stock option exercises and vesting of restricted stock.

The accounting for income taxes requires deferred income taxes to be analyzed to determine if a valuation allowance is required. A valuation allowance is required if it is more likely than not that some portion of the deferred tax asset will not be realized. This analysis involves the use of estimates, assumptions, interpretation, and judgment concerning accounting pronouncements and federal and state tax codes; therefore, income taxes are considered a critical accounting policy. At December 31, 2018 and 2017 , no valuation allowance was determined to be necessary. Additional information on the subjectivity of income taxes is discussed further under “Critical Accounting Policies-Income Taxes.” The Company’s accounting policy for income taxes are described in Note 1 , “ Nature of Business and Significant Accounting Policies ,” and additional disclosures relative to income taxes are included in Note 13 , “ Income Taxes ” in the Notes to Consolidated Financial Statements, under Part II, Item 8.

BALANCE SHEET ANALYSIS

Loans

Nicolet services a diverse customer base throughout northeastern and central Wisconsin and in Menominee, Michigan including the following industries: manufacturing, wholesaling, paper, packaging, food production and processing, agriculture, forest products, retail, service, and businesses supporting the general building industry. The Company concentrates on originating loans in its local markets and assisting current loan customers. Nicolet actively utilizes government loan programs such as those provided by the U.S. Small Business Administration to help customers with current economic conditions and positioning their businesses for the future. In addition to the discussion that follows, accounting policies behind loans are described in Note 1, “Nature of Business and Significant Accounting Policies,” and additional disclosures are included in Note 4, “Loans, Allowance for Loan Losses, and Credit Quality,” in the Notes to Consolidated Financial Statements, under Part II, Item 8.

Table 6 : Period End Loan Composition

	December 31, 2018		December 31, 2017		December 31, 2016		December 31, 2015		December 31, 2014	
(in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial & industrial	\$ 684,920	32%	\$ 637,337	30%	\$ 428,270	28%	\$ 294,419	33%	\$ 289,379	33%
Owner-occupied CRE	441,353	20%	430,043	21%	360,227	23%	185,285	21%	182,574	21%
AG production	35,625	2%	35,455	2%	34,767	2%	15,018	2%	14,617	1%
Commercial	1,161,898	54%	1,102,835	53%	823,264	53%	494,722	56%	486,570	55%
AG real estate	53,444	2%	51,778	3%	45,234	3%	43,272	5%	42,754	5%
CRE investment	343,652	16%	314,463	15%	195,879	12%	78,711	9%	81,873	9%
Construction & land development	80,599	4%	89,660	4%	74,988	5%	36,775	4%	44,114	5%
Commercial real estate	477,695	22%	455,901	22%	316,101	20%	158,758	18%	168,741	19%
Commercial-based loans	1,639,593	76%	1,558,736	75%	1,139,365	73%	653,480	74%	655,311	74%
Residential construction	30,926	1%	36,995	2%	23,392	1%	10,443	1%	11,333	1%
Residential first mortgage	357,841	17%	363,352	17%	300,304	19%	154,658	18%	158,683	18%
Residential junior mortgage	111,328	5%	106,027	5%	91,331	6%	51,967	6%	52,104	6%
Residential real estate	500,095	23%	506,374	24%	415,027	26%	217,068	25%	222,120	25%
Retail & other	26,493	1%	22,815	1%	14,515	1%	6,513	1%	5,910	1%
Retail-based loans	526,588	24%	529,189	25%	429,542	27%	223,581	26%	228,030	26%
Total loans	\$ 2,166,181	100%	\$ 2,087,925	100%	\$ 1,568,907	100%	\$ 877,061	100%	\$ 883,341	100%

Total loans were \$2.2 billion at December 31, 2018, an increase of \$78 million, or 4%, compared to total loans of \$2.1 billion at December 31, 2017. As noted in Table 6 above, year-end 2018 loans were broadly 76% commercial-based and 24% retail-based compared to 75% commercial-based and 25% retail-based at year-end 2017. Commercial-based loans are considered to have more inherent risk of default than retail-based loans, in part because the commercial balance per borrower is typically larger than that for retail-based loans, implying higher potential losses on an individual customer basis.

Commercial and industrial loans consist primarily of commercial loans to small businesses and, to a lesser degree, to municipalities within a diverse range of industries. The credit risk related to commercial and industrial loans is largely influenced by general economic conditions and the resulting impact on a borrower's operations, or on the value of underlying collateral, if any. Commercial and industrial loans continue to be the largest segment of Nicolet's portfolio, increasing to 32% of the portfolio at year-end 2018, due to strong organic loan growth.

Owner-occupied CRE loans represented 20% of loans at year-end 2018, compared to 21% of loans at year-end 2017. This category primarily consists of loans within a diverse range of industries secured by business real estate that is occupied by borrowers who operate their businesses out of the underlying collateral and who may also have commercial and industrial loans. The credit risk related to owner-occupied CRE loans is largely influenced by general economic conditions and the resulting impact on a borrower's operations, or on the value of underlying collateral.

Agricultural production and agricultural real estate loans consist of loans secured by farmland and related farming operations. The credit risk related to agricultural loans is largely influenced by the prices farmers can get for their production and/or the underlying value of the farmland. Combined, these loans decreased to 4% of loans at year-end 2018 compared to 5% of loans at year-end 2017.

The CRE investment loan classification primarily includes commercial-based mortgage loans that are secured by non-owner occupied, nonfarm/nonresidential real estate properties, and multi-family residential properties. Lending in this segment has been focused on loans that are secured by commercial income-producing properties as opposed to speculative real estate development. These loans increased to represent 16% of loans at December 31, 2018 , compared to 15% a year ago.

Loans in the construction and land development portfolio represented 4% of total loans at year-end 2018 , minimally changed from year-end 2017 . Construction and land development loans provide financing for the development of commercial income properties, multi-family residential development, and land designated for future development. Nicolet controls the credit risk on these types of loans by making loans in familiar markets, reviewing the merits of individual projects, controlling loan structure, and monitoring the progress of projects through the analysis of construction advances. Credit risk is managed by employing sound underwriting guidelines, lending primarily to borrowers in local markets, periodically evaluating the underlying collateral, and formally reviewing the borrower's financial soundness and relationships on an ongoing basis.

On a combined basis, Nicolet's residential real estate loans represented 23% of total loans at year-end 2018 compared to 24% of total loans at year-end 2017 . Residential first mortgage loans include conventional first-lien home mortgages. Residential junior mortgage real estate loans consist of home equity lines and term loans secured by junior mortgage liens. Nicolet has not experienced significant losses in its residential real estate loans; however, if declines in market values in the residential real estate markets worsen, particularly in Nicolet's market area, the value of collateral securing its real estate loans could decline, which could cause an increase in the provision for loan losses. As part of its management of originating residential mortgage loans, the vast majority of Nicolet's long-term, fixed-rate residential real estate mortgage loans are sold in the secondary market with or without retaining the servicing rights. Nicolet's mortgage loans are typically of high quality and have historically had low net charge-off rates.

Loans in the retail and other classification represented approximately 1% of the total loan portfolio, and include predominantly short-term and other personal installment loans not secured by real estate. Credit risk is primarily controlled by reviewing the creditworthiness of the borrowers, monitoring payment histories, and taking appropriate collateral and/or guaranty positions.

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

The loan portfolio is widely diversified by types of borrowers, industry groups, and market areas. Significant loan concentrations are considered to exist for a financial institution when there are amounts loaned to multiple numbers of borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. At December 31, 2018 , no significant industry concentrations existed in Nicolet's portfolio in excess of 10% of total loans. Nicolet has also developed guidelines to manage its exposure to various types of concentration risks.

Table 7 : Loan Maturity Distribution

The following table presents the maturity distribution of the loan portfolio at December 31, 2018 .

	Loan Maturity			
	One Year or Less	Over One Year to Five Years	Over Five Years	Total
Commercial & industrial	\$ 318,555	\$ 309,833	\$ 56,532	\$ 684,920
Owner-occupied CRE	57,423	301,307	82,623	441,353
AG production	20,881	11,371	3,373	35,625
AG real estate	12,866	38,020	2,558	53,444
CRE investment	49,572	249,472	44,608	343,652
Construction & land development	47,243	30,997	2,359	80,599
Residential construction *	28,214	565	2,147	30,926
Residential first mortgage	19,110	69,327	269,404	357,841
Residential junior mortgage	8,290	9,395	93,643	111,328
Retail & other	16,242	7,364	2,887	26,493
Total loans	\$ 578,396	\$ 1,027,651	\$ 560,134	\$ 2,166,181
Percent by maturity distribution	27%	47%	26%	100%
Fixed rate	\$ 206,696	\$ 946,880	\$ 289,422	\$ 1,442,998
Floating rate	371,700	80,771	270,712	723,183
Total	\$ 578,396	\$ 1,027,651	\$ 560,134	\$ 2,166,181
Fixed rate percent	36%	92%	52%	67%
Floating rate percent	64%	8%	48%	33%

* The residential construction loans with a loan maturity over five years represent a construction to permanent loan product introduced in 2018.

Allowance for Loan Losses

In addition to the discussion that follows, accounting policies behind the allowance for loan losses are described in Note 1, “Nature of Business and Significant Accounting Policies,” and additional ALLL disclosures are included in Note 4, “Loans, Allowance for Loan Losses, and Credit Quality,” in the Notes to Consolidated Financial Statements, under Part II, Item 8.

Credit risks within the loan portfolio are inherently different for each loan type as described under “Balance Sheet Analysis – Loans.” Credit risk is controlled and monitored through the use of lending standards, a thorough review of potential borrowers, and ongoing review of loan payment performance. Active asset quality administration, including early problem loan identification and timely resolution of problems, aids in the management of credit risk and minimization of loan losses.

The ALLL is established through a provision for loan losses charged to expense to provide for potential credit losses in the existing loan portfolio. Loans are charged against the ALLL when management believes that the collection of principal is unlikely. The level of the ALLL represents management’s estimate of an amount of reserves that provides for estimated probable credit losses in the loan portfolio at the balance sheet date. To assess the ALLL, an allocation methodology is applied by Nicolet which focuses on evaluation of qualitative and environmental factors, including but not limited to: (i) evaluation of facts and issues related to specific loans; (ii) management’s ongoing review and grading of the loan portfolio; (iii) consideration of historical loan loss and delinquency experience on each portfolio segment; (iv) trends in past due and nonperforming loans; (v) the risk characteristics of the various loan segments; (vi) changes in the size and character of the loan portfolio; (vii) concentrations of loans to specific borrowers or industries; (viii) existing economic conditions; (ix) the fair value of underlying collateral; and (x) other qualitative and quantitative factors which could affect potential credit losses. Assessing these factors involves significant judgment; therefore, management considers the ALLL a critical accounting policy, as further discussed under “Critical Accounting Policies – Allowance for Loan Losses.”

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

Management performs ongoing intensive analysis of its loan portfolio to allow for early identification of customers experiencing financial difficulties, maintains prudent underwriting standards, understands the economy in its markets, and considers the trend of deterioration in loan quality in establishing the level of the ALLL.

In addition, various regulatory agencies periodically review the ALLL. These agencies may require the Company to make additions to the ALLL or may require that certain loan balances be charged off or downgraded into classified loan categories when their credit evaluations differ from those of management based on their judgments of collectability from information available to them at the time of their examination.

At December 31, 2018, the ALLL was \$13.2 million compared to \$12.7 million at December 31, 2017. The components of the ALLL are detailed further in Tables 8 and 9 below. Net charge-offs as a percent of average loans were 0.05% in 2018 compared to 0.08% in 2017. Loans charged off are subject to continuous review, and specific efforts are taken to achieve maximum recovery of principal, interest, and related expenses.

The ratio of the ALLL as a percentage of period-end loans was 0.61% at December 31, 2018, unchanged from 0.61% at December 31, 2017. The ALLL to loans ratio is impacted by the accounting treatment of Nicolet’s bank acquisitions, which combined at their acquisition dates (from 2013 to 2017) added no ALLL to the numerator and \$1.3 billion of loans into the denominator. Remaining acquired loans were \$681 million (31% of total loans) and \$844 million (40% of total loans) at December 31, 2018 and 2017, respectively, with the decrease due to amortization, refinances and payoffs. Events occurring in the acquired loan portfolio post acquisition may result in the recording of an ALLL for this portfolio. At December 31, 2018, the \$13.2 million ALLL was comprised of \$1.7 million for acquired loans (0.25% of acquired loans) and \$11.4 million for originated loans (0.77% of originated loans). In comparison, the \$12.7 million ALLL at December 31, 2017 was comprised of \$2.1 million for acquired loans (0.25% of acquired loans) and \$10.5 million for originated loans (0.85% of originated loans).

Table 8 : Allowance for Loan Losses

(in thousands)

	For the Years Ended December 31,				
	2018	2017	2016	2015	2014
Allowance for loan losses:					
Beginning balance	\$ 12,653	\$ 11,820	\$ 10,307	\$ 9,288	\$ 9,232
Loans charged off:					
Commercial & industrial	(813)	(1,442)	(279)	(374)	(1,923)
Owner-occupied CRE	(74)	—	(108)	(229)	(470)
AG production	—	—	—	—	—
AG real estate	—	—	—	—	—
CRE investment	(37)	—	—	(50)	—
Construction & land development	—	(13)	—	—	(12)
Residential construction	—	—	—	—	—
Residential first mortgage	(85)	(8)	(80)	(84)	(218)
Residential junior mortgage	—	(72)	(57)	(111)	(81)
Retail & other	(204)	(69)	(60)	(35)	(39)
Total loans charged off	(1,213)	(1,604)	(584)	(883)	(2,743)
Recoveries of loans previously charged off:					
Commercial & industrial	43	38	26	36	55
Owner-occupied CRE	14	30	5	4	17
AG production	—	—	—	—	—
AG real estate	—	—	—	—	—
CRE investment	—	1	221	17	14
Construction & land development	—	—	—	—	—
Residential construction	—	—	—	—	—
Residential first mortgage	5	25	31	20	2
Residential junior mortgage	35	3	8	12	1
Retail & other	16	15	6	13	10
Total recoveries	113	112	297	102	99
Total net charge-offs	(1,100)	(1,492)	(287)	(781)	(2,644)
Provision for loan losses	1,600	2,325	1,800	1,800	2,700
Ending balance of ALLL	\$ 13,153	\$ 12,653	\$ 11,820	\$ 10,307	\$ 9,288
Ratios:					
ALLL to total loans	0.61%	0.61%	0.75%	1.18%	1.05%
ALLL to net charge-offs	1,195.7%	848.1%	4,118.5%	1,319.7%	351.3%
Net charge-offs to average loans	0.05%	0.08%	0.02%	0.09%	0.31%

The allocation of the ALLL for each of the past five years is based on Nicolet's estimate of loss exposure by category of loans and is shown in Table 9 . The largest portions of the ALLL were allocated to commercial & industrial loans and owner-occupied CRE loans combined, representing 62% and 60% of the ALLL at December 31, 2018 and 2017 , respectively. The change in allocated ALLL from December 31, 2017 to December 31, 2018 was consistent with changes in outstanding loan balances between the years.

Table 9 : Allocation of the Allowance for Loan Losses

(in thousands)	December 31, 2018	ALLL Category as a % of Total ALLL *	December 31, 2017	ALLL Category as a % of Total ALLL *	December 31, 2016	ALLL Category as a % of Total ALLL *	December 31, 2015	ALLL Category as a % of Total ALLL *	December 31, 2014	ALLL Category as a % of Total ALLL *
Commercial & industrial	\$ 5,271	40%	\$ 4,934	39%	\$ 3,919	33%	\$ 3,721	36%	\$ 3,191	34%
Owner-occupied CRE	2,847	22%	2,607	21%	2,867	24%	1,933	19%	1,230	13%
AG production	121	1%	129	1%	150	1%	85	1%	53	1%
AG real estate	301	2%	296	2%	285	2%	380	4%	226	2%
CRE investment	1,470	11%	1,388	11%	1,124	10%	785	7%	511	6%
Construction & land development	510	4%	726	5%	774	7%	1,446	14%	2,685	29%
Residential construction	211	2%	251	2%	304	3%	147	1%	140	1%
Residential first mortgage	1,646	12%	1,609	13%	1,784	15%	1,240	12%	866	9%
Residential junior mortgage	472	4%	488	4%	461	4%	496	5%	337	4%
Retail & other	304	2%	225	2%	152	1%	74	1%	49	1%
Total ALLL	\$ 13,153	100%	\$ 12,653	100%	\$ 11,820	100%	\$ 10,307	100%	\$ 9,288	100%

* See Table 6 for the ratio of loans by category to total loans.

Nonperforming Assets

As part of its overall credit risk management process, management is committed to an aggressive problem loan identification philosophy. This philosophy has been implemented through the ongoing monitoring and review of all pools of risk in the loan portfolio to ensure that problem loans are identified early and the risk of loss is minimized. In addition to the discussion that follows, accounting policies behind loans are described in Note 1, “Nature of Business and Significant Accounting Policies,” and additional credit quality disclosures are included in Note 4, “Loans, Allowance for Loan Losses, and Credit Quality,” in the Notes to Consolidated Financial Statements, under Part II, Item 8.

Nonperforming loans are considered one indicator of potential future loan losses. Nonperforming loans are defined as nonaccrual loans, including those defined as impaired under current accounting standards, and loans 90 days or more past due but still accruing interest. Loans are generally placed on nonaccrual status when contractually past due 90 days or more as to interest or principal payments. Additionally, whenever management becomes aware of facts or circumstances that may adversely impact the collectability of principal or interest on loans, it is management’s practice to place such loans on nonaccrual status immediately. Nonaccrual loans were \$5.5 million (consisting of \$1.4 million originated loans and \$4.1 million acquired loans) at December 31, 2018, compared to \$13.1 million (consisting of \$3.3 million originated loans and \$9.8 million acquired loans) at December 31, 2017, due mostly to the resolution of nonaccrual loans. Nonperforming assets (which include nonperforming loans and other real estate owned “OREO”) were \$5.9 million at December 31, 2018, compared to \$14.4 million at December 31, 2017. OREO was \$0.4 million at December 31, 2018, down from \$1.3 million at year-end 2017, with the decrease primarily due to the sale of a closed bank branch property. Nonperforming assets as a percent of total assets decreased to 0.19% at December 31, 2018 compared to 0.49% at December 31, 2017.

The level of potential problem loans is another predominant factor in determining the relative level of risk in the loan portfolio and in determining the appropriate level of the ALLL. Potential problem loans are generally defined by management to include loans rated as Substandard by management but that are in performing status; however, there are circumstances present which might adversely affect the ability of the borrower to comply with present repayment terms. The decision of management to include performing loans in potential problem loans does not necessarily mean that Nicolet expects losses to occur, but that management recognizes a higher degree of risk associated with these loans. The loans that have been reported as potential problem loans are predominantly commercial-based loans covering a diverse range of businesses and real estate property types. Potential problem loans totaled \$21.9 million (1.0% of total loans) and \$13.6 million (0.7% of total loans) at December 31, 2018 and 2017, respectively. Potential problem loans require a heightened management review of the pace at which a credit may deteriorate, the duration of asset quality stress, and uncertainty around the magnitude and scope of economic stress that may be felt by Nicolet’s customers and on underlying real estate values.

Table 10 : Nonperforming Assets

(in thousands)	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Nonaccrual assets:					
Commercial & industrial	\$ 2,816	\$ 6,016	\$ 358	\$ 204	\$ 171
Owner-occupied CRE	673	533	2,894	951	1,667
AG production	—	—	9	13	21
AG real estate	164	186	208	230	392
CRE investment	210	4,531	12,317	1,040	911
Construction & land development	80	—	1,193	280	934
Residential construction	1	80	260	—	—
Residential first mortgage	1,265	1,587	2,990	674	1,155
Residential junior mortgage	262	158	56	141	141
Retail & other	—	4	—	—	—
Total nonaccrual loans	5,471	13,095	20,285	3,533	5,392
Accruing loans past due 90 days or more	—	—	—	—	—
Total nonperforming loans	5,471	13,095	20,285	3,533	5,392
OREO:					
Commercial real estate owned	420	185	991	52	836
Residential real estate owned	—	70	29	—	630
Bank property real estate owned	—	1,039	1,039	315	500
Total OREO	420	1,294	2,059	367	1,966
Total nonperforming assets (NPAs)	\$ 5,891	\$ 14,389	\$ 22,344	\$ 3,900	\$ 7,358
Performing troubled debt restructurings	\$ —	\$ —	\$ —	\$ —	\$ 3,777
Ratios:					
Nonperforming loans to total loans	0.25%	0.63%	1.29%	0.40%	0.61%
NPAs to total loans plus OREO	0.27%	0.69%	1.42%	0.44%	0.83%
NPAs to total assets	0.19%	0.49%	0.97%	0.32%	0.61%
ALLL to nonperforming loans	240.4%	96.6%	58.3%	291.7%	172.3%

Table 11 shows the approximate gross interest that would have been recorded if the loans accounted for on a nonaccrual basis at the end of each year shown had performed in accordance with their original terms, in contrast to the amount of interest income that was included in interest income on such loans for the period. The interest income recognized generally includes cash interest received and potentially includes prior nonaccrual interest on acquired loans which existed at acquisition and was subsequently collected.

Table 11 : Foregone Loan Interest

(in thousands)	For the Years Ended December 31,		
	2018	2017	2016
Interest income in accordance with original terms	\$ 1,046	\$ 1,405	\$ 1,979
Interest income recognized	(948)	(1,130)	(1,789)
Reduction in interest income	\$ 98	\$ 275	\$ 190

Investment Securities Portfolio

The investment securities portfolio is intended to provide Nicolet with adequate liquidity, flexible asset/liability management and a source of stable income. The portfolio is structured with minimal credit exposure to Nicolet. All securities are classified as available for sale (“AFS”) and are carried at fair value. In addition to the discussion that follows, the investment securities portfolio accounting policies are described in Note 1, “ Nature of Business and Significant Accounting Policies ,” and additional disclosures are included in Note 3, “ Securities Available for Sale ,” in the Notes to Consolidated Financial Statements, under Part II, Item 8.

Table 12 : Investment Securities Portfolio

(in thousands)	December 31, 2018			December 31, 2017			December 31, 2016		
	Amortized Cost	Fair Value	% of Total	Amortized Cost	Fair Value	% of Total	Amortized Cost	Fair Value	% of Total
U.S. government agency securities	\$ 22,467	\$ 21,649	6%	\$ 26,586	\$ 26,209	6%	\$ 1,981	\$ 1,963	1%
State, county and municipals	163,702	160,526	40%	186,128	184,044	46%	191,721	187,243	51%
Mortgage-backed securities	134,350	131,644	33%	157,705	155,532	38%	161,309	159,129	44%
Corporate debt securities	87,352	86,325	21%	36,387	36,797	9%	12,117	12,169	3%
Equity securities *	—	—	—%	1,287	2,571	1%	2,631	4,783	1%

Total securities AFS	<u>\$ 407,871</u>	<u>\$ 400,144</u>	<u>100%</u>	<u>\$ 408,093</u>	<u>\$ 405,153</u>	<u>100%</u>	<u>\$ 369,759</u>	<u>\$ 365,287</u>	<u>100%</u>
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* Effective January 1, 2018, the Company adopted a new accounting standard which requires equity securities with readily determinable fair values to be measured at fair value with changes in the fair value recognized through net income. These equity securities are no longer reflected in securities AFS and are now reflected within other investments. For additional information on this new accounting standard, see Note 1 Nature of Business and Significant Accounting Policies in the Notes to Consolidated Financial Statements, under Part II, Item 8.

At December 31, 2018, the total fair value of investment securities was \$400.1 million, down slightly from \$405.2 million at December 31, 2017, and represented 13% and 14% of total assets at December 31, 2018 and 2017, respectively. The mix of securities AFS shifted between the years as the Company has reinvested the proceeds from sales, calls, and maturities of state, county and municipal securities and mortgage-backed securities into corporate debt securities. At December 31, 2018, the securities AFS portfolio did not contain securities of any single issuer, including any securities issued by a state or political subdivision that were payable from and secured by the same source of revenue or taxing authority where the aggregate carrying value of such securities exceeded 10% of stockholders' equity.

In addition to securities AFS, Nicolet had other investments of \$18.0 million and \$14.8 million at December 31, 2018 and 2017, respectively, consisting of capital stock in the Federal Reserve, Federal Agricultural Mortgage Corporation, and the Federal Home Loan Bank ("FHLB") (required as members of the Federal Reserve Bank System and the FHLB System), and to a lesser degree equity investments in other private companies. In addition, due to the accounting change noted above, equity securities with readily determinable fair values are included with other investments beginning in 2018. The FHLB and Federal Reserve investments are "restricted" in that they can only be sold back to the respective institutions or another member institution at par, and are thus not liquid, have no ready market or quoted market value, and are carried at cost. The remaining investments have no quoted market prices, and are carried at cost less other than temporarily impaired ("OTTI") charges, if any. These other investments are evaluated periodically for impairment, considering financial condition and other available relevant information. There were no OTTI charges recorded in 2018 or 2017.

Table 13 : Investment Securities Portfolio Maturity Distribution ⁽¹⁾

December 31, 2018	Within One Year		After One but Within Five Years		After Five but Within Ten Years		After Ten Years		Mortgage-related Securities		Total Amortized Cost		Total Fair Value
(in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
U.S. government agency securities	\$ —	—%	\$ 22,467	2.0%	\$ —	—%	\$ —	—%	\$ —	—%	\$ 22,467	2.0%	\$ 21,649
State, county and municipals	12,608	2.8%	86,314	2.6%	64,780	2.5%	—	—%	—	—%	163,702	2.6%	160,526
Mortgage-backed securities	—	—%	—	—%	—	—%	—	—%	134,350	2.9%	134,350	2.9%	131,644
Corporate debt securities	5,035	6.5%	59,309	3.1%	16,039	3.4%	6,969	5.9%	—	—%	87,352	3.6%	86,325
Total amortized cost	\$ 17,643	3.9%	\$ 168,090	2.7%	\$ 80,819	2.7%	\$ 6,969	5.9%	\$ 134,350	2.9%	\$ 407,871	2.9%	\$ 400,144
Total fair value and carrying value	\$ 17,624		\$ 164,969		\$ 78,904		\$ 7,003		\$ 131,644				\$ 400,144
	4%		41%		20%		2%		33%				100%

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

Deposits

Deposits represent Nicolet's largest source of funds. Nicolet competes with other bank and nonbank institutions for deposits, as well as with a growing number of non-deposit investment alternatives available to depositors, such as mutual funds, money market funds, annuities, and other brokerage investment products. Challenges to deposit growth include competitive deposit product features, price changes on deposit products given movements in the rate environment and other competitive pricing pressures, and customer preferences regarding higher-costing deposit products or non-deposit investment alternatives. Additional disclosures on deposits are included in Note 8, "Deposits," in the Notes to Consolidated Financial Statements, under Part II, Item 8.

Table 14 : Period End Deposit Composition

(in thousands)

	December 31, 2018		December 31, 2017		December 31, 2016	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Noninterest-bearing demand	\$ 753,065	29%	\$ 631,831	26%	\$ 482,300	25%
Money market and interest-bearing demand	1,163,369	45%	1,222,401	49%	964,509	49%
Savings	294,068	11%	269,922	11%	221,282	11%
Time	403,636	15%	346,910	14%	301,895	15%
Total deposits	<u>\$ 2,614,138</u>	<u>100%</u>	<u>\$ 2,471,064</u>	<u>100%</u>	<u>\$ 1,969,986</u>	<u>100%</u>
Brokered transaction accounts	\$ 62,021	2%	\$ 76,141	3%	\$ —	—%
Brokered time deposits	19,130	1%	44,645	2%	20,868	1%
Total brokered deposits	<u>\$ 81,151</u>	<u>3%</u>	<u>\$ 120,786</u>	<u>5%</u>	<u>\$ 20,868</u>	<u>1%</u>
Customer transaction accounts	2,148,481	82%	\$ 2,048,013	83%	\$ 1,668,091	85%
Customer time deposits	384,506	15%	302,265	12%	281,027	14%
Total customer deposits (core)	<u>\$ 2,532,987</u>	<u>97%</u>	<u>\$ 2,350,278</u>	<u>95%</u>	<u>\$ 1,949,118</u>	<u>99%</u>

Total deposits were \$2.6 billion at December 31, 2018 , an increase of \$143 million or 6% over December 31, 2017 . The increase in total deposits was largely due to noninterest-bearing demand deposits (up \$121 million or 19% , mostly commercial in nature), as well as growth in savings and time deposits combined exceeding the decline in money market and interest-bearing demand deposits. Given the strong growth in customer-based ("core") deposits, brokered deposits were allowed to decline, down 33% from December 31, 2017 . Customer (core) deposits increased \$183 million over year-end 2017 , including \$100 million in transaction accounts and \$82 million in time deposits.

On average, deposits grew \$281 million or 13% between 2018 and 2017 (as detailed in Table 1), aided partly by the timing of the 2017 acquisition, and solid growth in noninterest-bearing demand deposits (up \$89 million or 16%), core time deposits (up \$45 million or 15%), and all other transaction accounts combined (up \$175 million or 14%), while average brokered deposits declined (down \$28 million or 23%) given the growth in core customer deposits.

Table 15 : Maturity Distribution of Certificates of Deposit of \$100,000 or More

(in thousands)

	December 31, 2018	December 31, 2017	December 31, 2016
3 months or less	\$ 28,466	\$ 21,847	\$ 19,058
Over 3 months through 6 months	30,438	15,552	11,428
Over 6 months through 12 months	68,983	40,226	31,569
Over 12 months	57,992	54,319	59,208
Total	<u>\$ 185,879</u>	<u>\$ 131,944</u>	<u>\$ 121,263</u>

Other Funding Sources

Other funding sources include short-term borrowings (zero at both December 31, 2018 and 2017) and long-term borrowings (totaling \$77 million and \$78 million at December 31, 2018 and 2017 , respectively). Short-term borrowings consist mainly of customer repurchase agreements maturing in less than nine months or federal funds purchased. Long-term borrowings include FHLB advances, junior subordinated debentures (largely qualifying as Tier 1 capital for regulatory purposes given their long maturity dates, even though they are redeemable in whole or in part at par), and subordinated debt (issued in 2015 with 10-year maturities, callable on or after the fifth anniversary date of their respective issuance dates, and qualifying as Tier 2 capital for regulatory purposes). The interest on all long-term borrowings is current, and while the various junior subordinated debentures are callable at par plus any accrued but unpaid interest, there are no current plans to redeem these debentures early. See Note 9 , “ Short and Long-Term Borrowings ,” of the Notes to Consolidated Financial Statements under Part II, Item 8 for additional details.

Additional funding sources at December 31, 2018 consist of a \$10 million available and unused line of credit at the holding company, \$175 million of available and unused Federal funds lines, available borrowing capacity at the FHLB of \$177 million, and borrowing capacity in the brokered deposit market.

RISK MANAGEMENT AND CAPITAL

Liquidity Management

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

Funds are available from a number of basic banking activity sources including, but not limited to, the core deposit base; repayment and maturity of loans; investment securities calls, maturities, and sales; and procurement of brokered deposits. All securities AFS and equity securities (included in other investments) are reported at fair value on the consolidated balance sheet. At December 31, 2018, approximately 39% of the \$400 million securities AFS portfolio was pledged to secure public deposits and short-term borrowings, as applicable, and for other purposes as required by law. Other funding sources available include the ability to procure short-term borrowings, federal funds purchased, and long-term borrowings (such as FHLB advances).

Management is committed to the Parent Company being a source of strength to the Bank and its other subsidiaries, and therefore, regularly evaluates capital and liquidity positions of the Parent Company in light of current and projected needs, growth or strategies. The Parent Company uses cash for normal expenses, debt service requirements and, when opportune, for common stock repurchases or investment in other strategic actions such as mergers or acquisitions. Additional cash sources available to the Parent Company, among others, include its \$10 million available and unused line of credit, and access to the public or private markets to issue new equity, subordinated debt or other debt. Dividends from the Bank and, to a lesser extent, stock option exercises, represent significant sources of cash flows for the Parent Company. The Bank is required by federal law to obtain prior approval of the OCC for payments of dividends if the total of all dividends declared by the Bank in any year will exceed certain thresholds, as more fully described in “Business—Regulation of the Bank – Payment of Dividends” and in Note 17, “Regulatory Capital Requirements,” in the Notes to the Consolidated Financial Statements under Part II, Item 8. Management does not believe that regulatory restrictions on dividends from the Bank will adversely affect its ability to meet its cash obligations.

Cash and cash equivalents at December 31, 2018 and 2017 were approximately \$249.5 million and \$154.9 million, respectively. The increase in cash and cash equivalents compared to historical levels was predominantly due to strong customer deposit growth. The \$94.6 million increase in cash and cash equivalents since year-end 2017 included \$51.0 million net cash provided by operating activities (mostly earnings) and \$120.7 million from financing activities (mostly due to strong deposit growth), exceeding the \$77.1 million net cash used in investing activities (primarily to fund strong loan growth). Nicolet’s liquidity resources were sufficient as of December 31, 2018 to fund loans, accommodate deposit trends and cycles, and to meet other cash needs as necessary.

Interest Rate Sensitivity Management and Impact of Inflation

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

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

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

Among other scenarios, Nicolet assessed the impact on net interest income in the event of a gradual +/-100 bps and +/-200 bps change in market rates (parallel to the change in prime rate) over a one-year time horizon to a static (flat) balance sheet. The interest rate scenarios are used for analytical purposes only and do not necessarily represent management’s view of future market interest rate movements. Based on financial data at December 31, 2018 and 2017, the projected changes in net interest income over a one-year time horizon, versus the baseline, are presented in Table 16 below. The results were within Nicolet’s guidelines of not greater than -10% for +/- 100 bps and not greater than -15% for +/- 200 bps.

Table 16 : Interest Rate Sensitivity

	December 31, 2018	December 31, 2017
200 bps decrease in interest rates	(0.6)%	(1.0)%
100 bps decrease in interest rates	— %	(0.2)%
100 bps increase in interest rates	(0.1)%	(0.1)%
200 bps increase in interest rates	— %	(0.2)%

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

The effect of inflation on a financial institution differs significantly from the effect on an industrial company. While a financial institution's operating expenses, particularly salary and employee benefits, are affected by general inflation, the asset and liability structure of a financial institution consists largely of monetary items. Monetary items, such as cash, investments, loans, deposits and other borrowings, are those assets and liabilities which are or will be converted into a fixed number of dollars regardless of changes in prices. As a result, changes in interest rates have a more significant impact on a financial institution's performance than does general inflation. Inflation may also have impacts on the Bank's customers, on businesses and consumers and their ability or willingness to invest, save or spend, and perhaps on their ability to repay loans. As such, there would likely be impacts on the general appetite of banking products and the credit health of the Bank's customer base.

Capital

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

Capital balances and changes in capital are presented in the Consolidated Statements of Changes in Stockholders' Equity in Part II, Item 8. Further discussion of capital components is included in Note 12, "Stockholders' Equity," and a summary of dividend restrictions, as well as regulatory capital amounts and ratios for Nicolet and the Bank is presented in Note 17, "Regulatory Capital Requirements," of the Notes to Consolidated Financial Statements under Part II, Item 8.

The Company's regulatory capital ratios remain well above minimum regulatory ratios. At December 31, 2018, the Bank's regulatory capital ratios qualify the Bank as well-capitalized under the prompt-corrective action framework. This strong base of capital has allowed Nicolet to be opportunistic in the current environment and in strategic growth. For a discussion of the regulatory restrictions applicable to the Company and the Bank, see section "Business-Regulation of Nicolet" and "Business-Regulation of the Bank," included within Part I, Item 1. A summary of Nicolet's and the Bank's regulatory capital amounts and ratios, as well as selected capital metrics are presented in Table 17.

Table 17 : Capital

(\$ in thousands)	December 31, 2018		December 31, 2017	
Company Stock Repurchases: *				
Common stock repurchased during the year (dollars)	\$	22,178	\$	9,968
Common stock repurchased during the year (shares)		408,071		188,554
Company Risk-Based Capital:				
Total risk-based capital	\$	326,235	\$	299,043
Tier 1 risk-based capital		301,125		274,469
Common equity Tier 1 capital		271,435		245,214
Total capital ratio		12.9%		12.8%
Tier 1 capital ratio		11.9%		11.8%
Common equity tier 1 capital ratio		10.7%		10.5%
Tier 1 leverage ratio		10.4%		10.0%
Bank Risk-Based Capital:				
Total risk-based capital	\$	274,492	\$	267,165
Tier 1 risk-based capital		261,339		254,512
Common equity Tier 1 capital		261,339		254,512
Total capital ratio		10.8%		11.5%
Tier 1 capital ratio		10.3%		10.9%
Common equity tier 1 capital ratio		10.3%		10.9%
Tier 1 leverage ratio		9.1%		9.3%

* Reflects common stock repurchased under board of director authorizations.

At December 31, 2018 , Nicolet's total capital was \$387 million , compared to \$364 million at December 31, 2017 . Common equity to total assets at December 31, 2018 was 12.49% , up from 12.42% at December 31, 2017 . Book value per common share increased to \$40.72 at year-end 2018 , up 10% over \$37.09 at year-end 2017 .

In managing capital for optimal return, we evaluate capital sources and uses, pricing and availability of our stock in the market, and alternative uses of capital (such as the level of organic growth or acquisition opportunities) in light of strategic plans. The Board has authorized, since the inception of its common stock repurchase program, the use of up to \$54 million to repurchase up to 1,450,000 shares of Nicolet common stock as an alternative use of capital. During 2018 , \$22.2 million was used to repurchase and cancel nearly 408,100 shares at a weighted average price per share of \$54.35 , bringing the life-to-date totals through December 31, 2018 , to \$46.3 million used to repurchase and cancel just over 1.1 million shares at a weighted average price of \$41.52 per share.

Off-Balance Sheet Arrangements, Lending-Related Commitments and Contractual Obligations

Nicolet is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Interest rate lock commitments to originate residential mortgage loans held for sale (included in the commitments to extend credit) and forward commitments to sell residential mortgage loans held for sale are considered derivative instruments and represented \$18 million and \$6 million , respectively, at December 31, 2018 . Further information and discussion of these commitments is included in Note 14 , “ Commitments and Contingencies ” of the Notes to Consolidated Financial Statements, under Part II, Item 8.

The table below outlines the principal amounts and timing of Nicolet's contractual obligations. The amounts presented below exclude amounts due for interest, if applicable, and include any unamortized premiums / discounts or other similar carrying value adjustments. Most of these obligations are routinely refinanced into similar replacement obligations. However, renewal of these obligations is dependent on the ability to procure competitive interest rates, liquidity needs, availability of collateral for pledging purposes supporting the long-term advances, or other borrowing alternatives. As of December 31, 2018 , Nicolet had the following contractual obligations.

Table 18 : Contractual Obligations

(in thousands)	Note	Maturity by Years				
	Reference	Total	1 or less	1-3	3-5	Over 5
Time deposits	8	\$ 403,636	\$ 260,993	\$ 112,795	\$ 29,848	\$ —
Long-term borrowings	9	77,305	—	10,000	25,252	42,053
Operating leases	5	5,403	1,073	2,021	1,567	742
Total long-term contractual obligations		\$ 486,344	\$ 262,066	\$ 124,816	\$ 56,667	\$ 42,795

Fourth Quarter 2018 Results

Nicolet recorded net income of \$10.9 million for fourth quarter 2018 , or \$1.11 for diluted earnings per common share, compared to \$9.1 million , or \$0.88 , respectively for fourth quarter 2017 . Return on average assets was 1.44% and 1.27% for fourth quarter 2018 and 2017, respectively. See Table 19 for selected quarterly information.

Between the comparable fourth quarter periods, interest income increased \$2.5 million (despite \$1.5 million lower aggregate discount accretion income on purchased loans) and interest expense increased \$2.0 million, each primarily due to interest rate changes between the periods. The net interest margin between the comparable quarters was down 23 bps to 3.98% in fourth quarter 2018, comprised of a 37 bps lower interest rate spread (to 3.64%, as the yield on earning assets increased 3 bps and the rate on interest-bearing liabilities increased 40 bps) and a 14 bps higher contribution from net free funds (from both higher noninterest-bearing deposit balances and their increased value in the higher rate environment).

Average interest-earning assets were \$2.7 billion for fourth quarter 2018 compared to \$2.5 billion for fourth quarter 2017 , mainly due to a \$76 million increase in average loans and an \$86 million increase in non-loan interest-earning assets (mainly low earning cash). The mix of average earning assets between fourth quarter periods shifted from 82% in loans and 18% in non-loan earning assets to 80% in average loans and 20% in nonloan earning assets (including a higher proportion of low interest-earning cash assets) for fourth quarter 2018. On the funding side, average interest-bearing deposits were up \$38 million and average demand deposits increased \$95 million.

The provision for loan losses was \$0.2 million , compared to net charge-offs of \$0.1 million for fourth quarter 2018 , while the provision for loan losses was \$0.5 million and net charge-offs were \$0.4 million for fourth quarter 2017 .

Noninterest income for fourth quarter 2018 increased \$1.2 million (14%) to \$9.8 million versus fourth quarter 2017 . Of note, net mortgage income increased \$0.5 million (reflecting changes in MSR capitalization assumptions in mid-2018), brokerage fee income grew \$0.4 million, and card interchange income was up \$0.3 million (on higher volume and activity) between the comparable fourth quarter periods.

On a comparable quarter basis, noninterest expense decreased \$0.2 million (1%) to \$21.6 million in fourth quarter 2018 . Personnel expense of \$11.3 million, decreased \$0.7 million (6%) from fourth quarter 2017 , mostly due to timing of adjustments in the wealth compensation structure and reductions in wealth staff later in the year, adjustments to target incentives, and market declines on deferred compensation liabilities. All nonpersonnel expense categories combined were up \$0.5 million, primarily due to a \$0.5 million fraud contingency loss incurred in fourth quarter 2018.

For fourth quarter 2018 , Nicolet recognized income tax expense of \$4.0 million with an effective tax rate of 26.8% , compared to income tax expense of \$3.7 million with an effective tax rate of 28.6% for fourth quarter 2017 . The change in income tax was attributable to the level of pretax income between the comparable quarters and the tax law change in December 2017 which lowered the corporate tax rate, resulting in \$0.9 million of additional tax expense in fourth quarter 2017 for the write-down associated with the impact of the new tax law on deferred tax assets and investment securities. In addition, fourth quarter 2018 included a \$0.1 million tax benefit, while fourth quarter 2017 included a \$1.7 million tax benefit related to the tax impact of stock option exercises and vesting of restricted stock, mainly due to large option exercises in fourth quarter 2017. Additional information on income taxes, including the new tax items, is also included in "Income Taxes," and Note 13 , " Income Taxes " in the Notes to Consolidated Financial Statements, under Part II, Item 8.

Selected Quarterly Financial Data

The following is selected financial data summarizing the results of operations for each quarter in the years ended December 31, 2018 and 2017 .

Table 19 : Selected Quarterly Financial Data

(in thousands, except per share data)

	2018 Quarter Ended			
	December 31,	September 30,	June 30,	March 31,
Interest income	\$ 32,327	\$ 31,880	\$ 30,545	\$ 30,785
Interest expense	5,298	4,938	4,742	3,911
Net interest income	27,029	26,942	25,803	26,874
Provision for loan losses	240	340	510	510
Noninterest income	9,797	10,649	10,239	8,824
Noninterest expense	21,621	23,044	22,451	22,642
Net income attributable to Nicolet Bankshares, Inc.	10,863	10,859	9,737	9,577
Basic earnings per common share*	1.14	1.13	1.01	0.98
Diluted earnings per common share*	\$ 1.11	\$ 1.09	\$ 0.98	\$ 0.94

	2017 Quarter Ended			
	December 31,	September 30,	June 30,	March 31,
Interest income	\$ 29,836	\$ 29,454	\$ 26,880	\$ 23,083
Interest expense	3,329	3,063	2,353	1,766
Net interest income	26,507	26,391	24,527	21,317
Provision for loan losses	450	975	450	450
Noninterest income	8,621	10,164	9,085	6,769
Noninterest expense	21,858	20,862	20,313	18,323
Net income attributable to Nicolet Bankshares, Inc.	9,103	9,511	8,328	6,208
Basic earnings per common share*	0.93	0.97	0.88	0.72
Diluted earnings per common share*	\$ 0.88	\$ 0.91	\$ 0.83	\$ 0.69

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

2017 Compared to 2016

Net income attributable to Nicolet was \$33.2 million for 2017 , or \$3.33 per diluted common share. Comparatively, 2016 net income attributable to Nicolet was \$18.5 million , and after \$0.6 million of preferred stock dividends, net income available to common shareholders was \$17.8 million or \$2.37 per diluted common share. Nicolet redeemed its outstanding preferred stock in full in September 2016, explaining the absence of preferred stock dividends in 2017. Return on average assets was 1.25% and 0.95% for 2017 and 2016 , respectively, while return on average common equity was 9.96% for 2017 and 8.20% for 2016 . Book value per common share was \$37.09 at December 31, 2017 , up 15% over \$32.26 at December 31, 2016 .

Key factors contributing to the 2017 versus 2016 results are discussed below.

- Net interest income was \$98.7 million for 2017 , an increase of \$30.6 million or 45% compared to 2016 . The improvement was primarily the result of favorable volume and mix variances (driven by the addition of acquired net interest-earning assets, as well as strong organic growth), and net favorable rate variances, largely from higher earning asset yields partially offset by a higher cost of funds. The earning asset yield was 4.75% for 2017 and 4.44% for 2016 , influenced mainly by the earning asset mix and higher aggregate discount accretion income. The cost of funds was 0.60% for 2017 , 4 bps higher than 2016 . As a result, the interest rate spread was 4.15% for 2017 , 27 bps higher than 2016 . The net interest margin was 4.30% for 2017 compared to 4.01% for 2016 , with a 2 bps higher contribution from net free funds as well as the increase in interest rate spread. Tables 1 , 2 , and 3 show additional average balance sheet, net interest income, and net interest margin information.
- Loans were \$2.1 billion at December 31, 2017 , up \$0.5 billion or 33% over December 31, 2016 . Excluding the impact of the First Menasha loans added at acquisition in 2017, loans increased \$168 million or 11% since year-end 2016 . Average loans were \$1.9 billion in 2017 yielding 5.31% , compared to \$1.3 billion in 2016 yielding 5.11% , a 41% increase in average balances. Table 6 shows additional information on loans.

- Total deposits were \$2.5 billion at December 31, 2017, up \$0.5 billion or 25% over December 31, 2016. Excluding the impact of the First Menasha deposits added at acquisition in 2017, deposits grew \$126 million or 6%. Between 2017 and 2016, average deposits were up \$0.6 billion or 36%, with noninterest-bearing deposits representing 24% and 23% of total deposits for 2017 and 2016, respectively. Tables 14 and 15 show additional information on deposits.
- The most notable capital-related actions in 2017 were: 1) the April 2017 issuance of common stock in connection with the First Menasha acquisition and 2) common stock repurchases. The most notable capital-related actions in 2016 were: 1) on February 24, 2016, Nicolet's common stock moved off the OTCBB and began trading on the Nasdaq Capital Market, 2) the April 2016 issuance of common stock in connection with a bank merger and the acquisition of a financial advisor business, 3) the September 2016 redemption of the final \$12.2 million of preferred stock, and 4) common stock repurchases.
- Asset quality measures remained strong. Nonperforming assets declined to \$14 million, representing 0.49% of total assets at December 31, 2017, down favorably from 0.97% of assets at December 31, 2016. For 2017, the provision for loan losses was \$2.3 million, exceeding net charge-offs of \$1.5 million, versus provision of \$1.8 million and net charge-offs of \$0.3 million for 2016. The ALLL was \$12.7 million at December 31, 2017 (representing 0.61% of loans), compared to \$11.8 million (representing 0.75% of loans) at December 31, 2016. The decline in the ratio of the ALLL to loans resulted from recording the First Menasha loan portfolio at fair value with no carryover of its allowance at the time of the merger. Tables 8, 9, 10, and 11 show additional information on asset quality measures.
- Noninterest income was \$34.6 million (including \$2.0 million of net asset gains, largely from a \$1.2 million gain to record the fair value of Nicolet's pre-acquisition interest in First Menasha and a \$0.7 million gain on sale of assets), compared to \$26.7 million for 2016 (including \$0.1 million of net asset gains). Removing these net gains, noninterest income was up \$6.0 million or 23%, with increases in all line items, except net mortgage income, largely attributable to the timing of the 2016 and 2017 acquisitions. The most notable increases were: brokerage fee income (up \$2.1 million or 58%), attributable to the 2016 financial advisor business acquisition as well as subsequent growth and improved pricing; card interchange income (up \$1.5 million or 47%) due to higher volume and activity; and service charges on deposit accounts (up \$1.0 million or 29%) resulting from an increased number of accounts (most attributable to the bank acquisitions) and an increase to the fee charged on overdrafts implemented during 2017. All remaining noninterest income categories on a combined basis increased \$1.4 million or 8%. Table 4 shows additional noninterest income information.
- Noninterest expense was \$81.4 million (which included \$0.5 million direct merger-related expenses), compared to \$64.9 million for 2016 (which included \$1.3 million direct merger-related expenses and a non-recurring \$1.7 million lease termination charge). Personnel expense was \$44.5 million for 2017, up \$10.4 million or 31% over 2016, largely due to the expanded workforce, with average full-time equivalent employees up 26%. Also contributing to the increase were merit increases between the years, higher incentives given strong results (including a discretionary 401k profit sharing contribution of \$0.5 million in 2017), and higher health and other benefit costs in line with the expanded workforce. All remaining noninterest expense categories on a combined basis grew \$6.0 million or 19%, mainly due to the larger operating base and higher volumes, partially offset by lower merger-related expenses. Table 5 shows additional noninterest expense information.

Critical Accounting Policies

The consolidated financial statements of Nicolet are prepared in conformity with U.S. generally accepted accounting principles ("GAAP") and follow general practices within the industry in which it operates. This preparation requires management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the consolidated financial statements; accordingly, as this information changes, actual results could differ from the estimates, assumptions and judgments reflected in the consolidated financial statements. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported. Estimates that are particularly susceptible to significant change include the valuation of loan acquisition transactions, as well as the determination of the allowance for loan losses and income taxes and, therefore, are critical accounting policies. The critical accounting policies are discussed directly with Nicolet's Audit Committee. In addition to the discussion that follows, these critical accounting policies are further described in Note 1, "Nature of Business and Significant Accounting Policies," in the Notes to Consolidated Financial Statements, under Part II, Item 8.

Business Combinations and Valuation of Loans Acquired in Business Combinations

We account for acquisitions under Financial Accounting Standards Board ("FASB") ASC Topic 805, *Business Combinations*, which requires the use of the acquisition method of accounting. Assets acquired and liabilities assumed in a business combination are recorded at estimated fair value on their purchase date. As provided for under GAAP, management has up to 12 months following the date of the acquisition to finalize the fair values of acquired assets and assumed liabilities, where it was not possible to estimate the acquisition date fair value upon consummation. Management finalized the fair values of acquired assets and assumed

liabilities within this 12-month period and management currently considers such values to be the Day 1 Fair Values for the acquisition transactions.

In particular, the valuation of acquired loans involves significant estimates, assumptions and judgment based on information available as of the acquisition date. Substantially all loans acquired in the transaction are evaluated either individually or in pools of loans with similar characteristics; and since the estimated fair value of acquired loans includes a credit consideration, no carryover of any previously recorded allowance for loan losses is recorded at acquisition. A number of factors are considered in determining the estimated fair value of purchased loans including, among other things, the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, estimated holding periods, contractual interest rates compared to market interest rates, and net present value of cash flows expected to be received.

In determining the Day 1 Fair Values of acquired loans, management calculates a nonaccretable difference (the credit mark component of the acquired loans) and an accretable difference (the market rate or yield component of the acquired loans). The nonaccretable difference is the difference between the undiscounted contractually required payments and the undiscounted cash flows expected to be collected in accordance with management's determination of the Day 1 Fair Values. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses; while subsequent increases in cash flows will result in a reversal of the provision for loan losses to the extent of prior charges and then an adjustment to accretable yield, and nonaccretable difference which would have a positive impact on interest income.

The accretable yield on acquired loans is the difference between the expected cash flows and the initial investment in the acquired loans. The accretable yield is recognized into earnings using the effective yield method over the term of the loans. Management separately monitors the acquired loan portfolio and periodically reviews loans contained within this portfolio against the factors and assumptions used in determining the Day 1 Fair Values.

Allowance for Loan Losses

Management's evaluation process used to determine the appropriateness of the ALLL is subject to the use of estimates, assumptions, and judgment. The evaluation process involves gathering and interpreting many qualitative and quantitative factors which could affect probable credit losses. Because interpretation and analysis involves judgment, current economic or business conditions can change, and future events are inherently difficult to predict, the anticipated amount of estimated loan losses and therefore the appropriateness of the ALLL could change significantly.

The allocation methodology applied by Nicolet is designed to assess the appropriateness of the ALLL and includes allocations for specifically identified impaired loans and loss factor allocations for all remaining loans, with a component primarily based on historical loss rates and a component primarily based on other qualitative factors. The methodology includes evaluation and consideration of several factors, such as, but not limited to, management's ongoing review and grading of loans, facts and issues related to specific loans, historical loan loss and delinquency experience, trends in past due and nonaccrual loans, existing risk characteristics of specific loans or loan pools, the fair value of underlying collateral, current economic conditions and other qualitative and quantitative factors which could affect potential credit losses. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions or circumstances underlying the collectability of loans. Because each of the criteria used is subject to change, the allocation of the ALLL is made for analytical purposes and is not necessarily indicative of the trend of future loan losses in any particular loan category. The total allowance is available to absorb losses from any segment of the loan portfolio. Management believes the ALLL is appropriate at December 31, 2018. The allowance analysis is reviewed by the board of directors on a quarterly basis in compliance with regulatory requirements.

Consolidated net income and stockholders' equity could be affected if management's estimate of the ALLL necessary to cover expected losses is subsequently materially different, requiring a change in the level of provision for loan losses to be recorded. While management uses currently available information to recognize losses on loans, future adjustments to the ALLL may be necessary based on newly received appraisals, updated commercial customer financial statements, rapidly deteriorating customer cash flow, and changes in economic conditions that affect Nicolet's customers. As an integral part of their examination process, federal regulatory agencies also review the ALLL. Such agencies may require additions to the ALLL or may require that certain loan balances be charged-off or downgraded into criticized loan categories when their credit evaluations differ from those of management based on their judgments about information available to them at the time of their examination.

Income taxes

The assessment of income tax assets and liabilities involves the use of estimates, assumptions, interpretation, and judgment concerning certain accounting pronouncements and federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, will not differ from management's current assessment, the impact of which could be significant to the consolidated results of operations and reported earnings.

Nicolet files a consolidated federal income tax return and a combined state income tax return (both of which include Nicolet and its wholly owned subsidiaries). Accordingly, amounts equal to tax benefits of those companies having taxable federal losses or credits are reimbursed by the companies that incur federal tax liabilities. Amounts provided for income tax expense are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable under tax laws. Deferred income tax assets and liabilities are computed quarterly for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax law rates applicable to the periods in which the differences are expected to affect taxable income. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through provision for income tax expense. Valuation allowances are established when it is more likely than not that a portion of the full amount of the deferred tax asset will not be realized. In assessing the ability to realize deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. Nicolet may also recognize a liability for unrecognized tax benefits from uncertainty in income taxes. Unrecognized tax benefits represent the differences between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured in the financial statements. Penalties related to unrecognized tax benefits are classified as income tax expense.

Future Accounting Pronouncements

Recent accounting pronouncements adopted are included in Note 1, “Nature of Business and Significant Accounting Policies” of the Notes to Consolidated Financial Statements under Part II, Item 8.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU modifies the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. The updated guidance is effective for annual reporting periods, including interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. As the new ASU only revises disclosure requirements, it is not expected to have a material impact on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. ASU 2017-12 expands the activities that qualify for hedge accounting and simplifies the rules for reporting hedging transactions. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently assessing the impact of the new guidance on its consolidated financial statements, and it is not expected to have a significant impact on its consolidated financial statements because the Company does not have any significant derivatives and does not currently apply hedge accounting to derivatives.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* intended to improve the financial reporting by requiring earlier recognition of credit losses on loans and certain other financial assets. Topic 326 replaces the current incurred loss impairment model (which recognizes losses when a probable threshold is met) with a requirement to recognize lifetime expected credit losses immediately when a financial asset is originated or purchased. The measurement of lifetime expected credit losses will be based on historical experience, current conditions, and reasonable and supportable forecasts. The ASU is effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Entities should apply the amendment by means of a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company expects to adopt the new accounting standard in 2020, as required. Nicolet has established a cross-functional team to assess the impact of the new guidance on its consolidated financial statements and implement the new standard. This team is currently in the process of developing credit models, as well as accounting, reporting, and governance processes to comply with the new credit loss requirements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, with several subsequent updates. Topic 842 introduces a new accounting model for lessors and lessees. For lessees, almost all leases will be required to be recognized on the balance sheet as a right-of-use asset and lease liability, unlike previous GAAP which required only capital leases to be recognized on the balance sheet. The accounting applied by lessors is largely unchanged from existing guidance. Topic 842 also requires additional disclosures concerning the amount, timing and uncertainty of cash flows arising from leases. The updated guidance is effective for annual reporting periods beginning after December 15, 2018, with early application permitted. Upon adoption, Nicolet will recognize right-of-use assets and lease liabilities for virtually all of its operating lease commitments. The amounts of these assets and liabilities totaled approximately \$5 million and were based, primarily, on the present value of unpaid future minimum lease payments as of January 1, 2019, the date of adoption.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For additional disclosure, see section, “Interest Rate Sensitivity Management and Impact of Inflation,” of the Management’s Discussion and Analysis of Financial Condition and Results of Operation under Part II, Item 7.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
NICOLET BANKSHARES, INC.
Consolidated Balance Sheets

(In thousands, except share and per share data)		December 31, 2018	December 31, 2017
Assets			
Cash and due from banks	\$	85,896	\$ 86,191
Interest-earning deposits		163,630	68,008
Federal funds sold		—	734
Cash and cash equivalents		249,526	154,933
Certificates of deposit in other banks		993	1,746
Securities available for sale (“AFS”), at fair value		400,144	405,153
Other investments		17,997	14,837
Loans held for sale		1,639	4,666
Loans		2,166,181	2,087,925
Allowance for loan losses		(13,153)	(12,653)
Loans, net		2,153,028	2,075,272
Premises and equipment, net		48,173	47,151
Bank owned life insurance (“BOLI”)		66,310	64,453
Goodwill and other intangibles, net		124,307	128,406
Accrued interest receivable and other assets		34,418	35,816
Total assets	\$	3,096,535	\$ 2,932,433
Liabilities and Stockholders’ Equity			
Liabilities:			
Noninterest-bearing demand deposits	\$	753,065	\$ 631,831
Interest-bearing deposits		1,861,073	1,839,233
Total deposits		2,614,138	2,471,064
Short-term borrowings		—	—
Long-term borrowings		77,305	78,046
Accrued interest payable and other liabilities		17,740	18,444
Total liabilities		2,709,183	2,567,554
Stockholders’ Equity:			
Common stock		95	98
Additional paid-in capital		247,790	263,835
Retained earnings		144,364	102,391
Accumulated other comprehensive loss		(5,640)	(2,146)
Total Nicolet Bankshares, Inc. stockholders’ equity		386,609	364,178
Noncontrolling interest		743	701
Total stockholders’ equity and noncontrolling interest		387,352	364,879
Total liabilities, noncontrolling interest and stockholders’ equity	\$	3,096,535	\$ 2,932,433
Preferred shares authorized (no par value)		10,000,000	10,000,000
Preferred shares issued and outstanding		—	—
Common shares authorized (par value \$0.01 per share)		30,000,000	30,000,000
Common shares outstanding		9,495,265	9,818,247
Common shares issued		9,524,777	9,849,167

See Accompanying Notes to Consolidated Financial Statements.

NICOLET BANKSHARES, INC.
Consolidated Statements of Income

Years Ended December 31,

(In thousands, except share and per share data)	2018	2017	2016
Interest income:			
Loans, including loan fees	\$ 113,953	\$ 100,541	\$ 69,425
Investment securities:			
Taxable	6,068	4,728	3,029
Tax-exempt	2,296	2,360	1,686
Other interest income	3,220	1,624	1,327
Total interest income	125,537	109,253	75,467
Interest expense:			
Deposits	15,420	7,686	5,144
Short-term borrowings	9	84	—
Long-term borrowings	3,460	2,741	2,190
Total interest expense	18,889	10,511	7,334
Net interest income	106,648	98,742	68,133
Provision for loan losses	1,600	2,325	1,800
Net interest income after provision for loan losses	105,048	96,417	66,333
Noninterest income:			
Trust services fee income	6,498	6,031	5,435
Brokerage fee income	7,042	5,736	3,624
Mortgage income, net	6,344	5,361	5,494
Service charges on deposit accounts	4,845	4,604	3,571
Card interchange income	5,665	4,646	3,167
BOLI income	2,418	1,778	1,284
Asset gains (losses), net	1,169	2,029	54
Other income	5,528	4,454	4,045
Total noninterest income	39,509	34,639	26,674
Noninterest expense:			
Personnel	49,476	44,458	34,030
Occupancy, equipment and office	14,574	13,308	10,276
Business development and marketing	5,324	4,700	3,488
Data processing	9,514	8,715	6,370
Intangibles amortization	4,389	4,695	3,458
Other expense	6,481	5,480	7,320
Total noninterest expense	89,758	81,356	64,942
Income before income tax expense	54,799	49,700	28,065
Income tax expense	13,446	16,267	9,371
Net income	41,353	33,433	18,694
Less: Net income attributable to noncontrolling interest	317	283	232
Net income attributable to Nicolet Bankshares, Inc.	41,036	33,150	18,462
Less: Preferred stock dividends	—	—	633
Net income available to common shareholders	\$ 41,036	\$ 33,150	\$ 17,829
Earnings per common share:			
Basic	\$ 4.26	\$ 3.51	\$ 2.49
Diluted	\$ 4.12	\$ 3.33	\$ 2.37
Weighted average common shares outstanding:			
Basic	9,640,258	9,439,951	7,158,367
Diluted	9,956,353	9,958,160	7,513,971

See Accompanying Notes to Consolidated Financial Statements.

NICOLET BANKSHARES, INC.

Consolidated Statements of Comprehensive Income

Years Ended December 31,

(In thousands)	2018	2017	2016
Net income	\$ 41,353	\$ 33,433	\$ 18,694
Other comprehensive income (loss), net of tax:			
Unrealized gains (losses) on securities AFS:			
Net unrealized holding gains (losses) arising during the period	(3,715)	2,752	(5,999)
Reclassification adjustment for net (gains) losses included in net income	212	(1,220)	(78)
Income tax (expense) benefit	946	(598)	2,370
Total other comprehensive income (loss), net of tax	(2,557)	934	(3,707)
Comprehensive income	\$ 38,796	\$ 34,367	\$ 14,987

See Accompanying Notes to Consolidated Financial Statements.

NICOLET BANKSHARES, INC.
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2018, 2017 and 2016

(In thousands)	Nicolet Bankshares, Inc. Stockholders' Equity						Non-controlling Interest	Total
	Preferred Equity	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)			
Balance, December 31, 2015	\$ 12,200	\$ 42	\$ 45,220	\$ 51,059	\$ 980	\$ 186	\$	109,687
Comprehensive income:								
Net income	—	—	—	18,462	—	232		18,694
Other comprehensive loss	—	—	—	—	(3,707)	—		(3,707)
Stock-based compensation expense	—	—	1,608	—	—	—		1,608
Exercise of stock options, net, including income tax benefit of \$335	—	—	1,760	—	—	—		1,760
Issuance of common stock in acquisitions, net of capitalized issuance costs of \$260	—	44	164,991	—	—	—		165,035
Equity awards assumed in acquisition	—	—	1,182	—	—	—		1,182
Issuance of common stock	—	1	139	—	—	—		140
Purchase and retirement of common stock	—	(1)	(5,200)	—	—	—		(5,201)
Redemption of preferred stock	(12,200)	—	—	—	—	—		(12,200)
Preferred stock dividends	—	—	—	(633)	—	—		(633)
Balance, December 31, 2016	\$ —	\$ 86	\$ 209,700	\$ 68,888	\$ (2,727)	\$ 418	\$	276,365
Comprehensive income:								
Net income	—	—	—	33,150	—	283		33,433
Other comprehensive income	—	—	—	—	934	—		934
Stock-based compensation expense	—	—	3,064	—	—	—		3,064
Exercise of stock options, net	—	2	3,799	—	—	—		3,801
Issuance of common stock in acquisitions, net of capitalized issuance costs of \$186	—	13	62,047	—	—	—		62,060
Issuance of common stock	—	—	229	—	—	—		229
Purchase and retirement of common stock	—	(3)	(15,004)	—	—	—		(15,007)
Reclassification of stranded tax effects in accumulated other comprehensive income	—	—	—	353	(353)	—		—
Balance, December 31, 2017	\$ —	\$ 98	\$ 263,835	\$ 102,391	\$ (2,146)	\$ 701	\$	364,879
Comprehensive income:								
Net income	—	—	—	41,036	—	317		41,353
Other comprehensive loss	—	—	—	—	(2,557)	—		(2,557)
Stock-based compensation expense	—	—	4,901	—	—	—		4,901
Exercise of stock options, net	—	1	1,517	—	—	—		1,518
Issuance of common stock	—	—	282	—	—	—		282
Purchase and retirement of common stock	—	(4)	(22,745)	—	—	—		(22,749)
Distribution to noncontrolling interest	—	—	—	—	—	(275)		(275)
Adoption of ASU 2016-01 (See Notes 1 and 3)	—	—	—	937	(937)	—		—
Balance, December 31, 2018	\$ —	\$ 95	\$ 247,790	\$ 144,364	\$ (5,640)	\$ 743	\$	387,352

See Accompanying Notes to Consolidated Financial Statements.

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NICOLET BANKSHARES, INC.
Consolidated Statements of Cash Flows

Years Ended December 31,

(In thousands)	2018	2017	2016
Cash Flows From Operating Activities:			
Net income	\$ 41,353	\$ 33,433	\$ 18,694
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion	6,282	7,067	5,132
Provision for loan losses	1,600	2,325	1,800
Provision for deferred taxes	(1,521)	6,962	2,966
Increase in cash surrender value of life insurance	(1,857)	(1,778)	(1,284)
Stock-based compensation expense	4,901	3,064	1,608
Assets (gains) losses, net	(1,169)	(2,029)	(54)
Gain on sale of loans held for sale, net	(5,499)	(4,777)	(5,248)
Proceeds from sale of loans held for sale	241,739	222,879	255,704
Origination of loans held for sale	(234,416)	(219,696)	(252,771)
Net change in accrued interest receivable and other assets	(666)	(5,360)	301
Net change in accrued interest payable and other liabilities	242	(1,377)	(2,042)
Net cash provided by operating activities	50,989	40,713	24,806
Cash Flows From Investing Activities:			
Net decrease in certificates of deposit in other banks	753	2,238	1,432
Purchases of securities AFS	(76,564)	(63,117)	(82,448)
Proceeds from sales of securities AFS	5,280	10,798	31,442
Proceeds from calls and maturities of securities AFS	66,706	47,569	35,641
Net (increase) decrease in loans	(71,629)	(160,624)	2,805
Purchases of other investments	(1,550)	(3,320)	(3,447)
Proceeds from sales of other investments	807	6,678	—
Net increases in premises and equipment	(4,260)	(2,018)	(4,048)
Proceeds from sales of other real estate and other assets	2,824	1,724	1,999
Purchase of BOLI	—	—	(20,000)
Proceeds from redemption of BOLI	561	—	21,549
Net cash received in business combinations	—	9,119	66,517
Net cash provided by (used in) investing activities	(77,072)	(150,953)	51,442
Cash Flows From Financing Activities:			
Net increase in deposits	143,153	126,782	91,236
Net decrease in short-term borrowings	—	—	(49,087)
Proceeds from long-term borrowings	—	30,000	—
Repayments of long-term borrowings	(1,253)	(9,549)	(56,519)
Distribution to noncontrolling interest	(275)	—	—
Capitalized issuance costs, net	—	(186)	(260)
Purchase and retirement of common stock	(22,749)	(15,007)	(5,201)
Proceeds from issuance of common stock, net	1,800	4,030	1,900
Redemption of preferred stock	—	—	(12,200)
Cash dividends paid on preferred stock	—	—	(633)
Net cash provided by (used in) financing activities	120,676	136,070	(30,764)
Net increase in cash and cash equivalents	94,593	25,830	45,484
Beginning cash and cash equivalents	154,933	129,103	83,619
Ending cash and cash equivalents *	\$ 249,526	\$ 154,933	\$ 129,103
Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest	\$ 18,537	\$ 10,932	\$ 7,508
Cash paid for taxes	10,821	12,789	7,150
Transfer of loans and bank premises to other real estate owned	607	828	237
Capitalized mortgage servicing rights	1,203	876	1,023
Transfer of loans from held for sale to held for investment	—	3,236	—
Acquisitions:			

Fair value of assets acquired	\$	—	\$	439,000	\$	1,039,000
Fair value of liabilities assumed		—		398,000		939,000
Net assets acquired	\$	—	\$	41,000	\$	100,000
Common stock issued in acquisitions		—		62,246		165,295

* Cash and cash equivalents include restricted cash of \$6.3 million and \$5.4 million at December 31, 2018 and 2017 , respectively, for the reserve balance required with the Federal Reserve Bank. There was no reserve balance required at December 31, 2016.

See Accompanying Notes to Consolidated Financial Statements.

NICOLET BANKSHARES, INC.
Notes to Consolidated Financial Statements

NOTE 1 . NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Banking Activities and Subsidiaries : Nicolet Bankshares, Inc. (the “Company” or “Nicolet”) was incorporated on April 5, 2000, to serve as the holding company and sole shareholder of Nicolet National Bank (the “Bank”). The Bank opened for business on November 1, 2000. Since its opening in late 2000, Nicolet has supplemented its organic growth with branch purchase and acquisition transactions. See Note 2 for additional information on the Company’s recent acquisitions.

The Company is part of a joint venture, Nicolet Joint Ventures, LLC (the “JV”), with a real estate development and investment firm (the “Firm”) established to develop and own the Company’s headquarters facility. The Firm is considered a related party, as one of its principals is a Board member and shareholder of the Company. The JV involves a 50% ownership by the Company. See Note 15 for additional related party disclosures.

The Company also owns Brookfield Investment Partners, LLC (“Brookfield Investments”), an investment advisory firm that provides investment strategy and transactional services to financial institutions. During late 2016, the Company formed Nicolet Advisory Services, LLC (“Nicolet Advisory”), a wholly owned registered investment advisor subsidiary to provide brokerage and investment advisory services to customers.

Through its acquisition of Baylake in 2016, the Bank owns a 49.8% indirect interest in United Financial Services, LLC, a data processing service and e-banking entity, through its 99.2% ownership of United Financial Services, Inc. (collectively referred to as “UFS”). The investment in UFS is carried in other assets under the equity method of accounting. The Bank’s pro rata share of UFS income is included in other noninterest income, and was \$1.8 million and \$1.3 million for the years ended December 31, 2018 and 2017 , respectively. Amounts paid to UFS for data processing services by the Bank were \$2.8 million and \$2.6 million in 2018 and 2017 , respectively. The carrying value of the Bank’s investment in UFS was \$11.5 million and \$9.7 million at December 31, 2018 and 2017 , respectively.

Principles of Consolidation : The consolidated financial statements of the Company include the accounts of the Bank, Brookfield Investments, Nicolet Advisory and the JV. The JV underlies the noncontrolling interest reflected in the consolidated financial statements. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and conform to general practices within the banking industry. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements. Results of operations of companies purchased, if any, are included from the date of acquisition.

Operating Segment: The consolidated income of the Company is derived principally from the Bank, which conducts lending (primarily commercial-based loans, as well as residential and consumer loans) and deposit gathering (including other banking- and deposit-related products and services, such as ATMs, safe deposit boxes, check-cashing, wires, and debit cards) to businesses, consumers and governmental units principally in its trade area of northeastern and central Wisconsin, and Menominee, Michigan, trust services, brokerage services (delivered through the Bank and Nicolet Advisory), and the support to deliver, fund and manage all such banking and wealth management services to its customer base. The contribution of the JV, Brookfield Investments and Nicolet Advisory were not significant to the consolidated balance sheet or net income for 2018 , 2017 , or 2016 . While the chief operating decision makers monitor the revenue streams of the various products and services, and evaluate costs, balance sheet positions and quality, all such products, services and activities are directly or indirectly related to the business of community banking, with no regular, formal or material segment delineations. Operations are managed and financial performance is evaluated on a company-wide basis, and accordingly, all the financial service operations are considered by management to be aggregated in one reportable operating segment.

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

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in applicable banking or tax regulations, and changes to deferred tax estimates. Actual results may ultimately differ from estimates, although management does not generally believe such differences would materially affect the consolidated financial statements in any individual reporting period presented.

Business Combinations: The Company accounts for business combinations under the acquisition method of accounting in accordance with Accounting Standards Codification (“ASC”) 805, *Business Combinations* (“ASC 805”). The Company recognizes the full fair value of the assets acquired and liabilities assumed and immediately expenses transaction costs. There is no separate recognition of the acquired allowance for loan losses on the acquirer’s balance sheet as credit related factors are incorporated directly into the fair value of the net tangible and intangible assets acquired. If the amount of consideration exceeds the fair value of assets purchased less the fair value of liabilities assumed, goodwill is recorded. Alternatively, if the amount by which the fair value of assets purchased exceeds the fair value of liabilities assumed and consideration paid, a gain (“bargain purchase gain”) is recorded. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Results of operations of the acquired business are included in the statements of income from the effective date of the acquisition. Additional information regarding recent acquisitions is provided in Note 2 .

Cash and Cash Equivalents : For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks, interest-earning deposits in other banks with original maturities of less than 90 days, if any, and federal funds sold. The Bank maintains amounts in due from banks which, at times, may exceed federally insured limits. Management monitors these correspondent relationships. The Bank has not experienced any losses in such accounts. The Bank may have restrictions on cash and due from banks as it is required to maintain certain vault cash and reserve balances with the Federal Reserve Bank to meet specific reserve requirements. At December 31, 2018 and 2017 , the reserve balance required with the Federal Reserve Bank approximated \$6.3 million and \$5.4 million , respectively, of which there was sufficient cash to cover the reserve requirement.

Securities Available for Sale : Securities classified as AFS are those securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity, and includes U.S. government agency securities; state, county and municipal securities; mortgage-backed securities; and corporate debt securities. Effective January 1, 2018, the Company adopted a new accounting standard, which requires equity securities with readily determinable fair values to be measured at fair value with changes in the fair value recognized through net income (see Recent Accounting Pronouncements Adopted within Note 1 for the impact of this new accounting guidance). Such securities are no longer reflected as securities AFS, and are now reflected within other investments on the consolidated balance sheets. Prior periods have not been restated for the impact of this accounting change. Thus, at December 31, 2018, the current fair value of \$2.7 million for equity securities is included in other investments while at December 31, 2017, the fair value of \$2.6 million for equity securities was reflected in securities AFS.

Any decision to sell a security classified as AFS would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company’s assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities classified as AFS are carried at fair value, with unrealized gains or losses, net of related deferred income taxes, reported as increases or decreases in accumulated other comprehensive income. Realized gains or losses on sales of securities AFS (using the specific identification method) and declines in value judged to be other-than-temporary are included in the consolidated statements of income under asset gains (losses), net. Premiums and discounts are amortized or accreted into interest income over the life of the related securities using the effective interest method. See Note 3 for additional disclosures on AFS securities.

Management evaluates securities for other-than-temporary impairment on at least an annual basis. A decline in the market value of any investment below amortized cost that is deemed other-than-temporary is charged to earnings for the decline in value deemed to be credit related and a new cost basis in the security is established. The decline in value attributed to non-credit related factors considered temporary in nature is recognized in other comprehensive income. In evaluating other-than-temporary impairment, management considers the length of time and extent to which the fair value has been less than cost, and the financial condition and near-term prospects of the issuer for a period sufficient to allow for any anticipated recovery in fair value in the near term.

Other Investments : Other investments includes equity securities with readily determinable fair values, "restricted" equity securities, and private company securities. As noted under Securities Available for Sale above, at December 31, 2018, other investments includes \$2.7 million of equity securities with readily determinable fair values. As a member of the Federal Reserve Bank System, Federal Agricultural Mortgage Corporation, and the Federal Home Loan Bank (“FHLB”) System, the Bank is required to maintain an investment in the capital stock of these entities. These equity securities are “restricted” in that they can only be sold back to the respective institutions or another member institution at par. Therefore, they are less liquid than other exchange traded equity

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securities. As no ready market exists for these stocks, and they have no quoted market value, these investments are carried at cost. Also included are investments in other private companies that do not have quoted market prices, which are carried at cost less other-than-temporary impairment charges, if any. Management's evaluation of these other investments for impairment includes consideration of the financial condition and other available relevant information of the issuer.

Loans Held for Sale: Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value as determined on an aggregate basis and generally consist of current production of certain fixed-rate residential first mortgages. The amount by which cost exceeds market value is recorded as a valuation allowance and charged to earnings. Changes, if any, in the valuation allowance are also included in earnings in the period in which the change occurs. As of December 31, 2018 and 2017, no valuation allowance was necessary. Loans held for sale may be sold servicing retained or servicing released, and are generally sold without recourse. The carrying value of mortgage loans sold with servicing retained is reduced by the amount allocated to the servicing right at the time of sale. Gains and losses on sales of mortgage loans held for sale are included in earnings in mortgage income, net.

Loans and Allowance for Loan Losses ("ALLL") – Originated Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are carried at their principal amount outstanding, net of deferred loan fees and costs. Interest income is accrued on the unpaid principal balance using the simple interest method. The accrual of interest income on loans is discontinued when, in the opinion of management, there is reasonable doubt as to the borrower's ability to meet payment of interest or principal when due. Loans are generally placed on nonaccrual status when contractually past due 90 days or more as to interest or principal, though may be placed in such status earlier based on the circumstances. Loans past due 90 days or more may continue on accrual only when they are well secured and/or in process of collection or renewal. When interest accrual is discontinued, all previously accrued but uncollected interest is reversed against current period interest income. Except in very limited circumstances, cash collections on nonaccrual loans are credited to the loan receivable balance and no interest income is recognized on those loans until the principal balance is paid in full. Accrual of interest may be resumed when the customer is current on all principal and interest payments and has been paying on a timely basis for a sustained period of time. See Note 4 for additional information and disclosures on originated loans.

Management considers a loan to be impaired when it is probable the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. For determining the appropriateness of the ALLL, management defines impaired loans as nonaccrual credit relationships over \$250,000, all loans determined to be troubled debt restructurings, plus additional loans with impairment risk characteristics. At the time an individual loan goes into nonaccrual status, management evaluates the loan for impairment and possible charge-off regardless of loan size. Typically, impairment amounts for loans under the scope criteria are charged off when the impairment amount is determined.

The ALLL represents management's estimate of probable and inherent credit losses in the Company's loan portfolio at the balance sheet date. In general, estimating the amount of the ALLL is a function of a number of factors, including but not limited to changes in the loan portfolio, net charge-offs, trends in past due and impaired loans, and the level of potential problem loans, all of which may be susceptible to significant change. Actual credit losses, net of recoveries, are deducted from the ALLL. Loans are charged off when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the ALLL. A provision for loan losses, which is a charge against income, is recorded to bring the ALLL to a level that, in management's judgment, is appropriate to absorb probable losses in the loan portfolio.

The allocation methodology applied by the Company is designed to assess the overall appropriateness of the ALLL and includes allocations for specifically identified impaired loans and loss factors for all remaining loans, with a component primarily based on historical loss rates and another component primarily based on other qualitative factors. Impaired loans are individually assessed and are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

Loans that are determined not to be impaired are collectively evaluated for impairment, stratified by type and allocated loss ranges based on the Company's actual historical loss ratios for each strata, and adjustments are also provided for certain current environmental and qualitative factors. An internal loan review function rates loans using a grading system based on nine different categories. Loans with grades of seven or higher ("classified loans") represent loans with a greater risk of loss and may be assigned allocations for loss based on specific review of the weaknesses observed in the individual credits if classified as impaired. Classified loans are constantly monitored by the loan review function to ensure early identification of any deterioration.

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Allocations to the ALLL may be made for specific loans but the entire ALLL is available for any loan that, in management's judgment, should be charged-off or for which an actual loss is realized. The allowance analysis is reviewed by the Board on a quarterly basis in compliance with internal and regulatory requirements.

Loans and ALLL – Acquired Loans: The loans purchased in acquisition transactions are acquired loans. Acquired loans are recorded at their estimated fair value at the acquisition date, and are initially classified as either purchase credit impaired (“PCI”) loans (i.e., loans that reflect credit deterioration since origination and it is probable at acquisition that the Company will be unable to collect all contractually required payments) or purchased non-impaired loans (i.e., “performing acquired loans”). See Note 4 for additional information and disclosures on acquired loans.

PCI loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, found in Financial Accounting Standards Board (“FASB”) ASC Topic 310-30, *Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality*. The Company estimates the amount and timing of expected principal, interest and other cash flows for each loan or pool of loans meeting the criteria above, and determines the excess of the loan's scheduled contractual principal and contractual interest payments over all cash flows expected to be collected at acquisition as an amount that should not be accreted. These credit discounts (“nonaccretable marks”) are included in the determination of the initial fair value for acquired loans; therefore, an allowance for loan losses is not recorded at the acquisition date. Differences between the estimated fair values and expected cash flows of acquired loans at the acquisition date that are not credit-based (“accretable marks”) are subsequently accreted to interest income over the estimated life of the loans using a method that approximates a level yield if the timing and amount of the future cash flows is reasonably estimable. Subsequent to the acquisition date for PCI loans, increases in cash flows over those expected at the acquisition date result in a move of the discount from nonaccretable to accretable. Decreases in expected cash flows after the acquisition date are recognized through the provision for loan losses. All fair value discounts initially recorded on PCI loans were deemed to be credit related.

Performing acquired loans are accounted for under FASB ASC Topic 310-20, *Receivables—Nonrefundable Fees and Other Costs*. Performance of certain loans may be monitored, and based on management's assessment of the cash flows and other facts available, portions of the accretable difference may be delayed or suspended if management deems appropriate. The Company's policy for determining when to discontinue accruing interest on performing acquired loans and the subsequent accounting for such loans is essentially the same as the policy for originated loans described above.

An ALLL is calculated using a methodology similar to that described for originated loans. Performing acquired loans are subsequently evaluated for any required allowance at each reporting date. Such required allowance for each loan pool is compared to the remaining fair value discount for that pool. If greater, the excess is recognized as an addition to the allowance through a provision for loan losses charge. If less than the discount, no additional allowance is recorded. Charge-offs and losses first reduce any remaining fair value discount for the loan pool and once the discount is depleted, losses are applied against the allowance established for that pool.

For PCI loans after acquisition, cash flows expected to be collected are recast for each loan periodically as determined appropriate by management. If the present value of expected cash flows for a loan is less than its carrying value, impairment is reflected by an increase in the ALLL and a charge to the provision for loan losses. If the present value of the expected cash flows for a loan is greater than its carrying value, any previously established ALLL is reversed and any remaining difference increases the accretable yield which will be taken into income over the remaining life of the loan. Loans which were considered troubled debt restructurings prior to the acquisition transaction are not required to be classified as troubled debt restructurings in the Company's consolidated financial statements unless or until such loans would subsequently meet criteria to be classified as such, since acquired loans were recorded at their estimated fair values at the time of the acquisition.

Credit-Related Financial Instruments: In the ordinary course of business the Company has entered into financial instruments consisting of commitments to extend credit, financial standby letters of credit, and performance standby letters of credit. Financial standby letters of credit are issued specifically to facilitate commerce and typically result in the commitment being drawn on when the underlying transaction is consummated between the customer and the third party, while performance standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party. Such financial instruments are recorded in the consolidated financial statements when they are funded. See Note 14 for additional information and disclosures on credit-related financial instruments.

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

Premises and Equipment : Premises and equipment are stated at cost less accumulated depreciation and amortization. Premises and equipment from acquisitions were recorded at estimated fair value on the respective dates of acquisition. Depreciation is computed on straight-line and accelerated methods over the estimated useful lives of the related assets. Leasehold improvements are amortized on the straight-line method over the shorter of the estimated useful lives of the improvements or the terms of the related leases. Maintenance and repairs are expensed as incurred. See Note 5 for additional information on premises and equipment.

Estimated useful lives of new premises and equipment generally range as follows:

Building and improvements	25 – 40 years
Leasehold improvements	5 – 15 years
Furniture and equipment	3 – 10 years

Other Real Estate Owned (“OREO”) : OREO acquired through partial or total satisfaction of loans or bank facilities no longer in use are carried at fair value less estimated costs to sell. Any write-down in the carrying value of loans or vacated bank premises at the time of transfer to OREO is charged to the ALLL or to write-down of assets, respectively. OREO properties acquired in conjunction with the acquisition transactions were recorded at fair value on the date of acquisition. Any subsequent write-downs to reflect current fair value, as well as gains or losses on disposition and revenues and expenses incurred to hold and maintain such properties, are treated as period costs. See Note 7 for additional information on OREO.

Goodwill and Other Intangibles : Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired. Goodwill is not amortized but is subject to impairment tests on at least an annual basis. Other intangibles include core deposit intangibles (which represent the value of acquired customer core deposit bases) and customer list intangibles. The core deposit intangibles have an estimated finite life, are amortized on an accelerated basis over a 10 -year period, and are subject to periodic impairment evaluation. The customer list intangibles have finite lives and are amortized on a straight-line basis to expense over their initial weighted average life of approximately 12 years as of acquisition. See Note 6 for additional information on goodwill and other intangibles.

Management periodically reviews the carrying value of its intangible assets to determine if any impairment has occurred, in which case an impairment charge would be recorded as an expense in the period of impairment, or whether changes in circumstances have occurred that would require a revision to the remaining useful life which would impact expense prospectively. In making such determination, management evaluates whether there are any adverse qualitative factors indicating that an impairment may exist, as well as the performance, on an undiscounted basis, of the underlying operations or assets which give rise to the intangible. The Company’s annual assessments indicated no impairment charge on goodwill or other intangibles was required for 2018 or 2017 .

Mortgage Servicing Rights (“MSRs”) : If the Company sells originated residential mortgages into the secondary market and retains the right to service the loans sold, then a mortgage servicing right asset (liability) is capitalized upon sale with the offsetting effect recorded as a gain (loss) on sale of loans in earnings (included in mortgage income, net), representing the then-current estimated fair value of future net cash flows expected to be realized for performing the servicing activities. MSRs when purchased (including MSRs purchased in acquisitions) are initially recorded at their then-estimated fair value. As the Company has not elected to measure any class of servicing assets under the fair value method, the Company utilizes the amortization method. MSRs are amortized in proportion to and over the period of estimated net servicing income, with the amortization charged to earnings (included in mortgage income, net). MSRs are carried at the lower of initial capitalized amount, net of accumulated amortization, or estimated fair value, and are included in other assets in the consolidated balance sheets. Loan servicing fee income for servicing loans is typically based on a contractual percentage of the outstanding principal and is recorded as income when earned (included in mortgage income, net with less material late fees and ancillary fees related to loan servicing).

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The Company periodically evaluates its MSRs for impairment. At each reporting date impairment is assessed based on estimated fair value using estimated prepayment speeds of the underlying mortgage loans serviced and stratifications based on the risk characteristics of the underlying loans (predominantly loan type and note interest rate). The value of MSRs is adversely affected when mortgage interest rates decline and mortgage loan prepayments increase. A valuation allowance is established through a charge to earnings (included in mortgage income, net) to the extent the amortized cost of the MSRs exceeds the estimated fair value by stratification. If it is later determined that all or a portion of the temporary impairment no longer exists for a stratification, the valuation is reduced through a recovery to earnings, though not beyond the net amortized cost carried. An other-than-temporary impairment (i.e., recoverability is considered remote when considering interest rates and loan payoff activity) is recognized as a write-down of the MSRs and the related valuation allowance (to the extent a valuation allowance is available) and then against earnings. A direct write-down permanently reduces the carrying value of the MSRs and valuation allowance, precluding subsequent recoveries. No valuation allowance or impairment charge was recorded for 2018 or 2017. See Note 6 for additional information on MSRs.

Bank-owned Life Insurance (“BOLI”): The Company owns BOLI on certain executives and employees. BOLI balances are recorded at their cash surrender values. Changes in the cash surrender values and death proceeds exceeding carrying values are included in noninterest income.

Short-term Borrowings : Short-term borrowings consist primarily of overnight Federal funds purchased and securities sold under agreements to repurchase (“repos”), or other short-term borrowing arrangements with an original maturity of one year or less. Repos are with commercial deposit customers, and are treated as financing activities carried at the amounts that will be subsequently repurchased as specified in the respective agreements. Repos generally mature within one to four days from the transaction date. The Company may be required to provide additional collateral based on the fair value of the underlying securities. There were no outstanding agreements at December 31, 2018 or 2017 and there were no repurchase agreements transacted during 2018 or 2017.

Stock-based Compensation Plans: Share-based payments to employees, including grants of restricted stock or stock options, are valued at fair value of the award on the date of grant and expensed on a straight-line basis as compensation expense over the applicable vesting period. A Black-Scholes model is utilized to estimate the fair value of stock options and the market price of the Company’s stock at the date of grant is used to estimate the fair value of restricted stock awards. See Note 11 for additional information on stock-based compensation.

Income Taxes : The Company files a consolidated federal income tax return and a combined state income tax return (both of which include the Company and its wholly owned subsidiaries). Accordingly, amounts equal to tax benefits of those companies having taxable federal losses or credits are reimbursed by the companies that incur federal tax liabilities.

Amounts provided for income tax expense are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable under tax laws. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax rates applicable to the periods in which the differences are expected to affect taxable income. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through income tax expense. Valuation allowances are established when it is more likely than not that a portion of the full amount of the deferred tax asset will not be realized. In assessing the ability to realize deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies.

At acquisition, deferred taxes were evaluated in respect to the acquired assets and assumed liabilities (including the acquired net operating losses), and a net deferred tax asset was recorded. Certain limitations within the provisions of the tax code are placed on the amount of net operating losses which can be utilized as part of acquisition accounting rules and were incorporated into the calculation of the deferred tax asset. In addition, a portion of the fair market value discounts on PCI loans which resolved in the first twelve months after the acquisition were disallowed under provisions of the tax code.

The Company may also recognize a liability for unrecognized tax benefits from uncertainty in income tax positions. Unrecognized tax benefits represent the differences between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured in the consolidated financial statements. At December 31, 2018, the Company determined it had no significant uncertainty in income tax positions. Interest and penalties related to unrecognized tax benefits are classified as income tax expense. See Note 13 for additional information on income taxes.

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Earnings per Common Share: Basic earnings per common share are calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share are calculated by dividing net income available to common shareholders by the weighted average number of common shares adjusted for the dilutive effect of outstanding common stock awards, if any. See Note 20 for additional information on earnings per common share.

Treasury Stock: Treasury stock is accounted for at cost on a first-in-first-out basis. It is the Company's general practice to cancel treasury stock shares in the same quarter as purchased, and thus, not carry a treasury stock balance.

Comprehensive Income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities AFS, bypass the statement of income and instead are reported in accumulated other comprehensive income, as a separate component of the equity section of the balance sheet. Realized gains or losses are reclassified to current period income. Changes in these items, along with net income, are components of comprehensive income. The Company presents comprehensive income in a separate consolidated statement of comprehensive income.

Reclassifications: Certain amounts in the 2017 and 2016 consolidated financial statements have been reclassified to conform to the 2018 presentation.

Recent Accounting Pronouncements Adopted: In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-09, *Compensation – Stock Compensation (Topic 718)*. ASU 2017-09 applies to entities that change the terms or conditions of a share-based payment award to provide clarity and reduce diversity in practice as well as cost and complexity when applying the guidance in Topic 718 to the modification to the terms and conditions of a share-based payment award. The updated guidance was effective for interim and annual reporting periods beginning after December 15, 2017. The Company adopted the updated guidance effective January 1, 2018 with no material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, to clarify the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets versus businesses. The update narrows the definition of a business by adding three principal clarifications: (1) if substantially all the fair value of the gross assets in the asset group is concentrated in either a single identifiable asset or group of similar identifiable assets the transaction does not involve a business, (2) if the asset group does not include a minimum of an input and a substantive process, it does not represent a business, and (3) if the integrated set of activities (including its inputs and processes) does not create, or have the ability to create, goods or services to customers, investment income (e.g., dividends or interest) or other revenue, it is not a business. The overall intention is to provide consistency in applying the guidance and make the definition of a business more operable. This update was effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and should be applied prospectively. The Company adopted the updated guidance effective January 1, 2018 with no material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* to provide guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows to reduce diversity in practice. The amendment requires that a statement of cash flow explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash or restricted cash equivalents should be included in cash and cash equivalents when reconciling the beginning and end of period total amounts shown on the statement of cash flow. This amendment was effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and should be applied retrospectively to each period presented. The Company adopted the updated guidance effective January 1, 2018 with no material impact on its consolidated financial statements. See the consolidated statements of cash flows for additional disclosures related to this ASU.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts* to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide guidance on specific cash flow issues, including: debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned Life Insurance Policies, and distributions received from equity method investees. The amendments were effective for public business entities for fiscal years beginning after

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December 31, 2017, and interim periods within those fiscal years. The Company adopted the updated guidance effective January 1, 2018 with no material impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This amendment supersedes the guidance to classify equity securities with readily determinable fair values into different categories, requires equity securities to be measured at fair value with changes in the fair value recognized through net income, and simplifies the impairment assessment of equity investments without readily determinable fair values. The amendment also requires public business entities that are required to disclose the fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using the exit price notion. The amendment requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements. This amendment was effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Entities were required to apply the amendment by means of a cumulative-effect adjustment as of the beginning of the fiscal year of adoption, with the exception of the amendment related to equity securities without readily determinable fair values, which should be applied prospectively to equity investments that exist as of the date of adoption. The Company adopted the updated guidance effective January 1, 2018 and recognized a cumulative effect adjustment at adoption of approximately \$0.9 million for the after tax impact of the unrealized gain on equity securities. See the consolidated statement of stockholders' equity and Note 3 for additional disclosures related to this ASU.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, with several subsequent updates. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Topic 606 provides a five-step model to apply to revenue recognition, consisting of the following: (1) identify the contract; (2) identify the performance obligation in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations; and (5) recognize revenue when or as the performance obligation is satisfied. The guidance was effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company adopted the updated guidance using the modified retrospective approach effective January 1, 2018, with no material impact on its consolidated financial statements. See Note 21 for the new disclosures related to Topic 606.

NOTE 2 . ACQUISITIONS

Brokerage business acquired:

During the third quarter of 2018, Nicolet purchased a small brokerage book of business from a retiring financial advisor in support of the Company's initiative to expand its wealth management business. As a result of this purchase, the Company recorded a customer list intangible of \$290,000 which will be amortized on a straight-line basis.

First Menasha:

On April 28, 2017, the Company consummated its merger with First Menasha Bancshares, Inc. ("First Menasha") pursuant to the Agreement and Plan of Merger by and between the Company and First Menasha dated November 3, 2016, (the "Merger Agreement"), whereby First Menasha was merged with and into the Company, and The First National Bank-Fox Valley, the wholly owned commercial bank subsidiary of First Menasha serving the Fox Valley area of Wisconsin, was merged with and into the Bank. The system integration was completed, and five branches of First Menasha opened on May 1, 2017, as Nicolet National Bank branches, expanding its presence in Calumet and Winnebago Counties, Wisconsin. The Company closed one of its Calumet County locations concurrently with the First Menasha merger.

The purpose of the merger was to continue Nicolet's interest in strategic growth, consistent with its plan to improve profitability through efficiency, leverage the strengths of each bank across the combined customer base, and add shareholder value. With the merger, Nicolet became the leading community bank to serve the Fox Valley area of Wisconsin.

Pursuant to the Merger Agreement, the final purchase price consisted of issuing 1,309,885 shares of the Company's common stock (given the final stock-for-stock exchange ratio of 3.126 except for First Menasha shares owned by the Company immediately prior to the time of the merger), for common stock consideration of \$62.2 million (based on \$47.52 per share, the volume weighted average closing price of the Company's common stock over the preceding 20 trading day period) plus cash consideration of \$19.3 million. Approximately \$0.2 million in direct stock issuance costs for the merger were incurred and charged against additional paid-in capital.

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Upon consummation, the Company added \$480 million in assets, \$351 million in loans, \$375 million in deposits, \$4 million in core deposit intangible, and \$41 million of goodwill. The Company accounted for the transaction under the acquisition method of accounting, and thus, the financial position and results of operations of First Menasha prior to the consummation date were not included in the accompanying consolidated financial statements. The accounting required assets purchased and liabilities assumed to be recorded at their respective estimated fair values at the date of acquisition. During third quarter 2017, adjustments were made to the initial fair value estimates based on additional information and goodwill increased \$1 million (to \$41 million) to account for the gain in the Company's pre-acquisition equity interest holding in First Menasha, resulting in a \$1.2 million gain in pre-tax earnings.

Financial advisor business acquired:

During the first quarter of 2016, Nicolet agreed in a private transaction to hire a select group of financial advisors and purchase their respective books of business, as well as their operating platform, to enhance the leadership and future growth of the Company's wealth management business. The transaction was effected in phases and completed April 1, 2016. The Company paid \$4.9 million total initial consideration, including \$0.8 million cash, \$2.6 million of Nicolet common stock, and recorded a \$1.5 million earn-out liability payable to one principal in the future. The Company initially recorded \$0.4 million of goodwill, \$0.2 million of fixed assets, and \$4.3 million of customer relationship intangibles (a portion amortizing straight-line over 10 years and a portion over 15 years). During 2017, the previously variable earn-out liability was agreed to be modified to a fixed amount. Therefore, the earn-out liability was adjusted to \$2.4 million , with a corresponding \$0.9 million increase in the customer relationship intangible, being amortized over the original term. The transaction impacts the income statement primarily within brokerage fee income, personnel expense, and intangibles amortization.

Baylake:

On April 29, 2016, the Company consummated its merger with Baylake. The system integration was completed, and 21 branches of Baylake opened, on May 2, 2016, as branches of the Bank, expanding its presence into Door, Kewaunee, and Manitowoc Counties, Wisconsin. The Company closed one of its Brown County locations concurrently with the Baylake merger, and closed an additional six branches in the fourth quarter of 2016.

The purpose of the merger was for strategic reasons beneficial to the Company. The acquisition was consistent with its plan to drive growth and efficiency through increased scale, leverage the strengths of each bank across the combined customer base, enhance profitability, and add liquidity and shareholder value.

Baylake shareholders received 0.4517 shares of the Company's common stock for each outstanding share of Baylake common stock (except for Baylake shares owned by the Company at the time of the merger), and cash in lieu of any fractional share. Pre-existing Baylake equity awards (restricted stock units and stock options) immediately vested upon consummation of the merger. The Company issued 0.4517 shares of its common stock for each vesting Baylake restricted stock unit, and Nicolet assumed, after appropriate adjustment by the 0.4517 exchange ratio, all pre-existing Baylake stock options. As a result, the Company issued 4,344,243 shares of the Company's common stock, for common stock consideration of \$163.3 million (based on \$37.58 per share, the volume weighted average closing price of the Company's common stock over the preceding 20 trading day period) and recorded an additional \$1.2 million consideration for the assumed stock options. Approximately \$0.3 million in direct stock issuance costs for the merger were incurred and charged against additional paid-in capital.

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The Company accounted for the transaction under the acquisition method of accounting, and thus, the financial position and results of operations of Baylake prior to the consummation date were not included in the accompanying consolidated financial statements. The fair value of the assets acquired and liabilities assumed on April 29, 2016 was as follows.

(in millions)	As recorded by Baylake Corp	Fair Value Adjustments	As Recorded by Nicolet
Cash, cash equivalents and securities available for sale	\$ 262	\$ 1	\$ 263
Loans	710	(19)	691
Other real estate owned	3	(2)	1
Core deposit intangible	1	16	17
Fixed assets and other assets	71	(8)	63
Total assets acquired	<u>\$ 1,047</u>	<u>\$ (12)</u>	<u>\$ 1,035</u>
Deposits	\$ 822	\$ —	\$ 822
Junior subordinated debentures, borrowings and other liabilities	116	(1)	115
Total liabilities acquired	<u>\$ 938</u>	<u>\$ (1)</u>	<u>\$ 937</u>
Excess of assets acquired over liabilities acquired	\$ 109	\$ (11)	\$ 98
Less: purchase price			164
Goodwill			<u>\$ 66</u>

The following unaudited pro forma information presents the results of operations for the year ended December 31, 2016, as if the acquisition had occurred January 1 of each period. These unaudited pro forma results are presented for illustrative purposes and are not intended to represent or be indicative of the actual results of operations of the combined company that would have been achieved had the acquisition occurred at the beginning of each period presented, nor are they intended to represent or be indicative of future results of operations.

	Year Ended December 31, 2016
(in thousands, except per share data)	
Total revenues, net of interest expense	\$ 110,788
Net income	23,263
Diluted earnings per share	2.55

NOTE 3 . SECURITIES AVAILABLE FOR SALE

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

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

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(in thousands)	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	\$ 26,586	\$ —	\$ 377	\$ 26,209
State, county and municipals	186,128	180	2,264	184,044
Mortgage-backed securities	157,705	160	2,333	155,532
Corporate debt securities	36,387	449	39	36,797
Equity securities *	1,287	1,284	—	2,571
	<u>\$ 408,093</u>	<u>\$ 2,073</u>	<u>\$ 5,013</u>	<u>\$ 405,153</u>

* Effective January 1, 2018, the Company adopted ASU 2016-01, which requires equity securities with readily determinable fair values to be measured at fair value with changes in the fair value recognized through net income. These equity securities are no longer reflected in securities AFS and are now reflected within other investments. As a result of this accounting change, the Company recognized a cumulative-effect adjustment at adoption from accumulated other comprehensive income to retained earnings of approximately \$0.9 million in the consolidated statements of changes in stockholders' equity for the net of tax impact of the unrealized gain on equity securities as of the date of adoption and recognized a gain of approximately \$77,000 for the year ended December 31, 2018, in the consolidated statements of income for the change in fair value of equity securities since adoption. In addition, the approximately \$2.7 million current fair value of equity securities is now reflected within other investments on the consolidated balance sheets rather than as securities AFS. Prior periods have not been restated for the impact of this accounting change. See Note 1 for additional information on this new accounting standard.

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

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

(in thousands)	December 31, 2017						
	Less than 12 months		12 months or more		Total		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Number of Securities
U.S. government agency securities	\$ 26,209	\$ 377	\$ —	\$ —	\$ 26,209	\$ 377	2
State, county and municipals	110,157	1,097	49,326	1,167	159,483	2,264	465
Mortgage-backed securities	72,210	735	65,537	1,598	137,747	2,333	215
Corporate debt securities	10,172	39	—	—	10,172	39	5
	<u>\$ 218,748</u>	<u>\$ 2,248</u>	<u>\$ 114,863</u>	<u>\$ 2,765</u>	<u>\$ 333,611</u>	<u>\$ 5,013</u>	<u>687</u>

As of December 31, 2018, the Company does not consider its securities AFS with unrealized losses to be other-than-temporarily impaired as the unrealized losses in each category have occurred as a result of changes in interest rates, market spreads, and market conditions subsequent to purchase, not credit deterioration. The Company has the ability and intent to hold its securities to maturity. There were no other-than-temporary impairment charges recognized in earnings on securities AFS during 2018, 2017, or 2016. The Company incurred a \$0.5 million other-than-temporary impairment charge to earnings related to one private company stock carried in other investments in the consolidated balance sheets during 2016 compared to none in 2017 and 2018.

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The amortized cost and fair value of securities AFS by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties; as this is particularly inherent in mortgage-backed securities, these securities are not included in the maturity categories below. See Note 18 for additional information on the Company's fair value measurements.

(in thousands)	December 31, 2018	
	Amortized Cost	Fair Value
Due in less than one year	\$ 17,643	\$ 17,624
Due in one year through five years	168,090	164,969
Due after five years through ten years	80,819	78,904
Due after ten years	6,969	7,003
	<u>273,521</u>	<u>268,500</u>
Mortgage-backed securities	134,350	131,644
Securities AFS	<u>\$ 407,871</u>	<u>\$ 400,144</u>

AFS securities with a carrying value of \$157.2 million and \$140.9 million as of December 31, 2018 and 2017, respectively, were pledged as collateral on public deposits and for other purposes as required or permitted by law.

Proceeds from sales of securities AFS is summarized as follows.

(in thousands)	Years Ended December 31,		
	2018	2017	2016
Gross gains	\$ —	\$ 1,227	\$ 91
Gross losses	(212)	(7)	(13)
Gains (losses) on sales of securities AFS, net	<u>\$ (212)</u>	<u>\$ 1,220</u>	<u>\$ 78</u>
Proceeds from sales of securities AFS	<u>\$ 5,280</u>	<u>\$ 10,798</u>	<u>\$ 31,442</u>

NOTE 4 . LOANS, ALLOWANCE FOR LOAN LOSSES, AND CREDIT QUALITY

The loan composition is summarized as follows.

(in thousands)	December 31, 2018		December 31, 2017	
	Amount	% of Total	Amount	% of Total
Commercial & industrial	\$ 684,920	32%	\$ 637,337	31%
Owner-occupied commercial real estate ("CRE")	441,353	20	430,043	21
Agricultural ("AG") production	35,625	2	35,455	2
AG real estate	53,444	2	51,778	2
CRE investment	343,652	16	314,463	15
Construction & land development	80,599	4	89,660	4
Residential construction	30,926	1	36,995	2
Residential first mortgage	357,841	17	363,352	17
Residential junior mortgage	111,328	5	106,027	5
Retail & other	26,493	1	22,815	1
Loans	<u>2,166,181</u>	<u>100%</u>	<u>2,087,925</u>	<u>100%</u>
Less ALLL	13,153		12,653	
Loans, net	<u>\$ 2,153,028</u>		<u>\$ 2,075,272</u>	
ALLL to loans	<u>0.61%</u>		<u>0.61%</u>	

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

(in thousands)	December 31, 2018				December 31, 2017			
	Originated Amount	% of Total	Acquired Amount	% of Total	Originated Amount	% of Total	Acquired Amount	% of Total
Commercial & industrial	\$ 568,100	38%	\$ 116,820	17%	\$ 488,600	39%	\$ 148,737	17%
Owner-occupied CRE	283,531	19	157,822	23	237,548	19	192,495	23
AG production	11,113	1	24,512	4	11,102	1	24,353	3
AG real estate	31,374	2	22,070	3	27,831	2	23,947	3
CRE investment	171,087	12	172,565	25	113,862	9	200,601	24
Construction & land development	66,478	4	14,121	2	56,061	5	33,599	4
Residential construction	30,926	2	—	—	33,615	3	3,380	—
Residential first mortgage	220,368	15	137,473	20	191,186	15	172,166	20
Residential junior mortgage	78,379	5	32,949	5	65,643	5	40,384	5
Retail & other	23,809	2	2,684	1	18,254	2	4,561	1
Loans	1,485,165	100%	681,016	100%	1,243,702	100%	844,223	100%
Less ALLL	11,448		1,705		10,542		2,111	
Loans, net	<u>\$ 1,473,717</u>		<u>\$ 679,311</u>		<u>\$ 1,233,160</u>		<u>\$ 842,112</u>	
ALLL to loans	<u>0.77%</u>		<u>0.25%</u>		<u>0.85%</u>		<u>0.25%</u>	

Practically all of the Company's loans, commitments, and letters of credit have been granted to customers in the Company's market area. Although the Company has a diversified loan portfolio, the credit risk in the loan portfolio is largely influenced by general economic conditions and trends of the counties and markets in which the debtors operate, and the resulting impact on the operations of borrowers or on the value of underlying collateral, if any. See Note 1 for the Company's accounting policy on loans and the allowance for loan losses.

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

(in thousands)	Years Ended December 31,		
	2018	2017	2016
Beginning balance	\$ 12,653	\$ 11,820	\$ 10,307
Provision for loan losses	1,600	2,325	1,800
Charge-offs	(1,213)	(1,604)	(584)
Recoveries	113	112	297
Net charge-offs	(1,100)	(1,492)	(287)
Ending balance	<u>\$ 13,153</u>	<u>\$ 12,653</u>	<u>\$ 11,820</u>

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The following tables present the balance and activity in the ALLL by portfolio segment and the recorded investment in loans by portfolio segment for the year ended December 31, 2018 .

TOTAL – Year Ended December 31, 2018											
(in thousands)	Commercial & industrial	Owner-occupied CRE	AG production	AG real estate	CRE investment	Construction & land development	Residential construction	Residential first mortgage	Residential junior mortgage	Retail & other	Total
ALLL:											
Beginning balance	\$ 4,934	\$ 2,607	\$ 129	\$ 296	\$ 1,388	\$ 726	\$ 251	\$ 1,609	\$ 488	\$ 225	\$ 12,653
Provision	1,107	300	(8)	5	119	(216)	(40)	117	(51)	267	1,600
Charge-offs	(813)	(74)	—	—	(37)	—	—	(85)	—	(204)	(1,213)
Recoveries	43	14	—	—	—	—	—	5	35	16	113
Net charge-offs	(770)	(60)	—	—	(37)	—	—	(80)	35	(188)	(1,100)
Ending balance	<u>\$ 5,271</u>	<u>\$ 2,847</u>	<u>\$ 121</u>	<u>\$ 301</u>	<u>\$ 1,470</u>	<u>\$ 510</u>	<u>\$ 211</u>	<u>\$ 1,646</u>	<u>\$ 472</u>	<u>\$ 304</u>	<u>\$ 13,153</u>
As % of ALLL	40.1%	21.6%	0.9%	2.3%	11.2%	3.9%	1.6%	12.5%	3.6%	2.3%	100.0%
ALLL:											
Individually evaluated	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively evaluated	<u>5,271</u>	<u>2,847</u>	<u>121</u>	<u>301</u>	<u>1,470</u>	<u>510</u>	<u>211</u>	<u>1,646</u>	<u>472</u>	<u>304</u>	<u>13,153</u>
Ending balance	<u>\$ 5,271</u>	<u>\$ 2,847</u>	<u>\$ 121</u>	<u>\$ 301</u>	<u>\$ 1,470</u>	<u>\$ 510</u>	<u>\$ 211</u>	<u>\$ 1,646</u>	<u>\$ 472</u>	<u>\$ 304</u>	<u>\$ 13,153</u>
Loans:											
Individually evaluated	\$ 2,927	\$ 1,506	\$ —	\$ 222	\$ 1,686	\$ 603	\$ —	\$ 2,750	\$ 233	\$ 12	\$ 9,939
Collectively evaluated	<u>681,993</u>	<u>439,847</u>	<u>35,625</u>	<u>53,222</u>	<u>341,966</u>	<u>79,996</u>	<u>30,926</u>	<u>355,091</u>	<u>111,095</u>	<u>26,481</u>	<u>2,156,242</u>
Total loans	<u>\$ 684,920</u>	<u>\$ 441,353</u>	<u>\$ 35,625</u>	<u>\$ 53,444</u>	<u>\$ 343,652</u>	<u>\$ 80,599</u>	<u>\$ 30,926</u>	<u>\$ 357,841</u>	<u>\$ 111,328</u>	<u>\$ 26,493</u>	<u>\$ 2,166,181</u>
Less ALLL	<u>5,271</u>	<u>2,847</u>	<u>121</u>	<u>301</u>	<u>1,470</u>	<u>510</u>	<u>211</u>	<u>1,646</u>	<u>472</u>	<u>304</u>	<u>13,153</u>
Net loans	<u>\$ 679,649</u>	<u>\$ 438,506</u>	<u>\$ 35,504</u>	<u>\$ 53,143</u>	<u>\$ 342,182</u>	<u>\$ 80,089</u>	<u>\$ 30,715</u>	<u>\$ 356,195</u>	<u>\$ 110,856</u>	<u>\$ 26,189</u>	<u>\$ 2,153,028</u>

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

Originated – Year Ended December 31, 2018											
(in thousands)	Commercial & industrial	Owner-occupied CRE	AG production	AG real estate	CRE investment	Construction & land development	Residential construction	Residential first mortgage	Residential junior mortgage	Retail & other	Total
ALLL:											
Beginning balance	\$ 4,192	\$ 2,115	\$ 112	\$ 235	\$ 1,154	\$ 628	\$ 200	\$ 1,297	\$ 409	\$ 200	\$ 10,542
Provision	1,262	385	(2)	20	113	(197)	11	187	(31)	266	2,014
Charge-offs	(813)	(64)	—	—	(37)	—	—	(85)	—	(201)	(1,200)
Recoveries	42	3	—	—	—	—	—	1	30	16	92
Net charge-offs	(771)	(61)	—	—	(37)	—	—	(84)	30	(185)	(1,108)
Ending balance	<u>\$ 4,683</u>	<u>\$ 2,439</u>	<u>\$ 110</u>	<u>\$ 255</u>	<u>\$ 1,230</u>	<u>\$ 431</u>	<u>\$ 211</u>	<u>\$ 1,400</u>	<u>\$ 408</u>	<u>\$ 281</u>	<u>\$ 11,448</u>
As % of ALLL	40.9%	21.3%	1.0%	2.2%	10.7%	3.8%	1.8%	12.2%	3.6%	2.5%	100.0%
ALLL:											
Individually evaluated	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively evaluated	4,683	2,439	110	255	1,230	431	211	1,400	408	281	11,448
Ending balance	<u>\$ 4,683</u>	<u>\$ 2,439</u>	<u>\$ 110</u>	<u>\$ 255</u>	<u>\$ 1,230</u>	<u>\$ 431</u>	<u>\$ 211</u>	<u>\$ 1,400</u>	<u>\$ 408</u>	<u>\$ 281</u>	<u>\$ 11,448</u>
Loans:											
Individually evaluated	\$ 227	\$ 321	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 548
Collectively evaluated	567,873	283,210	11,113	31,374	171,087	66,478	30,926	220,368	78,379	23,809	1,484,617
Total loans	<u>\$ 568,100</u>	<u>\$ 283,531</u>	<u>\$ 11,113</u>	<u>\$ 31,374</u>	<u>\$ 171,087</u>	<u>\$ 66,478</u>	<u>\$ 30,926</u>	<u>\$ 220,368</u>	<u>\$ 78,379</u>	<u>\$ 23,809</u>	<u>\$ 1,485,165</u>
Less ALLL	4,683	2,439	110	255	1,230	431	211	1,400	408	281	11,448
Net loans	<u>\$ 563,417</u>	<u>\$ 281,092</u>	<u>\$ 11,003</u>	<u>\$ 31,119</u>	<u>\$ 169,857</u>	<u>\$ 66,047</u>	<u>\$ 30,715</u>	<u>\$ 218,968</u>	<u>\$ 77,971</u>	<u>\$ 23,528</u>	<u>\$ 1,473,717</u>
Acquired – Year Ended December 31, 2018											
(in thousands)	Commercial & industrial	Owner-occupied CRE	AG production	AG real estate	CRE investment	Construction & land development	Residential construction	Residential first mortgage	Residential junior mortgage	Retail & other	Total
ALLL:											
Beginning balance	\$ 742	\$ 492	\$ 17	\$ 61	\$ 234	\$ 98	\$ 51	\$ 312	\$ 79	\$ 25	\$ 2,111
Provision	(155)	(85)	(6)	(15)	6	(19)	(51)	(70)	(20)	1	(414)
Charge-offs	—	(10)	—	—	—	—	—	—	—	(3)	(13)
Recoveries	1	11	—	—	—	—	—	4	5	—	21
Net charge-offs	1	1	—	—	—	—	—	4	5	(3)	8
Ending balance	<u>\$ 588</u>	<u>\$ 408</u>	<u>\$ 11</u>	<u>\$ 46</u>	<u>\$ 240</u>	<u>\$ 79</u>	<u>\$ —</u>	<u>\$ 246</u>	<u>\$ 64</u>	<u>\$ 23</u>	<u>\$ 1,705</u>
As % of ALLL	34.5%	23.9%	0.6%	2.7%	14.1%	4.6%	—%	14.4%	3.8%	1.4%	100.0%
ALLL:											
Individually evaluated	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively evaluated	588	408	11	46	240	79	—	246	64	23	1,705
Ending balance	<u>\$ 588</u>	<u>\$ 408</u>	<u>\$ 11</u>	<u>\$ 46</u>	<u>\$ 240</u>	<u>\$ 79</u>	<u>\$ —</u>	<u>\$ 246</u>	<u>\$ 64</u>	<u>\$ 23</u>	<u>\$ 1,705</u>
Loans:											
Individually evaluated	\$ 2,700	\$ 1,185	\$ —	\$ 222	\$ 1,686	\$ 603	\$ —	\$ 2,750	\$ 233	\$ 12	\$ 9,391
Collectively evaluated	114,120	156,637	24,512	21,848	170,879	13,518	—	134,723	32,716	2,672	671,625
Total loans	<u>\$ 116,820</u>	<u>\$ 157,822</u>	<u>\$ 24,512</u>	<u>\$ 22,070</u>	<u>\$ 172,565</u>	<u>\$ 14,121</u>	<u>\$ —</u>	<u>\$ 137,473</u>	<u>\$ 32,949</u>	<u>\$ 2,684</u>	<u>\$ 681,016</u>
Less ALLL	588	408	11	46	240	79	—	246	64	23	1,705
Net loans	<u>\$ 116,232</u>	<u>\$ 157,414</u>	<u>\$ 24,501</u>	<u>\$ 22,024</u>	<u>\$ 172,325</u>	<u>\$ 14,042</u>	<u>\$ —</u>	<u>\$ 137,227</u>	<u>\$ 32,885</u>	<u>\$ 2,661</u>	<u>\$ 679,311</u>

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For comparison, the following tables present the balance and activity in the ALLL by portfolio segment and the recorded investment in loans by portfolio segment for the year ended December 31, 2017.

TOTAL – Year Ended December 31, 2017											
(in thousands)	Commercial & industrial	Owner-occupied CRE	AG production	AG real estate	CRE investment	Construction & land development	Residential construction	Residential first mortgage	Residential junior mortgage	Retail & other	Total
ALLL:											
Beginning balance	\$ 3,919	\$ 2,867	\$ 150	\$ 285	\$ 1,124	\$ 774	\$ 304	\$ 1,784	\$ 461	\$ 152	\$ 11,820
Provision	2,419	(290)	(21)	11	263	(35)	(53)	(192)	96	127	2,325
Charge-offs	(1,442)	—	—	—	—	(13)	—	(8)	(72)	(69)	(1,604)
Recoveries	38	30	—	—	1	—	—	25	3	15	112
Net charge-offs	(1,404)	30	—	—	1	(13)	—	17	(69)	(54)	(1,492)
Ending balance	<u>\$ 4,934</u>	<u>\$ 2,607</u>	<u>\$ 129</u>	<u>\$ 296</u>	<u>\$ 1,388</u>	<u>\$ 726</u>	<u>\$ 251</u>	<u>\$ 1,609</u>	<u>\$ 488</u>	<u>\$ 225</u>	<u>\$ 12,653</u>
As % of ALLL	39.0%	20.6%	1.0%	2.3%	11.0%	5.7%	2.0%	12.7%	3.9%	1.8%	100.0%
ALLL:											
Individually evaluated	\$ 163	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 163
Collectively evaluated	4,771	2,607	129	296	1,388	726	251	1,609	488	225	12,490
Ending balance	<u>\$ 4,934</u>	<u>\$ 2,607</u>	<u>\$ 129</u>	<u>\$ 296</u>	<u>\$ 1,388</u>	<u>\$ 726</u>	<u>\$ 251</u>	<u>\$ 1,609</u>	<u>\$ 488</u>	<u>\$ 225</u>	<u>\$ 12,653</u>
Loans:											
Individually evaluated	\$ 5,870	\$ 1,689	\$ —	\$ 248	\$ 5,290	\$ 1,053	\$ 80	\$ 2,801	\$ 178	\$ 12	\$ 17,221
Collectively evaluated	631,467	428,354	35,455	51,530	309,173	88,607	36,915	360,551	105,849	22,803	2,070,704
Total loans	<u>\$ 637,337</u>	<u>\$ 430,043</u>	<u>\$ 35,455</u>	<u>\$ 51,778</u>	<u>\$ 314,463</u>	<u>\$ 89,660</u>	<u>\$ 36,995</u>	<u>\$ 363,352</u>	<u>\$ 106,027</u>	<u>\$ 22,815</u>	<u>\$ 2,087,925</u>
Less ALLL	4,934	2,607	129	296	1,388	726	251	1,609	488	225	12,653
Net loans	<u>\$ 632,403</u>	<u>\$ 427,436</u>	<u>\$ 35,326</u>	<u>\$ 51,482</u>	<u>\$ 313,075</u>	<u>\$ 88,934</u>	<u>\$ 36,744</u>	<u>\$ 361,743</u>	<u>\$ 105,539</u>	<u>\$ 22,590</u>	<u>\$ 2,075,272</u>

As a further breakdown, the December 31, 2017 ALLL is summarized by originated and acquired as follows.

Originated – Year Ended December 31, 2017											
(in thousands)	Commercial & industrial	Owner-occupied CRE	AG production	AG real estate	CRE investment	Construction & land development	Residential construction	Residential first mortgage	Residential junior mortgage	Retail & other	Total
ALLL:											
Beginning balance	\$ 3,150	\$ 2,263	\$ 122	\$ 222	\$ 893	\$ 656	\$ 266	\$ 1,372	\$ 373	\$ 132	\$ 9,449
Provision	2,429	(172)	(10)	13	261	(28)	(66)	(69)	105	122	2,585
Charge-offs	(1,388)	—	—	—	—	—	—	(8)	(72)	(69)	(1,537)
Recoveries	1	24	—	—	—	—	—	2	3	15	45
Net charge-offs	(1,387)	24	—	—	—	—	—	(6)	(69)	(54)	(1,492)
Ending balance	<u>\$ 4,192</u>	<u>\$ 2,115</u>	<u>\$ 112</u>	<u>\$ 235</u>	<u>\$ 1,154</u>	<u>\$ 628</u>	<u>\$ 200</u>	<u>\$ 1,297</u>	<u>\$ 409</u>	<u>\$ 200</u>	<u>\$ 10,542</u>
As % of ALLL	39.8%	20.1%	1.1%	2.2%	10.9%	6.0%	1.9%	12.3%	3.9%	1.8%	100.0%
ALLL:											
Individually evaluated	\$ 163	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 163
Collectively evaluated	4,029	2,115	112	235	1,154	628	200	1,297	409	200	10,379
Ending balance	<u>\$ 4,192</u>	<u>\$ 2,115</u>	<u>\$ 112</u>	<u>\$ 235</u>	<u>\$ 1,154</u>	<u>\$ 628</u>	<u>\$ 200</u>	<u>\$ 1,297</u>	<u>\$ 409</u>	<u>\$ 200</u>	<u>\$ 10,542</u>
Loans:											
Individually evaluated	\$ 2,189	\$ —	\$ —	\$ —	\$ 549	\$ —	\$ —	\$ 253	\$ 12	\$ —	\$ 3,003
Collectively evaluated	486,411	237,548	11,102	27,831	113,313	56,061	33,615	190,933	65,631	18,254	1,240,699
Total loans	<u>\$ 488,600</u>	<u>\$ 237,548</u>	<u>\$ 11,102</u>	<u>\$ 27,831</u>	<u>\$ 113,862</u>	<u>\$ 56,061</u>	<u>\$ 33,615</u>	<u>\$ 191,186</u>	<u>\$ 65,643</u>	<u>\$ 18,254</u>	<u>\$ 1,243,702</u>
Less ALLL	4,192	2,115	112	235	1,154	628	200	1,297	409	200	10,542
Net loans	<u>\$ 484,408</u>	<u>\$ 235,433</u>	<u>\$ 10,990</u>	<u>\$ 27,596</u>	<u>\$ 112,708</u>	<u>\$ 55,433</u>	<u>\$ 33,415</u>	<u>\$ 189,889</u>	<u>\$ 65,234</u>	<u>\$ 18,054</u>	<u>\$ 1,233,160</u>

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(in thousands)	Acquired – Year Ended December 31, 2017										
	Commercial & industrial	Owner-occupied CRE	AG production	AG real estate	CRE investment	Construction & land development	Residential construction	Residential first mortgage	Residential junior mortgage	Retail & other	Total
ALLL:											
Beginning balance	\$ 769	\$ 604	\$ 28	\$ 63	\$ 231	\$ 118	\$ 38	\$ 412	\$ 88	\$ 20	\$ 2,371
Provision	(10)	(118)	(11)	(2)	2	(7)	13	(123)	(9)	5	(260)
Charge-offs	(54)	—	—	—	—	(13)	—	—	—	—	(67)
Recoveries	37	6	—	—	1	—	—	23	—	—	67
Net charge-offs	(17)	6	—	—	1	(13)	—	23	—	—	—
Ending balance	<u>\$ 742</u>	<u>\$ 492</u>	<u>\$ 17</u>	<u>\$ 61</u>	<u>\$ 234</u>	<u>\$ 98</u>	<u>\$ 51</u>	<u>\$ 312</u>	<u>\$ 79</u>	<u>\$ 25</u>	<u>\$ 2,111</u>
As % of ALLL	35.1%	23.3%	0.8%	2.9%	11.1%	4.6%	2.4%	14.8%	3.7%	1.3%	100.0%
ALLL:											
Individually evaluated	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively evaluated	742	492	17	61	234	98	51	312	79	25	2,111
Ending balance	<u>\$ 742</u>	<u>\$ 492</u>	<u>\$ 17</u>	<u>\$ 61</u>	<u>\$ 234</u>	<u>\$ 98</u>	<u>\$ 51</u>	<u>\$ 312</u>	<u>\$ 79</u>	<u>\$ 25</u>	<u>\$ 2,111</u>
Loans:											
Individually evaluated	\$ 3,681	\$ 1,689	\$ —	\$ 248	\$ 4,741	\$ 1,053	\$ 80	\$ 2,548	\$ 166	\$ 12	\$ 14,218
Collectively evaluated	145,056	190,806	24,353	23,699	195,860	32,546	3,300	169,618	40,218	4,549	830,005
Total loans	<u>\$ 148,737</u>	<u>\$ 192,495</u>	<u>\$ 24,353</u>	<u>\$ 23,947</u>	<u>\$ 200,601</u>	<u>\$ 33,599</u>	<u>\$ 3,380</u>	<u>\$ 172,166</u>	<u>\$ 40,384</u>	<u>\$ 4,561</u>	<u>\$ 844,223</u>
Less ALLL	742	492	17	61	234	98	51	312	79	25	2,111
Net loans	<u>\$ 147,995</u>	<u>\$ 192,003</u>	<u>\$ 24,336</u>	<u>\$ 23,886</u>	<u>\$ 200,367</u>	<u>\$ 33,501</u>	<u>\$ 3,329</u>	<u>\$ 171,854</u>	<u>\$ 40,305</u>	<u>\$ 4,536</u>	<u>\$ 842,112</u>

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

(in thousands)	Total Nonaccrual Loans			
	December 31, 2018	% to Total	December 31, 2017	% to Total
Commercial & industrial	\$ 2,816	52%	\$ 6,016	46%
Owner-occupied CRE	673	12	533	4
AG production	—	—	—	—
AG real estate	164	3	186	1
CRE investment	210	4	4,531	35
Construction & land development	80	1	—	—
Residential construction	1	—	80	1
Residential first mortgage	1,265	23	1,587	12
Residential junior mortgage	262	5	158	1
Retail & other	—	—	4	—
Nonaccrual loans	<u>\$ 5,471</u>	<u>100%</u>	<u>\$ 13,095</u>	<u>100%</u>
Percent of total loans	<u>0.2%</u>		<u>0.6%</u>	

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(in thousands)	December 31, 2018				December 31, 2017			
	Originated Amount	% of Total	Acquired Amount	% of Total	Originated Amount	% of Total	Acquired Amount	% of Total
Commercial & industrial	\$ 352	25%	\$ 2,464	61%	\$ 2,296	70%	\$ 3,720	38%
Owner-occupied CRE	362	26	311	8	86	3	447	4
AG production	—	—	—	—	—	—	—	—
AG real estate	—	—	164	4	—	—	186	2
CRE investment	—	—	210	5	549	17	3,982	41
Construction & land development	—	—	80	2	—	—	—	—
Residential construction	1	—	—	—	—	—	80	1
Residential first mortgage	629	45	636	15	331	10	1,256	13
Residential junior mortgage	65	4	197	5	12	—	146	1
Retail & other	—	—	—	—	4	—	—	—
Nonaccrual loans	\$ 1,409	100%	\$ 4,062	100%	\$ 3,278	100%	\$ 9,817	100%
Percent of nonaccrual loans	25.8%		74.2%		25.0%		75.0%	

The following tables present past due loans by portfolio segment.

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

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(in thousands)	December 31, 2017			
	30-89 Days Past Due (accruing)	90 Days & Over or nonaccrual	Current	Total
Commercial & industrial	\$ 211	\$ 6,016	\$ 631,110	\$ 637,337
Owner-occupied CRE	671	533	428,839	430,043
AG production	30	—	35,425	35,455
AG real estate	—	186	51,592	51,778
CRE investment	—	4,531	309,932	314,463
Construction & land development	76	—	89,584	89,660
Residential construction	587	80	36,328	36,995
Residential first mortgage	1,039	1,587	360,726	363,352
Residential junior mortgage	14	158	105,855	106,027
Retail & other	4	4	22,807	22,815
Total loans	\$ 2,632	\$ 13,095	\$ 2,072,198	\$ 2,087,925
Percent of total loans	0.1%	0.6%	99.3%	100.0%

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

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

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

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

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

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

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

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The following tables present total loans by risk categories.

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

December 31, 2017							
(in thousands)	Grades 1- 4	Grade 5	Grade 6	Grade 7	Grade 8	Grade 9	Total
Commercial & industrial	\$ 597,854	\$ 12,999	\$ 16,129	\$ 10,355	\$ —	\$ —	\$ 637,337
Owner-occupied CRE	397,357	23,340	6,442	2,904	—	—	430,043
AG production	30,431	4,000	—	1,024	—	—	35,455
AG real estate	44,321	4,873	—	2,584	—	—	51,778
CRE investment	299,926	8,399	190	5,948	—	—	314,463
Construction & land development	86,011	2,758	17	874	—	—	89,660
Residential construction	36,915	—	—	80	—	—	36,995
Residential first mortgage	358,067	1,868	683	2,734	—	—	363,352
Residential junior mortgage	105,736	117	—	174	—	—	106,027
Retail & other	22,811	—	—	4	—	—	22,815
Total loans	\$ 1,979,429	\$ 58,354	\$ 23,461	\$ 26,681	\$ —	\$ —	\$ 2,087,925
Percent of total loans	94.8%	2.8%	1.1%	1.3%	—%	—%	100.0%

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The following tables present impaired loans.

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

(in thousands)	December 31, 2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial & industrial	\$ 5,870	\$ 10,063	\$ 163	\$ 6,586	\$ 718
Owner-occupied CRE	1,689	2,256	—	1,333	132
AG production	—	10	—	—	—
AG real estate	248	307	—	233	26
CRE investment	5,290	8,102	—	5,411	465
Construction & land development	1,053	1,053	—	813	57
Residential construction	80	983	—	91	27
Residential first mortgage	2,801	3,653	—	2,177	180
Residential junior mortgage	178	507	—	154	17
Retail & other	12	14	—	12	1
Total	\$ 17,221	\$ 26,948	\$ 163	\$ 16,810	\$ 1,623
Originated impaired loans	\$ 3,003	\$ 3,003	\$ 163	\$ 2,964	\$ 241
Acquired impaired loans	14,218	23,945	—	13,846	1,382
Total	\$ 17,221	\$ 26,948	\$ 163	\$ 16,810	\$ 1,623

Total purchased credit impaired loans (in aggregate since the Company's 2013 acquisitions) were initially recorded at a fair value of \$43.6 million on their respective acquisition dates, net of an initial \$34.4 million nonaccretable mark and a zero accretable mark. At December 31, 2018, \$9.4 million of the \$43.6 million remain in impaired loans.

Nonaccretable discount on PCI loans:

(in thousands)	Years Ended December 31,	
	2018	2017
Balance at beginning of period	\$ 9,471	\$ 14,327
Acquired balance, net	—	8,352
Accretion to loan interest income	(1,976)	(7,995)
Transferred to accretable	(990)	(1,936)
Disposals of loans	(97)	(3,277)
Balance at end of period	\$ 6,408	\$ 9,471

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Troubled Debt Restructurings

At December 31, 2018 , there were four loans classified as troubled debt restructurings with a current outstanding balance of \$0.6 million and a pre-modification balance of \$2.7 million . In comparison, at December 31, 2017 , there were eight loans classified as troubled debt restructurings with an outstanding balance of \$5.6 million and a pre-modification balance of \$6.9 million . There were no loans which were classified as troubled debt restructurings during the previous twelve months that subsequently defaulted during 2018 . As of December 31, 2018 , there were no commitments to lend additional funds to debtors whose terms have been modified in troubled debt restructurings.

NOTE 5 . PREMISES AND EQUIPMENT

Premises and equipment, less accumulated depreciation and amortization, is summarized as follows.

(in thousands)	December 31, 2018	December 31, 2017
Land	\$ 6,220	\$ 5,987
Land improvements	3,842	3,591
Building and improvements	42,238	39,661
Leasehold improvements	4,092	4,092
Furniture and equipment	18,590	16,342
	74,982	69,673
Less accumulated depreciation and amortization	26,809	22,522
Premises and equipment, net	\$ 48,173	\$ 47,151

Depreciation and amortization expense amounted to \$4.4 million in 2018 , \$4.2 million in 2017 , and \$3.2 million in 2016 . The Company and certain of its subsidiaries are obligated under non-cancelable operating leases for facilities, certain of which provide for increased rentals based upon increases in cost of living adjustments and other indices. Rent expense under leases totaled \$1.4 million in 2018 , \$1.1 million in 2017 , and \$0.8 million in 2016 .

At December 31, 2018 , the approximate minimum annual rentals under these non-cancelable lease agreements with remaining terms in excess of one year are as follows.

Years Ending December 31,	(in thousands)
2019	\$ 1,073
2020	1,065
2021	956
2022	902
2023	665
Thereafter	742
Total	\$ 5,403

During the second quarter of 2016, a \$1.7 million lease termination liability and charge to other expense was recorded due to the closure of a branch, concurrent with the consummation date of the Baylake merger. Payments are expected to continue to the lessor for the remainder of the lease term. Since the remaining lease payments have been recognized against earnings, these remaining lease payments were excluded from the above table.

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NOTE 6 . GOODWILL AND OTHER INTANGIBLES AND MORTGAGE SERVICING RIGHTS

A summary of goodwill and other intangibles was as follows.

(in thousands)	December 31, 2018	December 31, 2017
Goodwill	\$ 107,366	\$ 107,366
Core deposit intangibles	12,562	16,477
Customer list intangibles	4,379	4,563
Other intangibles	16,941	21,040
Goodwill and other intangibles, net	\$ 124,307	\$ 128,406

Goodwill : Goodwill was \$107.4 million at both December 31, 2018 and December 31, 2017 . During 2017, goodwill increased due to the First Menasha acquisition. See Note 1 for the Company's accounting policy for goodwill and see Note 2 for additional information on the Company's acquisitions.

Other intangibles : Other intangible assets, consisting of core deposit intangibles and customer list intangibles, are amortized over their estimated finite lives. During 2018, customer list intangibles increased due to the purchase of a brokerage book of business, while during 2017, core deposit intangibles increased due to the First Menasha acquisition and customer list intangibles increased due to a modification to the contingent earn-out payment on the financial advisor business acquired in 2016, fixing the previously variable earn-out payment on a portion of the purchase price. See Note 1 for the Company's accounting policy for other intangibles and see Note 2 for additional information on the Company's acquisitions.

(in thousands)	December 31, 2018	December 31, 2017
Core deposit intangibles:		
Gross carrying amount	\$ 29,015	\$ 29,015
Accumulated amortization	(16,453)	(12,538)
Net book value	\$ 12,562	\$ 16,477
Additions during the period	\$ —	\$ 3,670
Amortization during the period	\$ 3,915	\$ 4,294
Customer list intangibles:		
Gross carrying amount	\$ 5,523	\$ 5,233
Accumulated amortization	(1,144)	(670)
Net book value	\$ 4,379	\$ 4,563
Additions during the period	\$ 290	\$ 870
Amortization during the period	\$ 474	\$ 401

Mortgage servicing rights : A summary of the changes in the MSR asset was as follows.

(in thousands)	December 31, 2018	December 31, 2017
MSR asset:		
MSR asset at beginning of year	\$ 3,187	\$ 1,922
Capitalized MSR	1,203	876
MSR asset acquired	—	874
Amortization during the period	(641)	(485)
MSR asset at end of year	\$ 3,749	\$ 3,187
Fair value of MSR asset at end of period	\$ 6,347	\$ 4,097
Residential mortgage loans serviced for others	\$ 603,446	\$ 518,419
Net book value of MSR asset to loans serviced for others	0.62%	0.61%

The Company periodically evaluates its mortgage servicing rights asset for impairment. No valuation allowance or impairment charge was recorded for 2018 or 2017 . See Note 1 for the Company's accounting policy for MSRs, see Note 2 for additional information on the Company's acquisitions, and see Note 18 for additional information on the fair value of the MSR asset.

The following table shows the estimated future amortization expense for amortizing intangible assets and the MSR asset. The projections are based on existing asset balances, the current interest rate environment and prepayment speeds as of December 31,

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2018 . The actual amortization expense the Company recognizes in any given period may be significantly different depending upon acquisition or sale activities, changes in interest rates, prepayment speeds, market conditions, regulatory requirements and events or circumstances that indicate the carrying amount of an asset may not be recoverable.

(in thousands)	Core deposit intangibles	Customer list intangibles	MSR asset
Years Ending December 31,			
2019	\$ 3,337	\$ 507	\$ 697
2020	2,657	507	680
2021	2,167	507	531
2022	1,735	507	531
2023	1,273	483	419
Thereafter	1,393	1,868	891
Total	<u>\$ 12,562</u>	<u>\$ 4,379</u>	<u>\$ 3,749</u>

NOTE 7 . OTHER REAL ESTATE OWNED

A summary of OREO, which is included in other assets in the consolidated balance sheets, for the periods indicated is as follows.

(in thousands)	Years Ended December 31,	
	2018	2017
Balance at beginning of period	\$ 1,294	\$ 2,059
Transfers in at net realizable value	607	583
Sales proceeds	(2,824)	(1,724)
Net gain from sales	1,032	258
Write-downs	(120)	(127)
Additions for new construction	431	—
Acquired balance, net	—	245
Balance at end of period	<u>\$ 420</u>	<u>\$ 1,294</u>

NOTE 8 . DEPOSITS

At December 31, 2018 , the scheduled maturities of time deposits were as follows.

Years Ending December 31,	(in thousands)
2019	\$ 260,993
2020	89,948
2021	22,847
2022	14,760
2023	15,088
Thereafter	—
Total time deposits	<u>\$ 403,636</u>

Time deposits of \$250,000 or more were \$77.6 million and \$50.4 million at December 31, 2018 and 2017 , respectively.

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NOTE 9 . SHORT AND LONG-TERM BORROWINGS

Short-Term Borrowings:

The Company did not have any short-term borrowings (borrowing with an original contractual maturity of one year or less) outstanding at December 31, 2018 or 2017 .

Long-Term Borrowings:

The components of long-term borrowings (borrowing with an original contractual maturity greater than one year) were as follows.

(in thousands)	December 31, 2018	December 31, 2017
FHLB advances	\$ 35,252	\$ 36,509
Junior subordinated debentures	30,096	29,616
Subordinated notes	11,957	11,921
Total long-term borrowings	<u>\$ 77,305</u>	<u>\$ 78,046</u>

FHLB Advances : The FHLB advances bear fixed rates, require interest-only monthly payments, and have maturity dates through November 2022. The weighted average rate of the FHLB advances was 1.72% and 1.71% at December 31, 2018 and 2017 , respectively. The FHLB advances are collateralized by a blanket lien on qualifying first mortgages, home equity loans, multi-family loans and certain farmland loans which had a pledged balance of \$295.3 million and \$313.5 million at December 31, 2018 and 2017 , respectively.

The following table shows the maturity schedule of the FHLB advances as of December 31, 2018 .

Maturing in:	(in thousands)
2019	\$ —
2020	10,000
2021	—
2022	25,252
2023	—
	<u>\$ 35,252</u>

The Company has a \$10 million line of credit with a third party bank, bearing a variable rate of interest based on one-month LIBOR plus a margin, but subject to a floor rate, with quarterly payments of interest only. At December 31, 2018 , the available line was \$10 million and the rate was one-month LIBOR plus 2.25% with a 3.25% floor. The outstanding balance was zero at December 31, 2018 and 2017 , and the line was not used during 2018 or 2017 .

Junior Subordinated Debentures : The following table shows the breakdown of junior subordinated debentures. Interest on all debentures is current. Any applicable discounts (initially recorded to carry an acquired debenture at its then estimated fair market value) are being accreted to interest expense over the remaining life of the debentures. All the debentures below are currently callable and may be redeemed in part or in full plus any accrued but unpaid interest.

(in thousands)	Maturity Date	Junior Subordinated Debentures			
		Par	12/31/2018 Unamortized Discount	12/31/2018 Carrying Value	12/31/2017 Carrying Value
2004 Nicolet Bankshares Statutory Trust ⁽¹⁾	7/15/2034	\$ 6,186	\$ —	\$ 6,186	\$ 6,186
2005 Mid-Wisconsin Financial Services, Inc. ⁽²⁾	12/15/2035	10,310	(3,371)	6,939	6,739
2006 Baylake Corp. ⁽³⁾	9/30/2036	16,598	(4,120)	12,478	12,242
2004 First Menasha Bancshares, Inc. ⁽⁴⁾	3/17/2034	5,155	(662)	4,493	4,449
Total		<u>\$ 38,249</u>	<u>\$ (8,153)</u>	<u>\$ 30,096</u>	<u>\$ 29,616</u>

(1) The interest rate is 8.00% fixed.

(2) The debentures, assumed in April 2013 as the result of an acquisition, have a floating rate of the three-month LIBOR plus 1.43% , adjusted quarterly. The interest rates were 4.22% and 3.02% as of December 31, 2018 and 2017 , respectively.

(3) The debentures, assumed in April 2016 as a result of an acquisition, have a floating rate of the three-month LIBOR plus 1.35% , adjusted quarterly. The interest rates were 4.15% and 3.04% as of December 31, 2018 and 2017 , respectively.

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- (4) The debentures, assumed in April 2017 as the result of an acquisition, have a floating rate of the three-month LIBOR plus 2.79% , adjusted quarterly. The interest rate was 5.58% and 4.39% as of December 31, 2018 and 2017 , respectively.

Each of the junior subordinated debentures was issued to an underlying statutory trust (the “statutory trusts”), which issued trust preferred securities and common securities and used the proceeds from the issuance of the common and the trust preferred securities to purchase the junior subordinated debentures of the Company. The debentures represent the sole asset of the statutory trusts. All of the common securities of the statutory trusts are owned by the Company. The statutory trusts are not included in the consolidated financial statements. The net effect of all the documents entered into with respect to the trust preferred securities is that the Company, through payments on its debentures, is liable for the distributions and other payments required on the trust preferred securities. At December 31, 2018 and 2017 , \$28.9 million and \$28.5 million , respectively, of trust preferred securities qualify as Tier 1 capital.

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

NOTE 10 . EMPLOYEE AND DIRECTOR BENEFIT PLANS

The Company sponsors two deferred compensation plans, one for certain key management employees and another for directors. Under the management plan, which was amended in 2016, employees designated by the Board of Directors may elect to defer compensation and the Company may at its discretion make nonelective contributions on behalf of one or more eligible plan participants. Upon retirement, termination of employment or at their election, the employee shall become entitled to receive the deferred amounts plus earnings thereon. The liability for the cumulative employee contributions and earnings thereon at December 31, 2018 and 2017 totaled approximately \$527,000 and \$152,000 , respectively, and is included in other liabilities on the consolidated balance sheets. The Company made nonelective contributions totaling \$175,000 and \$700,000 during 2018 and 2017 , respectively, to selected recipients, to vest and be expensed ratably over four or five years from the date of grant.

Under the director plan, participating directors may defer up to 100% of their Board compensation towards the purchase of Company common stock at market prices on a quarterly basis that is held in a Rabbi Trust and distributed when each such participating director ends his or her board service. During 2018 and 2017 , the director plan purchased 3,889 and 4,427 shares of Company common stock valued at approximately \$213,000 and \$229,000 , respectively. Common stock valued at approximately \$32,000 (and representing 600 shares) and \$473,000 (and representing 9,900 shares) was distributed to past directors during 2018 and 2017 , respectively. The common stock outstanding and the related director deferred compensation liability are offsetting components of the Company’s equity in the amount of \$831,000 at December 31, 2018 and \$636,000 at December 31, 2017 representing 26,070 shares and 22,853 shares, respectively.

The Company sponsors a 401(k) savings plan under which eligible employees may choose to save up to 100% of salary compensation on either a pre-tax or after-tax basis, subject to certain IRS limits. Under the plan, the Company matches 100% of participating employee contributions up to 6% of the participant’s gross compensation. The Company contribution vests over five years. The Company can make additional annual discretionary profit sharing contributions, as determined by the Board of Directors. During 2018 , 2017 and 2016 , the Company’s 401(k) expense was approximately \$1.8 million , \$2.0 million (including a \$0.5 million profit sharing contribution), and \$1.2 million , respectively. During 2016, the plan was amended and participants can no longer elect to buy Company common stock within their 401(k) portfolio.

NOTE 11 . STOCK-BASED COMPENSATION

The Company may grant stock options and restricted stock under its stock-based compensation plans to certain officers, employees and directors. These plans are administered by a committee of the Board of Directors. The Company's stock-based compensation plans at December 31, 2018 are described below.

2011 Long-Term Incentive Plan ("2011 LTIP"): The Company’s 2011 LTIP, as subsequently amended with shareholder approval, has reserved 1,500,000 shares of the Company's common stock for potential stock-based awards. This plan provides for certain stock-based awards such as, but not limited to, stock options, stock appreciation rights and restricted common stock, as well as cash performance awards. As of December 31, 2018 , approximately 127,000 shares were available for grant under this plan.

2002 Stock Incentive Plan: The Company’s 2002 Stock Incentive Plan, as subsequently amended with shareholder approval, reserved a total of 1,175,000 shares of the Company's common stock for potential stock options. This plan became fully utilized in 2012 and no further awards may be granted under this plan.

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Acquired Equity Incentive Plan: In 2016, the Company assumed sponsorship of an equity incentive plan of an acquired company to allow for that company's already granted awards that became exercisable upon acquisition to be honored. No further awards may be granted under this assumed plan.

In general, for stock options granted the exercise price will not be less than the fair value of the Company's common stock on the date of grant, the options will become exercisable based upon vesting terms determined by the committee, and the options will expire ten years after the date of grant. In general, for restricted stock granted the shares are issued at the fair value of the Company's common stock on the date of grant, are restricted as to transfer, but are not restricted as to dividend payments or voting rights, and the transfer restrictions lapse over time, depending upon vesting terms provided for in the grant and contingent upon continued employment.

A Black-Scholes model is utilized to estimate the fair value of stock options. See Note 1 for the Company's accounting policy on stock-based compensation. The weighted average assumptions used in the model for valuing stock option grants were as follows.

	2018	2017	2016
Dividend yield	—%	—%	—%
Expected volatility	25%	25%	25%
Risk-free interest rate	2.61%	2.14%	1.52%
Expected average life	7 years	7 years	7 years
Weighted average per share fair value of options	\$ 17.36	\$ 15.80	\$ 11.04

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

Stock Options	Option Shares Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding – December 31, 2015	746,004	\$ 21.56		
Granted	170,500	36.86		
Options assumed in acquisition	91,701	21.03		
Exercise of stock options *	(84,723)	20.98		
Forfeited	(1,456)	21.71		
Outstanding – December 31, 2016	922,026	\$ 24.39	5.4	\$ 21,483
Granted	949,500	49.93		
Exercise of stock options *	(209,371)	18.15		
Forfeited	(18,900)	35.36		
Outstanding – December 31, 2017	1,643,255	\$ 39.82	8.1	\$ 24,525
Granted	15,500	52.76		
Exercise of stock options *	(70,556)	21.52		
Forfeited	(6,500)	39.43		
Outstanding – December 31, 2018	1,581,699	\$ 40.77	7.4	\$ 13,825
Exercisable – December 31, 2018	599,011	\$ 32.77	6.3	\$ 9,798

*The terms of the stock option agreements permit having a number of shares of stock withheld, the fair market value of which as of the date of exercise is sufficient to satisfy the exercise price and/or tax withholding requirements, and accordingly 6,411 shares, 85,422 shares, and 10,244 shares were surrendered during 2018 , 2017 , and 2016 , respectively.

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The following options were outstanding at December 31, 2018 .

	Number of Shares		Weighted Average Exercise Price		Weighted Average Remaining Life (Years)	
	Outstanding	Exercisable	Outstanding	Exercisable	Outstanding	Exercisable
\$9.19 – \$20.00	99,267	85,579	\$ 16.39	\$ 16.38	2.0	1.8
\$20.01 – \$25.00	202,268	160,468	23.77	23.77	5.8	5.8
\$25.01 – \$30.00	142,294	87,494	25.97	26.01	6.1	6.1
\$30.01 – \$40.00	180,370	77,070	35.95	35.41	7.4	7.3
\$40.01 – \$56.43	957,500	188,400	49.99	49.94	8.5	8.4
	1,581,699	599,011	\$ 40.77	\$ 32.77	7.4	6.3

Intrinsic value represents the amount by which the fair market value of the underlying stock exceeds the exercise price of the stock options. The intrinsic value of options exercised in 2018 , 2017 , and 2016 was approximately \$2.2 million , \$7.5 million , and \$1.3 million , respectively.

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

Restricted Stock	Restricted Shares Outstanding	Weighted Average Grant Date Fair Value
Outstanding – December 31, 2015	36,690	\$ 18.70
Granted	31,466	33.68
Vested *	(25,207)	23.58
Forfeited	—	—
Outstanding – December 31, 2016	42,949	\$ 26.80
Granted	9,240	57.75
Vested *	(20,514)	29.87
Forfeited	(755)	16.50
Outstanding – December 31, 2017	30,920	\$ 34.26
Granted	18,256	52.55
Vested *	(19,661)	43.58
Forfeited	(3)	16.50
Outstanding – December 31, 2018	29,512	\$ 39.37

*The terms of the restricted stock agreements permit the surrender of shares to the Company upon vesting in order to satisfy applicable tax withholding at the minimum statutory withholding rate, and accordingly 3,948 shares, 5,266 shares, and 7,851 shares were surrendered during 2018 , 2017 , and 2016 , respectively.

The Company recognized \$4.7 million , \$3.1 million and \$1.6 million of stock-based compensation expense (included in personnel on the consolidated statements of income) during the years ended December 31, 2018 , 2017 , and 2016 , respectively, associated with its common stock awards granted to officers and employees. In addition, during 2018 , the Company recognized approximately \$0.2 million of director expense (included in other expense on the consolidated statements of income) for a total restricted stock grant of 3,510 shares with immediate vesting to directors. As of December 31, 2018 , there was approximately \$12.9 million of unrecognized compensation cost related to equity award grants. The cost is expected to be recognized over the remaining vesting period of approximately three years. The Company recognized a tax benefit of approximately \$0.2 million and \$1.9 million for the years ended December 31, 2018 and 2017 , respectively, for the tax impact of stock option exercises and vesting of restricted stock.

NOTE 12 . STOCKHOLDERS' EQUITY

As of December 31, 2018 , the Board of Directors has authorized the use of up to \$54 million to repurchase up to 1,450,000 shares of outstanding common stock through our common stock repurchase program. During 2018 , \$22.2 million was utilized to repurchase and cancel nearly 408,100 common shares at a weighted average price of \$54.35 , bringing the life-to-date cumulative totals to \$46.3 million to repurchase and cancel over 1.1 million common shares. As of December 31, 2018 , there remained \$7.7 million

authorized under the repurchase program to be utilized from time-to-time to repurchase common shares in the open market, through block transactions or in private transactions.

On April 28, 2017, in connection with its acquisition of First Menasha, the Company issued 1,309,885 shares of its common stock for consideration of \$62.2 million plus cash consideration of \$19.3 million . Approximately \$0.2 million in direct stock issuance costs for the merger were incurred and charged against additional paid-in capital. See Note 2 for additional information on the Company's acquisitions.

On April 29, 2016, in connection with its acquisition of Baylake, the Company issued 4,344,243 shares of its common stock for consideration of \$163.3 million , and recorded \$1.2 million consideration for assumed stock options. Approximately \$0.3 million in direct stock issuance costs for the merger were incurred and charged against additional paid-in capital. In connection with the financial advisor business acquisition that completed April 1, 2016, the Company issued \$2.6 million in common stock consideration.

NOTE 13 . INCOME TAXES

The current and deferred amounts of income tax expense were as follows.

(in thousands)	Years Ended December 31,		
	2018	2017	2016
Current	\$ 14,967	\$ 10,952	\$ 12,708
Deferred	(1,521)	4,430	(3,337)
Adjustment to the net deferred tax asset for the Tax Cuts and Jobs Act	—	885	—
Income tax expense	\$ 13,446	\$ 16,267	\$ 9,371

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. The new law amends the Internal Revenue Code to reduce corporate tax rates and modify various tax policies, credits, and deductions. The corporate federal tax rate was reduced from a maximum of 35% to a flat 21% rate, which is effective for the Company beginning January 1, 2018. As a result of the corporate tax rate reduction, the Company reduced its net deferred tax asset for the year ended December 31, 2017, by \$885,000 , which was recognized as additional income tax expense.

The differences between the income tax expense recognized and the amount computed by applying the statutory federal income tax rate (21% for 2018 and 35% for 2017 and 2016) to the income before income taxes, less noncontrolling interest, for the years ended as indicated are included in the following table.

(in thousands)	Years Ended December 31,		
	2018	2017	2016
Tax on pretax income, less noncontrolling interest, at statutory rates	\$ 11,441	\$ 17,296	\$ 9,742
State income taxes, net of federal effect	3,308	2,242	1,339
Tax-exempt interest income	(574)	(1,073)	(769)
Non-deductible interest disallowance	30	28	18
Increase in cash surrender value life insurance	(508)	(807)	(452)
Non-deductible business entertainment	156	168	106
Non-deductible merger expenses	—	65	18
Stock-based employee compensation	(50)	(62)	(35)
Adjustment to the net deferred tax asset for the Tax Cuts and Jobs Act	—	885	—
Deduction attributable to share-based payments	—	(1,854)	—
Other, net	(357)	(621)	(596)
Income tax expense	\$ 13,446	\$ 16,267	\$ 9,371

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The net deferred tax asset includes the following amounts of deferred tax assets and liabilities.

(in thousands)	December 31, 2018	December 31, 2017
Deferred tax assets:		
ALLL	\$ 5,240	\$ 7,806
Net operating loss carryforwards	2,202	2,694
Credit carryforwards	43	1,433
Compensation	2,408	1,818
Other	2,549	1,379
Other real estate	103	—
Unrealized loss on securities AFS	1,740	794
Total deferred tax assets	14,285	15,924
Deferred tax liabilities:		
Premises and equipment	(821)	(954)
Prepaid expenses	(693)	(728)
Investment securities	(1,723)	(1,589)
Core deposit and other intangibles	(3,563)	(4,101)
Estimated section 382 limitation	—	(543)
Purchase accounting adjustments to liabilities	(2,011)	(2,113)
Other	(1,021)	(868)
Total deferred tax liabilities	(9,832)	(10,896)
Net deferred tax assets	\$ 4,453	\$ 5,028

A valuation allowance is required if it is more likely than not that some portion of the deferred tax asset will not be realized. At December 31, 2018 and 2017, no valuation allowance was determined to be necessary.

At December 31, 2018, the Company had a federal and state net operating loss carryforward of \$4.2 million and \$21.0 million, respectively. Of these amounts, the entire \$4.2 million of federal net operating loss carryover and \$18.8 million of the state net operating loss carryover were the result of the Company's mergers with Mid-Wisconsin, Baylake, and First Menasha. The federal and state net operating loss carryovers resulting from the mergers have been included in the IRC section 382 limitation calculation and are being limited to the overall amount expected to be realized. The full \$2.2 million state net operating loss carried over from the Company's regular operations is expected to be utilized over the next 14 years and will not expire. The Company's federal income tax returns are open and subject to examination from the 2015 tax return year and forward. The years open to examination by state and local government authorities varies by jurisdiction.

NOTE 14. COMMITMENTS AND CONTINGENCIES

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, financial guarantees, and standby letters of credit. Such commitments may involve, to varying degrees, elements of credit risk in excess of amounts recognized on the consolidated balance sheets. See Note 1 for the Company's accounting policy on commitments and contingencies.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and issuing letters of credit as they do for on-balance sheet instruments.

A summary of the contract or notional amount of the Company's exposure to off-balance sheet risk was as follows.

(in thousands)	December 31, 2018	December 31, 2017
Commitments to extend credit	\$ 721,098	\$ 680,307
Financial standby letters of credit	8,571	8,783
Performance standby letters of credit	7,094	9,080

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Interest rate lock commitments to originate residential mortgage loans held for sale and forward commitments to sell residential mortgage loans held for sale are considered derivative instruments and the contractual amounts were \$18.2 million and \$6.0 million , respectively, at December 31, 2018 . The fair value of these commitments was not material at December 31, 2018 .

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commercial-related commitments to extend credit represented 77% and 78% of the total year-end commitments for 2018 and 2017 , respectively, and were predominantly commercial lines of credit that carry a term of one year or less. The commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Financial and performance standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Financial standby letters of credit are issued specifically to facilitate commerce and typically result in the commitment being drawn on when the underlying transaction is consummated between the customer and the third party, while performance standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party. Both of these guarantees are primarily issued to support public and private borrowing arrangements and, generally, have terms of one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral, which may include accounts receivable, inventory, property, equipment, and income-producing properties, supporting those commitments if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third-party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount. If the commitment is funded, the Company would be entitled to seek recovery from the customer. At December 31, 2018 and 2017 , no amounts have been recorded as liabilities for the Company's potential obligations under these guarantees.

The Company has federal funds lines available with other financial institutions where funds may be borrowed on a short-term basis at the market rate in effect at the time of the borrowing. The total federal funds lines available as of December 31, 2018 and 2017 were \$175 million and \$158 million , respectively. At December 31, 2018 and 2017 , the Company had no outstanding balance on these lines.

In the normal course of business, the Company is 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 consolidated financial statements.

NOTE 15 . RELATED PARTY TRANSACTIONS

The Company conducts transactions, in the normal course of business, with its directors and officers, including companies in which they have a beneficial interest. It is the Company's policy to comply with federal regulations that require that these transactions with directors and executive officers be made on substantially the same terms as those prevailing at the time made for comparable transactions to other persons. Related party loans totaled approximately \$83.8 million and \$67.7 million at December 31, 2018 and 2017 , respectively.

As described in Note 1 , the Company has a 50% ownership in a joint venture with the Firm in connection with the Company's headquarters facility. The Firm is considered a related party, as one of its principals is a Board member and shareholder of the Company. The Bank incurred approximately \$1.1 million in annual rent expense to the joint venture during 2018 , 2017 , and 2016 .

In October 2013, the Company entered into a lease for a new branch location in a facility owned by a different member of the Company's Board and incurred less than \$120,000 annually of rent expense on this facility during 2018 , 2017 , and 2016 . During 2018, this same Board member participated in a competitive bid for and was awarded the contract as general contractor for the reconstruction of a branch location. Total payments for this branch reconstruction were \$956,000 , of which at least 75% of these payments were passed through to various subcontractors.

In February 2016, the Company entered into a lease agreement for a non-branch location owned by a relative of a senior management team member and paid approximately \$138,000 , \$138,000 , and \$100,000 in 2018 , 2017 , and 2016 , respectively, to the company owned by the relative. This same relative, who is employed by the Company as a financial advisor, received approximately \$657,000 , \$668,000 , and \$420,000 in 2018 , 2017 , and 2016 , respectively, in compensation. Another relative of the same senior management team member, who is also employed by the Company as a financial advisor, received approximately \$284,000 , \$257,000 , and \$400,000 in 2018 , 2017 , and 2016 , respectively, in compensation.

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NOTE 16 . ASSET GAINS (LOSSES), NET

Components of the net gains (losses) on assets are as follows.

(in thousands)	Years Ended December 31,		
	2018	2017	2016
Gains (losses) on sales of securities AFS, net	\$ (212)	\$ 1,220	\$ 78
Gains (losses) on equity securities, net	77	—	—
Gains on sales of OREO, net	1,032	258	666
Write-downs of OREO	(120)	(127)	—
Write-down of other investment	—	—	(500)
Gains (losses) on sales of other investments, net	187	—	—
Gains (losses) on sales or dispositions of other assets, net	205	678	(190)
Asset gains (losses), net	<u>\$ 1,169</u>	<u>\$ 2,029</u>	<u>\$ 54</u>

NOTE 17 . REGULATORY CAPITAL REQUIREMENTS

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company and Bank's financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios of Total, Tier 1 and common equity Tier 1 ("CET1") capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined). Management believes the Company and the Bank met all capital adequacy requirements to which they are subject as of December 31, 2018 and 2017 .

As of December 31, 2018 and 2017 , the most recent notifications from the regulatory agencies categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, an institution must maintain minimum Total risk-based, Tier 1 risk-based, CET1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since these notifications that management believes have changed the Bank's category.

NICOLET BANKSHARES, INC.
Notes to Consolidated Financial Statements

The Company's and the Bank's actual regulatory capital amounts and ratios are presented in the following table.

(in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions ⁽²⁾	
	Amount	Ratio ⁽¹⁾	Amount	Ratio ⁽¹⁾	Amount	Ratio ⁽¹⁾
December 31, 2018						
<u>Company</u>						
Total risk-based capital	\$ 326,235	12.9%	\$ 202,836	8.0%		
Tier 1 risk-based capital	301,125	11.9	152,127	6.0		
Common equity Tier 1 capital	271,435	10.7	114,095	4.5		
Leverage	301,125	10.4	115,483	4.0		
<u>Bank</u>						
Total risk-based capital	\$ 274,492	10.8%	\$ 202,800	8.0%	\$ 253,501	10.0%
Tier 1 risk-based capital	261,339	10.3	152,100	6.0	202,800	8.0
Common equity Tier 1 capital	261,339	10.3	114,075	4.5	164,775	6.5
Leverage	261,339	9.1	115,280	4.0	144,100	5.0
December 31, 2017						
<u>Company</u>						
Total risk-based capital	\$ 299,043	12.8%	\$ 186,475	8.0%		
Tier 1 risk-based capital	274,469	11.8	139,856	6.0		
Common equity Tier 1 capital	245,214	10.5	104,892	4.5		
Leverage	274,469	10.0	109,298	4.0		
<u>Bank</u>						
Total risk-based capital	\$ 267,165	11.5%	\$ 186,606	8.0%	\$ 233,257	10.0%
Tier 1 risk-based capital	254,512	10.9	139,954	6.0	186,606	8.0
Common equity Tier 1 capital	254,512	10.9	104,966	4.5	151,617	6.5
Leverage	254,512	9.3	109,226	4.0	136,532	5.0

- (1) The Total risk-based capital ratio is defined as Tier 1 capital plus tier 2 capital divided by total risk-weighted assets. The Tier 1 risk-based capital ratio is defined as Tier 1 capital divided by total risk-weighted assets. CET1 risk-based capital ratio is defined as Tier 1 capital, with deductions for goodwill and other intangible assets (other than mortgage servicing assets), net of associated deferred tax liabilities, and limitations on the inclusion of deferred tax assets, mortgage servicing assets and investments in other financial institutions, in each case as provided further in the rules, divided by total risk-weighted assets. The Leverage ratio is defined as Tier 1 capital divided by the most recent quarter's average total assets as adjusted.
- (2) Prompt corrective action provisions are not applicable at the bank holding company level.

Dividends declared by the Bank that exceed the retained net income for the most current year plus retained net income for the preceding two years must be approved by Federal regulatory agencies. At December 31, 2018, the Bank had minimal capacity to pay dividends without seeking regulatory approval, as the Bank's 2018 dividends to the Company approximated its 2018 net income.

NOTE 18. FAIR VALUE MEASUREMENTS

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

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

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

NICOLET BANKSHARES, INC.
Notes to Consolidated Financial Statements

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

Recurring basis fair value measurements:

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

(in thousands)		Fair Value Measurements Using			
Measured at Fair Value on a Recurring Basis:	Total	Level 1	Level 2	Level 3	
December 31, 2018					
U.S. government agency securities	\$ 21,649	\$ —	\$ 21,649	\$ —	
State, county and municipals	160,526	—	160,460	66	
Mortgage-backed securities	131,644	—	131,644	—	
Corporate debt securities	86,325	—	77,901	8,424	
Securities AFS	\$ 400,144	\$ —	\$ 391,654	\$ 8,490	
Other investments (equity securities) *	\$ 2,650	\$ 2,650	\$ —	\$ —	
December 31, 2017					
U.S. government agency securities	\$ 26,209	\$ —	\$ 26,209	\$ —	
State, county and municipals	184,044	—	183,386	658	
Mortgage-backed securities	155,532	—	155,529	3	
Corporate debt securities	36,797	—	28,307	8,490	
Equity securities *	2,571	2,571	—	—	
Securities AFS	\$ 405,153	\$ 2,571	\$ 393,431	\$ 9,151	

*Effective January 1, 2018, the Company adopted ASU 2016-01, which requires equity securities with readily determinable fair values to be measured at fair value with changes in the fair value recognized through net income. As a result, the approximately \$2.7 million current fair value of equity securities is now reflected within other investments on the consolidated balance sheets instead of securities AFS at December 31, 2018. Prior periods have not been restated for the impact of this accounting change. See Note 1 for additional information on this new accounting standard and see Note 3 additional information on the impact to securities AFS.

The following is a description of the valuation methodologies used by the Company for the Securities AFS and equity securities measured at fair value on a recurring basis, noted in the tables above. Where quoted market prices on securities exchanges are available, the investments are classified as Level 1. Level 1 investments primarily include exchange-traded equity securities. If quoted market prices are not available, fair value is generally determined using prices obtained from independent pricing vendors who use pricing models (with typical inputs including benchmark yields, reported trades for similar securities, issuer spreads or relationship to other benchmark quoted securities), or discounted cash flows, and are classified as Level 2. Examples of these investments include U.S. government agency securities, mortgage-backed securities, obligations of state, county and municipals, and certain corporate debt securities. Finally, in certain cases where there is limited activity or less transparency around inputs to the estimated fair value, investments are classified within Level 3 of the hierarchy. Examples of these include private municipal bonds and corporate debt securities, which include trust preferred security investments. At December 31, 2018 and 2017, it was determined that carrying value was the best approximation of fair value for these Level 3 securities, based primarily on the internal analysis on these securities.

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

(in thousands)	Years Ended	
	December 31, 2018	December 31, 2017
Level 3 Fair Value Measurements:		
Balance at beginning of year	\$ 9,151	\$ 9,108
Acquired balances	—	189
Paydowns/Sales/Settlements	(661)	(146)
Balance at end of year	\$ 8,490	\$ 9,151

NICOLET BANKSHARES, INC.
Notes to Consolidated Financial Statements

Nonrecurring basis fair value measurements:

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

(in thousands)	Fair Value Measurements Using				
Measured at Fair Value on a Nonrecurring Basis:	Total	Level 1	Level 2	Level 3	
December 31, 2018					
Impaired loans	\$ 9,939	\$ —	\$ —	\$ 9,939	
OREO	420	—	—	420	
MSR asset	6,347	—	—	6,347	
December 31, 2017					
Impaired loans	\$ 17,058	\$ —	\$ —	\$ 17,058	
OREO	1,294	—	—	1,294	
MSR asset	4,097	—	—	4,097	

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

Financial instruments:

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

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

NICOLET BANKSHARES, INC.
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December 31, 2017					
(in thousands)	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	\$ 154,933	\$ 154,933	\$ 154,933	\$ —	\$ —
Certificates of deposit in other banks	1,746	1,746	—	1,746	—
Securities AFS	405,153	405,153	2,571	393,431	9,151
Other investments	14,837	14,837	—	13,142	1,695
Loans held for sale	4,666	4,750	—	4,750	—
Loans, net	2,075,272	2,068,382	—	—	2,068,382
BOLI	64,453	64,453	64,453	—	—
MSR asset	3,187	4,097	—	—	4,097
Financial liabilities:					
Deposits	\$ 2,471,064	\$ 2,469,456	\$ —	\$ —	\$ 2,469,456
Long-term borrowings	78,046	77,029	—	36,510	40,519

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

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

Other investments : The valuation methodologies utilized for the exchange-traded equity securities are discussed under "Recurring basis fair value measurements" above. The carrying amount of Federal Reserve Bank, Bankers Bank, Federal Agricultural Mortgage Corporation, and FHLB stock is a reasonably accepted fair value estimate given their restricted nature. Fair value is the redeemable (carrying) value based on the redemption provisions of the instruments which is considered a Level 2 measurement. The carrying amount of the remaining other investments (particularly common stocks of companies or other banks that are not publicly traded) approximates their fair value, determined primarily by analysis of company financial statements and recent capital issuances of the respective companies or banks, if any, and represents a Level 3 measurement.

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

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

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

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

Lending-related commitments : At December 31, 2018 and 2017 , the estimated fair value of letters of credit, interest rate lock commitments on residential mortgage loans, and outstanding mandatory commitments to sell residential mortgage loans into the secondary market were not significant.

NICOLET BANKSHARES, INC.
Notes to Consolidated Financial Statements

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

NOTE 19 . PARENT COMPANY ONLY FINANCIAL INFORMATION

Condensed parent company only financial statements of Nicolet Bankshares, Inc. follow.

Balance Sheets (in thousands)	December 31,	
	2018	2017
Assets		
Cash and due from subsidiary	\$ 45,279	\$ 28,026
Investments	4,500	4,021
Investments in subsidiaries	384,839	379,640
Goodwill	(3,266)	(3,266)
Other assets	53	147
Total assets	\$ 431,405	\$ 408,568
Liabilities and Stockholders' Equity		
Junior subordinated debentures	\$ 30,096	\$ 29,616
Subordinated notes	11,957	11,921
Other liabilities	2,743	2,853
Stockholders' equity	386,609	364,178
Total liabilities and stockholders' equity	\$ 431,405	\$ 408,568

Statements of Income (in thousands)	Years Ended December 31,		
	2018	2017	2016
Interest income	\$ 52	\$ 46	\$ 58
Interest expense	2,844	2,415	1,951
Net interest expense	(2,792)	(2,369)	(1,893)
Dividend income from subsidiaries	40,775	32,000	35,500
Operating expense	(364)	(369)	(202)
Gain (loss) on investments, net	265	1,411	(500)
Income tax benefit	305	1,329	833
Earnings before equity in undistributed income (loss) of subsidiaries	38,189	32,002	33,738
Equity in undistributed income (loss) of subsidiaries	2,847	1,148	(15,276)
Net income attributable to Nicolet Bankshares, Inc.	\$ 41,036	\$ 33,150	\$ 18,462

NICOLET BANKSHARES, INC.
Notes to Consolidated Financial Statements

Statements of Cash Flows

(in thousands)	Years Ended December 31,		
	2018	2017	2016
Cash Flows From Operating Activities:			
Net income attributable to Nicolet Bankshares, Inc.	\$ 41,036	\$ 33,150	\$ 18,462
Adjustments to reconcile net income to net cash provided by operating activities:			
Accretion of discounts	515	501	353
(Gain) loss on investments, net	(265)	(1,411)	500
Change in other assets and liabilities, net	(25)	(1,384)	395
Equity in undistributed (income) loss of subsidiaries, net of dividends	(2,847)	(1,148)	15,276
Net cash provided by operating activities	38,414	29,708	34,986
Cash Flows from Investing Activities:			
Proceeds from sale of investments	708	317	565
Purchases of investments	(920)	—	—
Net cash paid in business combinations	—	(19,287)	(608)
Net cash used in investing activities	(212)	(18,970)	(43)
Cash Flows From Financing Activities:			
Purchase and retirement of common stock	(22,749)	(15,007)	(5,201)
Proceeds from issuance of common stock, net	1,800	4,030	1,900
Capitalized issuance costs, net	—	—	(260)
Repayment of long-term borrowings	—	—	(3,916)
Redemption of preferred stock	—	—	(12,200)
Cash dividends paid on preferred stock	—	—	(633)
Net cash used in financing activities	(20,949)	(10,977)	(20,310)
Net increase (decrease) in cash and due from subsidiary	17,253	(239)	14,633
Beginning cash and due from subsidiary	28,026	28,265	13,632
Ending cash and due from subsidiary	\$ 45,279	\$ 28,026	\$ 28,265

NOTE 20 . EARNINGS PER COMMON SHARE

See Note 1 for the Company's accounting policy on earnings per common share. Earnings per common share and related information are summarized as follows.

(in thousands, except per share data)	Years Ended December 31,		
	2018	2017	2016
Net income attributable to Nicolet Bankshares, Inc.	\$ 41,036	\$ 33,150	\$ 18,462
Less preferred stock dividends	—	—	633
Net income available to common shareholders	\$ 41,036	\$ 33,150	\$ 17,829
Weighted average common shares outstanding	9,640	9,440	7,158
Effect of dilutive common stock awards	316	518	356
Diluted weighted average common shares outstanding	9,956	9,958	7,514
Basic earnings per common share	\$ 4.26	\$ 3.51	\$ 2.49
Diluted earnings per common share	\$ 4.12	\$ 3.33	\$ 2.37

Options to purchase approximately 0.1 million shares outstanding for the years ended December 31, 2018 and 2017, are excluded from the calculation of diluted earnings per common share as the effect of their exercise would have been anti-dilutive. There were no options to purchase shares that were excluded from the calculation of diluted earnings per share for the year ended December 31, 2016.

NICOLET BANKSHARES, INC.
Notes to Consolidated Financial Statements

NOTE 21 . REVENUE RECOGNITION

As of January 1, 2018, the Company adopted ASU 2014-09 (Topic 606) using the modified retrospective approach. The adoption of the guidance had no material impact on the measurement, timing, or recognition of revenue; however, additional disclosures have been added in accordance with the ASU. See Note 1 for additional information on this new accounting standard.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income categories such as gains or losses associated with mortgage servicing rights, derivatives, and income from bank owned life insurance are not within the scope of the new guidance. The main types of revenue contracts within the scope of Topic 606 include trust services income, brokerage fee income, service charges on deposit accounts, card interchange income, and certain other noninterest income. These contracts are discussed in detail below:

Trust services and brokerage fee income : A contract between the Company and its customers to provide fiduciary and / or investment administration services on trust accounts and brokerage accounts in exchange for a fee. Trust services and brokerage fee income is based upon the month-end market value of the assets under management and the applicable fee rate, which is recognized over the period the underlying trust or brokerage account is serviced (generally on a monthly basis). Such contracts are generally cancellable at any time, with the customer subject to a pro-rated fee in the month of termination.

Service charges on deposit accounts : The deposit contract obligates the Company to serve as a custodian of the customer's deposited funds and is generally terminable at will by either party. This contract permits the customer to access the funds on deposit and request additional services related to the deposit account. Service charges on deposit accounts consist of account analysis fees (net fees earned on analyzed business and public checking accounts), monthly service charges, nonsufficient fund ("NSF") charges, and other deposit account related charges. The Company's performance obligation for account analysis fees and monthly service charges is generally satisfied, and the related revenue recognized, over the period in which the service is provided (typically on a monthly basis); while NSF charges and other deposit account related charges are largely transactional based and the related revenue is recognized at the time the service is provided.

Card interchange income : A contract between the Company, as a card-issuing bank, and its customers whereby the Company receives a transaction fee from the merchant's bank whenever a customer uses a debit or credit card to make a purchase. The performance obligation is completed and the fees are recognized as the service is provided (i.e., when the customer uses a debit or credit card).

Other noninterest income : Other noninterest income includes several items, such as wire transfer income, check cashing fees, check printing fees, safe deposit box rental fees, management fee income, and consulting fees. These fees are generally recognized at the time the service is provided.



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Nicolet Bankshares, Inc.

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Nicolet Bankshares, Inc. and subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in stockholders’ equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). We also have audited the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management. Our responsibility is to express an opinion on the Company’s consolidated financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company’s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have served as the Company’s auditor since 2005.

Atlanta, Georgia

March 8, 2019

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, management, under the supervision, and with the participation, of our Chief Executive Officer and President and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon, and as of the date of such evaluation, the Chief Executive Officer and President and the Chief Financial Officer concluded that our disclosure controls and procedures were effective in timely alerting them to material information relating to Nicolet that is required to be included in Nicolet's periodic filings with the SEC. During the fourth quarter of 2018 there were no significant changes in the Company's internal controls that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

As of December 31, 2018, management assessed the effectiveness of the Company's internal control over financial reporting based on criteria for effective internal control over financial reporting established in "Internal Control — Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2018, was effective.

Porter Keadle Moore, LLC, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2018 is included under the heading "Report of Independent Registered Public Accounting Firm."

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Code of Ethics

The Company has adopted a Code of Ethics that applies to its senior financial officers. A copy is available, without charge, upon telephonic or written request addressed to Ann K. Lawson, Chief Financial Officer, Nicolet Bankshares, Inc., 111 North Washington Street, Green Bay, Wisconsin 54301, telephone (920) 430-1400.

The remaining information required in Part III, Item 10 is incorporated by reference to the registrant's definitive proxy statement for the 2019 Annual Meeting of Shareholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required in Part III, Item 11 is incorporated by reference to the registrant's definitive proxy statement for the 2019 Annual Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required in Part III, Item 12 is incorporated by reference to the registrant's definitive proxy statement for the 2019 Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required in Part III, Item 13 is incorporated by reference to the registrant's definitive proxy statement for the 2019 Annual Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required in Part III, Item 14 is incorporated by reference to the registrant's definitive proxy statement for the 2019 Annual Meeting of Shareholders.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

EXHIBIT INDEX

Exhibit	Description of Exhibit
2.1	Agreement and Plan of Merger Agreement by and between Nicolet Bankshares, Inc. and Baylake Corp., dated September 8, 2015. ⁽¹⁾
2.2	Agreement and Plan of Merger Agreement by and between Nicolet Bankshares, Inc. and First Menasha Bancshares, Inc., dated November 3, 2016. ⁽²⁾
3.1	Amended and Restated Articles of Incorporation of Nicolet Bankshares, Inc. ⁽³⁾
3.2	Amended and Restated Bylaws of Nicolet Bankshares, Inc. ⁽⁴⁾
4.1	Form of Common Stock Certificate of Nicolet Bankshares, Inc. ⁽⁵⁾
4.7	Form of Subordinated Note. ⁽⁶⁾
10.1	[Reserved]
10.2	[Reserved]
10.3	[Reserved]
10.4†	Nicolet Bankshares, Inc. 2002 Stock Incentive Plan, as amended, and forms of award documents. ⁽⁷⁾
10.5†	Nicolet Bankshares, Inc. 2011 Long Term Incentive Plan, as amended and restated effective April 29, 2016 and approved by the shareholders of Nicolet Bankshares, Inc. on August 10, 2016 and forms of award documents. ⁽⁸⁾
10.6†	Nicolet National Bank 2002 Deferred Compensation Plan, as amended. ⁽¹¹⁾
10.7†	Nicolet National Bank 2009 Deferred Compensation Plan for Non-Employee Directors. ⁽⁵⁾
10.8†	Amended and Restated Employment Agreement, dated March 7, 2019, by and among the Registrant, Nicolet National Bank and Michael E. Daniels.
10.9†	Amended and Restated Employment Agreement, dated March 7, 2019, by and among the Registrant, Nicolet National Bank and Robert B. Atwell.
10.10	Lease, dated May 31, 2000, between Washington Square Green Bay, LLC and Green Bay Financial Corporation D/B/A Nicolet National Bank, as amended. ⁽⁵⁾
10.11	[Reserved]
10.12†	Amended and Restated Employment Agreement, dated March 7, 2019, by and among the Registrant, Nicolet National Bank and Ann K. Lawson.
10.13†	Nicolet Bankshares, Inc. 2010 Equity Incentive Plan (formerly the Baylake Corp. 2010 Equity Incentive Plan), and forms of award documents. ⁽⁹⁾
10.14	[Reserved]
10.15†	Amended and Restated Employment Agreement, dated March 7, 2019, by and among the Registrant, Nicolet National Bank and Eric J. Witzak.
10.16†	Nicolet Bankshares, Inc. Employee Stock Purchase Plan. ⁽¹⁰⁾
10.17†	Amended and Restated Employment Agreement, dated March 7, 2019, by and among the Registrant, Nicolet National Bank and Brad V. Hutjens.
21.1	Subsidiaries of Nicolet Bankshares, Inc.
23.1	Consent of Porter Keadle Moore, LLC.
31.1	Certification of CEO under Section 302 of Sarbanes-Oxley Act of 2002
31.2	Certification of CFO under Section 302 of Sarbanes-Oxley Act of 2002
32.1	Certification of CEO Pursuant to 18 U.S.C Section 1350 as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002
32.2	Certification of CFO Pursuant to 18 U.S.C Section 1350 as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002
101	The following material from Nicolet's Form 10-K Report for the year ended December 31, 2018, formatted in eXtensible Business Reporting Language: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements.

† Denotes a management compensatory agreement.

(1) Incorporated by reference to the exhibit of the same number in the Registrant's Registration Statement on Form S-4, filed on November 24, 2015 (Regis. No. 333-208192).

(2) Incorporated by reference to Exhibit 2.1 in the Registrant's Registration Statement on Form S-4, filed on December 13, 2016 (Regis. No. 333-215057).

(3) Incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed on March 12, 2014 (File No. 333-90052).

(4) Incorporated by reference to Exhibit 3.1 in the Registrant's Current Report on Form 8-K filed on May 2, 2016 (File No. 001-37700).

- (5) Incorporated by reference to the exhibit of the same number in the Registrant's Registration Statement on Form S-4, filed on February 1, 2013 (Regis. No. 333-186401).
- (6) Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on February 17, 2015 (File No. 333-90052).
- (7) Incorporated by reference to the Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed on March 9, 2015 (File No. 333-90052).
- (8) Incorporated by reference to Appendix A of the Registrant's Proxy Statement filed June 30, 2016.
- (9) Incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on May 2, 2016 (File No. 001-37700).
- (10) Incorporated by reference to Appendix A of the Registrant's Proxy Statement filed March 7, 2018.
- (11) Incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed on March 10, 2017 (File No. 001-37700).

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NICOLET BANKSHARES, INC.

March 8, 2019

By: /s/ Robert B. Atwell

Robert B. Atwell, Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

March 8, 2019

/s/ Robert B. Atwell

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

/s/ Thomas L. Herlache

Thomas L. Herlache
Director

/s/ Ann K. Lawson

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

/s/ Andrew F. Hetzel, Jr.

Andrew F. Hetzel, Jr.
Director

/s/ Michael E. Daniels

Michael E. Daniels
Director, Executive Vice President and Secretary

/s/ Donald J. Long, Jr.

Donald J. Long, Jr.
Director

/s/ Robert W. Agnew

Robert W. Agnew
Director

/s/ Dustin J. McClone

Dustin J. McClone
Director

/s/ Rachel Campos-Duffy

Rachel Campos-Duffy
Director

/s/ Susan L. Merkatoris

Susan L. Merkatoris
Director

/s/ John N. Dykema

John N. Dykema
Director

/s/ Randy J. Rose

Randy J. Rose
Director

/s/ Terrence R. Fulwiler

Terrence R. Fulwiler
Director

/s/ Oliver Pierce Smith

Oliver Pierce Smith
Director

/s/ Christopher J. Ghidorzi

Christopher J. Ghidorzi
Director

/s/ Robert J. Weyers

Robert J. Weyers
Director

/s/ Michael J. Gilson

Michael J. Gilson
Director

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the “Agreement”) is made the 7th day of March, 2019, amending and restating that certain Employment Agreement dated April 29, 2016, to become effective as of the Effective Date (as hereinafter defined), by and between Nicolet Bankshares, Inc., a bank holding company organized under the laws of the State of Wisconsin (the “Company”), Nicolet National Bank, a national bank (the “Bank” and collectively with the Company, the “Employer”), and Michael E. Daniels, a resident of the State of Wisconsin (the “Executive”).

BACKGROUND:

The Employer and Executive are parties to that certain Employment Agreement dated April 29, 2016 (the “Prior Employment Agreement”).

The Bank and the Executive now desire to amend and restate the Prior Employment Agreement to address certain administrative and substantive changes, and (ii) to update the Prior Employment Agreement in a number of respects.

The Employer and the Executive intend that this Agreement embodies the complete terms and conditions of the Executive’s employment with the Employer and supersedes all prior employment and similar agreements between the Executive and the Employer (and/or their Affiliates), as set forth more specifically below.

AGREEMENT:

In consideration of the above premises and the mutual agreements hereinafter set forth, effective as of the Effective Date, the parties hereby agree as follows:

1. Duties.

1.1 Positions. The Executive shall be employed as Executive Vice President and Secretary of the Company and as President and Chief Executive Officer of the Bank, subject to the direction of the Board of Directors, shall perform and discharge faithfully those duties in connection with the conduct of the Business of the Employer for which the Executive is responsible, subject to any specific allocation of duties between the Company and the Bank as may be provided for by the Board of Directors. The duties and responsibilities assumed by, or assigned to, the Executive shall be commensurate with the duties and responsibilities associated with similar positions at other holding companies and community banks of a similar size to the Employer.

1.2 Full-Time Status. In addition to the duties and responsibilities specifically assigned to the Executive pursuant to Section 1.1 hereof, the Executive shall:

- (a) subject to Section 1.3, devote substantially all of the Executive’s time, energy and skill during regular business hours to the performance of the duties of the Executive’s employment (reasonable vacations and reasonable absences due to illness excepted) and faithfully and industriously perform such duties;
- (b) diligently follow and implement all reasonable and lawful management policies and decisions communicated to the Executive by the Board of Directors; and

(c) timely prepare and forward to the Board of Directors all reports and accountings as reasonably may be requested of the Executive.

1.3 Permitted Activities. The Executive shall devote substantially all of the Executive's entire business time, attention and energies to the Business of the Employer, but as long as the following activities do not interfere with the Executive's obligations to the Employer, this shall not be construed as preventing the Executive from:

(a) investing the Executive's personal assets in any manner which will not require any services on the part of the Executive in the operation or affairs of the entity and in which the Executive's participation is solely that of an investor; provided that such investment activity following the Effective Date shall not result in the Executive owning beneficially at any time one percent (1%) or more of the equity securities of any Competing Business; or

(b) participating in civic and professional affairs and organizations and conferences, preparing or publishing papers or books, teaching or serving on the board of directors of an entity so long as any such participation does not interfere with the ability of the Executive to effectively discharge the Executive's duties hereunder; provided further, that the Board of Directors may direct the Executive in writing to resign from any such organization and/or cease such activities should the Board of Directors reasonably conclude that continued membership and/or activities of the type identified would not be in the best interests of the Employer.

2. Term. This Agreement shall remain in effect for the Term. While this Agreement remains in effect, it shall automatically renew each day after the date of this Agreement so that the Term remains a three-year term from day-to-day hereafter unless the Employer or the Executive gives written notice to the other of its or his intent that the automatic renewals shall cease. In the event such notice of non-renewal is properly given, this Agreement and the Term shall expire on the third anniversary of the thirtieth (30th) day following the date such written notice is received. In the event the Executive continues to provide services to the Employer as an employee following the expiration of the Term, but without entering into a new written employment agreement, such post-expiration of the Term employment shall be deemed to be performed on an "at-will" basis and either party may thereafter terminate such employment with or without notice and for any or no reason and without any obligations determined by reference to this Agreement.

3. Compensation. The Employer shall pay or otherwise provide the Executive the following during the Term, except as otherwise provided below:

3.1 Annual Base Salary. The Executive shall be paid a base salary at the annual base rate of Five Hundred Ten Thousand and No/100 Dollars (\$510,000) (the "Annual Base Salary"). The Executive's Annual Base Salary shall be reviewed by the Board of Directors annually for potential increases, as determined by the Board of Directors based on its evaluation of the Executive's performance. The Executive's Annual Base Salary shall be payable in accordance with the Bank's normal payroll practices.

3.2 Annual Incentive Compensation. Unless otherwise prohibited by banking regulation, rule or directive, the Executive shall have the opportunity to earn annual bonus compensation in such manner as may be determined by, and based on performance measures or target levels as may be established by, the Board of Directors upon the recommendation of the Compensation Committee of the Board of Directors (the "Committee") consistent with the Bank's strategic planning process, pursuant to any incentive compensation program as may be adopted from time to time by the Board of Directors (an "Annual Bonus"). Any Annual Bonus earned shall be payable in cash or cash equivalents by March 15th of the calendar year following the

calendar year in which the bonus is earned in accordance with the Bank's normal practices for the payment of short-term incentives. To be entitled to any payment of bonus compensation from the Bank pursuant to Section 3.2, the Executive must be employed by the Employer on the last day of the applicable performance period and must continue to be employed until the date that such payment is made.

3.3 Equity Award. The Executive shall be entitled to such equity incentive awards in the discretion of the Board of Directors of the Company (or any committee thereof) based upon and/or subject to any performance measures as may be established by the granting entity; provided, however, that, in general, the Company shall make awards at such times and subject to such terms and conditions that are no less favorable than awards granted to similarly situated executives.

3.4 Life Insurance. The Employer shall provide the Executive with term life insurance coverage on the Executive's life with a death benefit of no less than One Million Five Hundred Thousand Dollars (\$1,500,000), with such death benefit payable to such beneficiary or beneficiaries as the Executive may designate.

3.5 Business and Professional Education Expenses; Memberships. In accordance with the reimbursement policies from time to time adopted by the Board of Directors and consistent with the annual budget approved for the period during which an expense was incurred, the Employer specifically agrees to reimburse the Executive for reasonable and necessary business expenses incurred by the Executive in the performance of the Executive's duties hereunder; provided, however, that the Executive shall, as a condition of any such reimbursement, submit verification of the nature and amount of such expenses in accordance with such reimbursement policies and in sufficient detail to comply with rules and regulations promulgated by the United States Treasury Department. Notwithstanding anything to the contrary in the foregoing, the Employer acknowledges and agrees that reasonable and necessary business expenses for purposes of this Section 3.5 shall include reimbursement for the cost of the annual dues for membership in the country clubs in which the Executive is a member as of the Effective Date and the use of an automobile of a make and model determined by the Employer. The Employer shall pay the expenses associated with the operation, maintenance, repair and insurance for the automobile. The Executive shall be responsible for maintaining adequate records of the Executive's personal use of the automobile and for timely providing the Employer with such records on an annual basis. In the event of any failure to do so, the Employer shall report the entire value of the use of the automobile and related reimbursements as taxable income to the Executive. Except as otherwise provided in this Section 3.5, the Executive acknowledges that the Employer makes no representation with respect to the taxability or non-taxability of the benefits provided under this Section 3.5.

3.6 Paid Leave. The Executive shall be entitled to paid leave of no less than twenty-four (24) days per calendar year, subject to proration and exclusive of paid leave for holidays and sickness, with such paid leave to be taken in accordance with the Bank's policy for paid leave as may be in effect from time to time. All use of Executive's paid leave shall be determined in accordance with the Bank's paid leave policy as in effect from time to time.

3.7 Benefits. In addition to the benefits specifically described in this Agreement, the Executive shall be entitled to such benefits as may be available from time to time to similarly situated employees of the Employer. All such benefits shall be awarded and administered in accordance with the Employer's standard policies and practices.

3.8 Withholding. The Employer may deduct from each payment of compensation hereunder all amounts required to be deducted and withheld in accordance with applicable federal and state income, FICA and other withholding requirements. The Executive further acknowledges and agrees that the Employer's provision of certain in-kind benefits and reimbursements of expenses will result in income or imputed income

for income tax purposes in accordance with applicable tax laws and that such income or imputed income also may be subject to tax withholding obligations that may be satisfied by deductions made from other compensation otherwise payable to the Executive by the Employer.

3.9 Apportionment of Obligations. The obligations for the payment of the amounts otherwise payable pursuant to this Section 3 shall be apportioned between the Company and the Bank as they may agree from time to time in their sole discretion. The satisfaction of the obligations in this Section 3 and Section 4 shall be subject to any approvals or non-objections from, and any conditions or restrictions imposed by, any regulator of the Employer.

3.10 Reimbursement of Expenses; In-Kind Benefits. All expenses eligible for reimbursements described in this Agreement must be incurred by the Executive during the Term to be eligible for reimbursement. All in-kind benefits described in this Section 3 must be provided by the Employer during the Term. The amount of reimbursable expenses incurred, and the amount of in-kind benefits provided, in one taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits provided, in any other taxable year. Each category of reimbursement shall be paid as soon as administratively practicable, but in no event shall any such reimbursement be paid after the last day of the calendar year following the calendar year in which the expense was incurred. Neither rights to reimbursement nor in-kind benefits are subject to liquidation or exchanges for other benefits.

3.11 Clawback of Incentive Compensation. The Executive agrees to repay any incentive compensation previously paid or otherwise made available to the Executive under this Agreement that is subject to recovery under any applicable law (including any rule of any exchange or service through which the securities of the Employer are then traded), including, but not limited to, the following circumstances:

- (a) where such compensation was in excess of what should have been paid or made available because the determination of the amount due was based, in whole or in part, on materially inaccurate financial information of the Employer;
- (b) where such compensation constitutes “excessive compensation” within the meaning of 12 C.F.R. Part 30, Appendix A;
- (c) where the Executive has committed, is substantially responsible for, or has violated, the respective acts, omissions, conditions, or offenses outlined under 12 C.F.R. Section 359.4(a)(4); and
- (d) if the Employer becomes, and for so long as the Employer remains, subject to the provisions of 12 U.S.C. Section 1831o(f), where such compensation exceeds the restrictions imposed on the senior executive officers of such an entity.

The Executive agrees to return promptly any such compensation identified by the Employer by written notice provided pursuant to Section 12. If the Executive fails to return such compensation promptly, the Executive agrees that the amount of such compensation may be deducted from any and all other compensation owed to the Executive by the Employer. If the Executive is then employed by the Employer, the Executive acknowledges that the Employer may take appropriate disciplinary action (up to, and including, Termination of Employment) if the Executive fails to return such compensation. The Executive acknowledges the Employer’s rights to engage in any legal or equitable action or proceeding in order to enforce the provisions of this Section 3.11. The provisions of this Section 3.11 shall be modified to the extent, and remain in effect for the period, required by applicable law.

4. Termination; Suspension or Reduction of Benefits.

4.1 Termination of Employment. During the Term, the Executive's Termination of Employment under this Agreement may only occur as follows:

(a) By the Employer by notice in writing:

(1) for Cause; provided that the Employer shall give the Executive any prior written notice required by Section 24(g);

(2) without Cause (other than pursuant to Section 4.1(a)(3) below) at any time, provided that the Employer shall give the Executive thirty (30) days prior written notice of its intent; or

(3) in the event that a regulator for the Employer requires the Executive's removal from service in one or more of the positions described in Section 1.1.

(b) By the Executive:

(1) for any reason (other than pursuant to Section 4.1(b)(2)), provided that the Executive shall give the Employer thirty (30) days' prior written notice of the Executive's intent to effect such a Termination of Employment; or

(2) for Good Reason, provided that the Executive shall give the Employer the prior written notice described in Section 24(q).

(c) Upon the Executive becoming subject to a Disability; provided however, that if this Section 4.1(c) is invoked by the Employer, the Employer shall provide the Executive with at least sixty (60) days' prior written notice of the effective date of the Termination of Employment, in which event, the Employer shall be required to continue to meet its obligations under Section 3.1 for a period of six (6) months following the Termination of Employment or until the Executive begins receiving payments under the Bank's long-term disability policy, whichever occurs first.

(d) At any time upon mutual, written agreement of the parties.

(e) Upon expiration, including non-renewal, of the Term.

(f) Notwithstanding anything in this Agreement to the contrary, the Term shall end automatically upon the Executive's death.

4.2 Severance. If, during the Term but prior to, or more than six (6) months following, a Change of Control, the Executive experiences an involuntary Termination of Employment by the Employer without Cause pursuant to Section 4.1(a)(2) or a Termination of Employment due to a resignation by the Executive for Good Reason pursuant to Section 4.1(b)(2), the Executive shall receive as liquidated damages, in lieu of all other claims and payments under this Agreement, severance in the form of (a) the continuation of Annual Base Salary, at the rate of Annual Base Salary in effect as of the effective date of the Termination of Employment, for a period of twelve (12) months, and (b) reimbursement by the Employer for the Executive's cost of such health coverage as was in effect immediately prior to the Termination of Employment for himself and covered dependents with such reimbursement to continue for the lesser of (i) twelve (12) months, or (ii) the health continuation coverage period for which the Executive is eligible as a result of the Termination of Employment. Any severance payable pursuant to this Section 4.2 shall be paid in substantially equal

increments in cash or cash equivalents in accordance with the Bank's regular payroll practices, but no less frequently than monthly, commencing with the first payroll date that is more than sixty (60) days following the date of the Executive's Termination of Employment.

4.3 Change of Control. If, within six (6) months following a Change of Control, the Executive experiences an involuntary Termination of Employment by the Employer without Cause pursuant to Section 4.1(a)(2) or a Termination of Employment due to a resignation by the Executive for Good Reason pursuant to Section 4.1(b)(2), the Executive shall receive, as liquidated damages, in lieu of all other claims and payments under this Agreement, the following:

(a) if the Change of Control is an event described in Section 24(h)(1)(i) or (iii), (1) severance as a lump sum payment equal to two (2) times the sum of the Annual Base Salary and the target Annual Bonus opportunity as was in effect immediately prior to the Change of Control, plus (2) reimbursement by the Employer for the Executive's cost of such health coverage as was in effect immediately prior to the Change of Control for himself and covered dependents with such reimbursements equal to the amounts that would be paid for the lesser of (i) twelve (12) months, or (ii) the health continuation coverage period for which the Executive is eligible as a result of the Termination of Employment.

(b) if the Change of Control is an event described in Section 24(h)(1)(ii) or Section 24(h)(2) that is also *not* an event described in Section 24(h)(1)(i) or (iii), (1) severance in the form of pay continuation, at the rate equal to two (2) times the sum of the Annual Base Salary and the target Annual Bonus opportunity as was in effect immediately prior to the Change of Control for a period of twelve (12) months, plus (2) reimbursement by the Employer for the Executive's cost of such health coverage as was in effect immediately prior to the Change of Control for himself and covered dependents with such reimbursements to continue for the lesser of (i) twelve (12) months, or (ii) the health continuation coverage period for which the Executive is eligible as a result of the Termination of Employment.

Any severance payable pursuant to Section 4.3(a)(1) shall be paid in a lump sum on the first payroll date that is more than sixty (60) days following the date of the Executive's Termination of Employment. Any severance payable pursuant to Section 4.3(a)(2) or 4.3(b) shall be paid in substantially equal increments in cash or cash equivalents in accordance with the Bank's regular payroll practices, but no less frequently than monthly, commencing with the first payroll date that is more than sixty (60) days following the date of the Executive's Termination of Employment.

4.4 Parachute Payments. In no event shall any payment or other consideration payable to the Executive by the Employer exceed the amount permitted by Code Section 280G. Therefore, if the aggregate present value (determined in accordance with the provisions of Code Section 280G) of both the amounts payable to the Executive under this Agreement and all other amounts payable to the Executive by the Employer in the nature of compensation (the "Aggregate Payments") would result in a "parachute payment," as defined under Code Section 280G, then the Aggregate Payments shall not be greater than an amount equal to 2.99 multiplied by the Executive's "base amount" for the "base period", as those terms are defined under Code Section 280G. In the event the Aggregate Payments are required to be reduced pursuant to this Section, the Aggregate Payments will be reduced by category in the following order: (a) cancellation of accelerated vesting of equity awards; (b) reduction or elimination of cash severance benefits that are subject to Code Section 409A; (c) reduction or elimination of cash severance benefits that are not subject to Code Section 409A; (d) reduction or elimination of any remaining portion of the Aggregate Payments that are subject to Code Section 409A; and (e) reduction or elimination of any remaining portion of the Aggregate Payments that are not subject to Code Section 409A. In the event that acceleration of vesting of equity award

compensation is to be cancelled, such acceleration of vesting will be cancelled in the reverse order of the date of grant of the Executive's equity awards. Within each other category, cash payments and payments with respect to any equity award will be reduced pro rata based on the portion of cash or other payment with respect to the Aggregate Payments, in each case beginning with payments that would otherwise be made last in time; provided that in no event shall the cash portion of the Aggregate Payments be less than the amount of federal and state income tax withholding owed by the Executive with respect to the Aggregate Payments.

4.5 Effect of Termination of Employment .

(a) Upon Executive's Termination of Employment hereunder for any reason, the Employer shall have no further obligations to the Executive or the Executive's estate with respect to this Agreement, except for (1) the payment of any amount earned and owing under this Agreement; (2) the reimbursement of any expenses under Section 3.5; and (3) any payment set forth in Section 4.2 or Section 4.3, if applicable.

(b) Notwithstanding any other provision of this Agreement to the contrary, as a condition of the Employer's payment of any amount in connection with the Executive's Termination of Employment pursuant to Section 4.2 or Section 4.3, the Executive must execute and not timely revoke during any revocation period provided therein, a release in the form provided by the Employer. The Employer shall provide the release to the Executive in sufficient time so that if the Executive timely executes and returns the release, the revocation period will expire no later than sixty (60) days following the effective date of the Termination of Employment.

(c) Notwithstanding any provision in the Agreement to the contrary, to the extent necessary to avoid the imposition of tax on the Executive under Code Section 409A, any payments that are otherwise payable to the Executive within the first six (6) months following the effective date of Termination of Employment, shall be suspended and paid as soon as practicable following the end of the six-month period following such effective date if, immediately prior to the Executive's Termination of Employment, the Executive is determined to be a "specified employee" (within the meaning of Code Section 409A(a)(2)(B)(i)) of the Employer (or any related "service recipient" within the meaning of Code Section 409A and the regulations thereunder). Any payments suspended by operation of the foregoing sentence shall be paid as a lump sum within thirty (30) days following the end of such six-month period.

(d) If the Executive is a member of the board of directors of either the Company or any Affiliate of the Company and the Executive's employment is terminated by the Employer or by the Executive pursuant to Section 4.1, the Executive shall immediately resign from the Executive's position(s) on such board(s) of directors, effective no later than the effective date of the Termination of Employment.

(e) Notwithstanding anything contained in this Agreement to the contrary, no payments shall be made pursuant to Section 4 or any other provision herein in contravention of the requirements of Section 18(k) of the Federal Deposit Insurance Act ("FDIA") (12 U.S.C. Section 1828(k)).

4.6 Regulatory Action.

(a) If the Executive is removed and/or permanently prohibited from participating in the conduct of the Employer's affairs by an order issued under Section 8(e)(4) or 8(g)(1) of the FDIA (12 U.S.C. Sections 1818(e)(4) and (g)(1)), all obligations of the Employer under this Agreement shall terminate, as of the effective date of such order, except for the payment of Annual Base Salary due and owing under Section 3.1 on the effective date of said order, and reimbursement under Section 3.5 of expenses incurred as of the effective date of termination.

(b) If the Executive is suspended and/or temporarily prohibited from participating in the conduct of the Employer's affairs by a notice served under Section 8(e)(3) or 8(g)(1) of the FDIA (12 U.S.C. Sections 1818(e)(3) and (g)(1)), all obligations of the Employer under this Agreement shall be suspended as of the date of service, unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Employer shall reinstate any of its obligations which were suspended to the extent permitted by applicable law.

(c) If the Employer is in default (as defined in Section 3(x)(1) of the FDIA), all obligations under this Agreement shall terminate as of the date of default, but the vested rights of the parties shall not be affected.

(d) If the Federal Deposit Insurance Corporation (" FDIC ") is appointed receiver or conservator under Section 11(c) of the FDIA (12 U.S.C. Section 1821(c)) of the Company or any depository institution controlled by the Company, the Employer shall have the right to terminate all obligations of the Employer under this Agreement as of the date of such receivership or conservatorship, other than any rights of the Executive that vested prior to such appointment. To the extent the Employer is or encompasses a depository institution, any vested rights of the Executive may be subject to such modifications that are consistent with the authority of the FDIC.

(e) If the FDIC provides open bank assistance under Section 13(c) of the FDIA (12 U.S.C. Section 1823(c)) to the Company or any depository institution controlled by the Company, but excluding any such assistance provided to the industry generally, the Employer shall have the right to terminate all obligations of the Employer under this Agreement as of the date of such assistance, other than any rights of the Executive that vested prior to the FDIC action. To the extent the Employer is or encompasses a depository institution, any vested rights of the Executive may be subject to such modifications that are consistent with the authority of the FDIC.

(f) If the FDIC requires a transaction under Section 13(f) or 13(k) of the FDIA (12 U.S.C. Sections 1823(f) and (k)) by the Employer or any depository institution controlled by the Employer, the Employer shall have the right to terminate all obligations of the Employer under this Agreement as of the date of such transaction, other than any rights of the Executive that vested prior to the transaction. To the extent the Employer is or encompasses a depository institution, any vested rights of the Executive may be subject to such modifications that are consistent with the authority of the FDIC.

(g) Notwithstanding the timing for the payment of any severance amount described in Section 4.2 or Section 4.3, no such payments shall be made or commence, as applicable, that require the concurrence or consent of the appropriate federal banking agency of the Employer pursuant to 12 C.F.R. Section 359 prior to the receipt of such concurrence or consent.

(h) All obligations under this Agreement are further subject to such conditions, restrictions, limitations and forfeiture provisions as may separately apply pursuant to any applicable state banking laws.

1. **Employer Information.**

5.1 Ownership of Employer Information. All Employer Information received or developed by the Executive or by the Employer while the Executive is employed by the Employer will remain the sole and exclusive property of the Employer.

5.2 Obligations of the Executive. The Executive agrees:

- (a) to hold Employer Information in strictest confidence;
- (b) not to use, duplicate, reproduce, distribute, disclose or otherwise disseminate Employer Information or any physical embodiments of Employer Information to any unauthorized recipient; and
- (c) in any event, not to take any action causing, or fail to take any action necessary in order to prevent, any Employer Information from losing its character or ceasing to qualify as Confidential Information or a Trade Secret;

provided however, that none of the foregoing obligations shall preclude the Executive from making any disclosures of Employer Information required by law. In the event that the Executive is required by law to disclose any Employer Information, the Executive will not make such disclosure unless (and then only to the extent that) the Executive has been advised by independent legal counsel that such disclosure is required by law and then only after prior written notice is given to the Employer when the Executive becomes aware that such disclosure has been requested and is required by law. This Section 5 shall survive for a period of twelve (12) months following termination of this Agreement for any reason with respect to Confidential Information, and shall survive termination of this Agreement for any reason for so long as is permitted by applicable law with respect to Trade Secrets.

5.3 Delivery upon Request or Termination. Upon request by the Employer, and in any event upon the Executive's Termination of Employment with the Employer, the Executive will promptly deliver to the Employer all property belonging to the Employer and their Affiliates, including, without limitation, all Employer Information then in the Executive's possession or control.

- 2. **Non-Competition.** The Executive agrees that during the Executive's employment by the Employer hereunder, and in the event of the Executive's Termination of Employment, regardless of the reason, for a period of twenty-four (24) months thereafter, the Executive will not (except on behalf of or with the prior written consent of the Employer), within the Area, either directly or indirectly, on the Executive's own behalf or in the service or on behalf of others, perform for any Competing Business any services which are the same as or essentially the same as the services the Executive provided for the Employer. The Executive acknowledges and agrees that the Business of the Employer is conducted in the Area.
- 3. **Non-Solicitation of Customers.** The Executive agrees that during the Executive's employment by the Employer hereunder, and in the event of the Executive's Termination of Employment, regardless of the reason, for a period of twenty-four (24) months thereafter, the Executive will not (except on behalf of or with the prior written consent of the Employer) on the Executive's own behalf or in the service or on behalf of others, solicit, divert or appropriate or attempt to solicit, divert or appropriate,

any business from any of the Employer's customers with whom the Executive has or had Material Contact for purposes of providing products or services that are competitive with those provided by the Employer in connection with the Business of the Employer.

4. **Non-Solicitation of Employees**. The Executive agrees that during the Executive's employment by the Employer hereunder, and in the event of the Executive's Termination of Employment, regardless of the reason, for a period of twenty-four (24) months thereafter, the Executive will not (except on behalf of or with the prior written consent of the Employer) on the Executive's own behalf or in the service or on behalf of others, solicit or recruit or attempt to solicit or recruit any employee of the Employer with whom the Executive had Material Contact, whether or not such employee is a full-time employee or a temporary employee of the Employer, such employment is pursuant to written agreement, for a determined period, or at will.
5. **Remedies**. The Executive agrees that the covenants contained in Sections 5 through 8 of this Agreement are of the essence of this Agreement, that each of the covenants is reasonable and necessary to protect the business, interests and properties of the Employer and their Affiliates, and that irreparable loss and damage will be suffered by the Employer should the Executive breach any of the covenants. Therefore, the Executive agrees and consents that, in addition to all the remedies provided by law or in equity, the Employer shall be entitled to seek a temporary restraining order and temporary and permanent injunctions to prevent a breach or contemplated breach of any of the covenants. Furthermore, in addition to any other remedies, the Executive agrees that any willful violation of the covenants in Sections 5 through 8 that results in material harm to the Employer will result in the immediate forfeiture of any payment that otherwise is or may become due under Section 4.2 or Section 4.3. The Employer and the Executive agree that all remedies available to the Employer shall be cumulative.
6. **Severability**. The parties agree that each of the provisions included in this Agreement is separate, distinct and severable from the other provisions of this Agreement and that the invalidity or unenforceability of any Agreement provision shall not affect the validity or enforceability of any other provision of this Agreement. Further, if any provision of this Agreement is ruled invalid or unenforceable by a court of competent jurisdiction because of a conflict between the provision and any applicable law or public policy, the provision shall be redrawn to make the provision consistent with, and valid and enforceable under, the law or public policy.
7. **No Set-Off by the Executive**. The existence of any claim, demand, action or cause of action by the Executive against the Employer whether predicated upon this Agreement or otherwise, shall not constitute a defense to the enforcement by the Employer of any of its rights hereunder.
8. **Notice**. All notices, requests, waivers and other communications required or permitted hereunder shall be in writing and shall be either personally delivered, sent by reputable overnight courier service or mailed by first class mail, return receipt requested, to the recipient at the address below indicated:

If to the Employer: Nicolet Bankshares, Inc.
111 N. Washington Street
Green Bay, Wisconsin 54301
Attn: Executive Committee

If to the Executive: The address most recently on file with the Employer

or such other address or to the attention of such other person as the recipient party shall have specified by prior written notice to the sending party. All such notices, requests, waivers and other communications shall be deemed to have been effectively given: (a) when personally delivered to the party to be notified; (b) when sent by confirmed facsimile to the party to be notified; (c) five (5) business days after deposit in the United States Mail postage prepaid by certified or registered mail with return receipt requested at any time other than during a general discontinuance of postal service due to strike, lockout, or otherwise (in which case such notice, request, waiver or other communication shall be effectively given upon receipt) and addressed to the party to be notified as set forth above; or (d) two (2) business days after deposit with a reputable overnight delivery service, postage prepaid, addressed to the party to be notified as set forth above with next-business-day delivery guaranteed. A party may change its or her notice address given above by giving the other party ten (10) days' written notice of the new address in the manner set forth above.

9. **Assignment**. The rights and obligations of the Employer under this Agreement shall inure to the benefit of and shall be binding upon the successors and permitted assigns of the Employer, including without limitation, a purchaser of all or substantially all the assets of the Employer. If the Agreement is assigned pursuant to the foregoing sentence, the assignment shall be by novation and the Employer shall have no further liability hereunder, and the successor or assign, as applicable, shall become the "Employer" hereunder, but the Executive will not be deemed to have experienced a Termination of Employment by virtue of such assignment. The Agreement is a personal contract and the rights and interest of the Executive may not be assigned by the Executive. This Agreement shall inure to the benefit of and be enforceable by the Executive and the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.
10. **Waiver**. A waiver by one party to this Agreement of any breach of this Agreement by any other party to this Agreement shall not be effective unless in writing, and no waiver shall operate or be construed as a waiver of the same or another breach on a subsequent occasion.
11. **Mediation**. Except with respect to Sections 5 through 9 above, and as provided in Section 16 hereof, if any dispute arises out of or relates to this Agreement, or a breach thereof, and if the dispute cannot be settled through direct discussions between the parties, the parties agree to first endeavor to settle the dispute in an amicable manner by mediation under the Commercial Mediation Rules of the American Arbitration Association before resorting to any other process for resolving the dispute.
12. **Applicable Law and Choice of Forum**. This Agreement shall be construed and enforced under and in accordance with the laws of the State of Wisconsin. The parties agree that any appropriate state court located in Brown County, Wisconsin or federal court for the Eastern District of Wisconsin shall have jurisdiction of any case or controversy arising under or in connection with this Agreement shall be a proper forum in which to adjudicate such case or controversy. The parties consent and waive any objection to the jurisdiction or venue of such courts.
13. **Interpretation**. Words importing any gender include all genders. Words importing the singular form shall include the plural and vice versa. The terms "herein," "hereunder," "hereby," "hereto," "hereof" and any similar terms refer to this Agreement. Any captions, titles or headings preceding the text of any article, section or subsection herein are solely for convenience of reference and shall not constitute part of this Agreement or affect its meaning, construction or effect.
14. **Entire Agreement**. This Agreement embodies the entire and final agreement of the parties on the subject matter stated in this Agreement. No amendment or modification of this Agreement shall be valid or binding upon the Employer or the Executive unless made in writing and signed by all parties. All prior understandings and agreements relating to the subject matter of this Agreement, including,

but not limited to, the Prior Employment Agreement, are hereby expressly terminated without any obligations owing to the Executive on account of the termination of those agreements.

15. **Rights of Third Parties**. Nothing herein expressed is intended to or shall be construed to confer upon or give to any person, firm or other entity, other than the parties hereto and their permitted assigns, any rights or remedies under or by reason of this Agreement.
16. **Costs of Enforcement**. In the event of a dispute related to a breach of the Agreement results in a legal action initiated by either party to enforce its rights thereunder, the successful or prevailing party or parties in such action shall be entitled to recover reasonable attorneys' fees, court costs and all expenses, incurred in that action, in addition to any other relief to which such party or parties may be entitled. The non-prevailing party shall pay such costs and expenses to the prevailing party within sixty (60) days after a final determination (excluding any appeals) is made with respect to the litigation.
17. **Survival**. The obligations of the parties pursuant to Sections 3.11, 4.2, 4.3, 5 through 9, 15, 16, 17, and 22, as applicable, shall survive the Executive's Termination of Employment hereunder for the period designated under each of those respective sections.
18. **Representation Regarding Restrictive Covenants**. The Executive represents that the Executive is not and, during the Term, will not become a party to any non-competition or non-solicitation agreement or any other agreement which would prohibit the Executive from entering into this Agreement or providing the services for the Employer contemplated by this Agreement on or after the Effective Date. In the event the Executive is subject to any such agreement, this Agreement shall be rendered null and void and the Employer shall have no obligations to the Executive under this Agreement.
19. **Section 409A**. It is the intent of the parties that any payment to which the Executive is entitled under this Agreement be exempt from Section 409A of the Code to the maximum extent permitted under Section 409A of the Code. However, to the extent any such amounts are considered to be "nonqualified deferred compensation" subject to Section 409A of the Code, such amounts shall be paid and provided in a manner, and at such time and form, as complies with the applicable requirements of Section 409A of the Code to avoid the unfavorable tax consequences provided therein for non-compliance. Neither the Executive nor the Employer shall intentionally take any action to accelerate or delay the payment of any amounts in any manner which would not be in compliance with Section 409A of the Code without the consent of the other party. For purposes of this Agreement, all rights to payments shall be treated as rights to receive a series of separate payments to the fullest extent allowed by Section 409A of the Code. It is also intended that the payments satisfy, to the greatest extent possible, the exemptions from the application of Code Section 409A, including those provided under Treasury Regulations Section 1.409A-1(b)(4) (regarding short-term deferrals), Section 1.409A-1(b)(9)(iii) (regarding the severance pay exception) and Section 1.409A-1(b)(9)(iv) (regarding reimbursements and other separation pay).
20. **Definitions**. Whenever used in this Agreement, the following terms and their variant forms shall have the meanings set forth below:
 - (a) **"Affiliate"** shall mean any entity which controls, is controlled by, or is under common control with another entity. For this purpose, "control" means ownership of more than fifty percent (50%) of the ordinary voting power of the outstanding equity securities of an entity.
 - (b) **"Agreement"** shall mean this Agreement and any exhibits incorporated herein together with any amendments hereto made in the manner described in this Agreement.

(c) “**Area**” shall mean the geographic areas encompassed by a fifty (50) mile radius from the Bank’s corporate office and each branch office, it being the express intent of the parties that the Area as defined herein is the area where the Executive performs services on behalf of the Employer under this Agreement.

(d) “**Bank**” means Nicolet National Bank, a national bank, or any successor thereto.

(e) “**Board of Directors**” shall mean the board of directors of Company and/or of the Bank, as the context requires and, where appropriate, includes any committee thereof or other designee.

(f) “**Business of the Employer**” shall mean the business conducted by the Employer, which is the business of commercial and consumer banking and the provision of wealth management products and services.

(g) “**Cause**” shall mean any one of the following events:

(1) a material breach of the terms of this Agreement by the Executive, including, without limitation, failure by the Executive to perform his duties and responsibilities in the manner and to the extent required under this Agreement, which remains uncured after the expiration of thirty (30) days following the delivery of written notice of such breach to the Executive by the Employer. Such notice shall (i) specifically identify the duties that the Board of Directors believes the Executive has failed to perform, (ii) state the facts upon which the Board of Directors made such determination, and (iii) be approved by a resolution passed by two-thirds ($\frac{2}{3}$) of the directors then in office;

(2) conduct by the Executive that amounts to fraud, dishonesty or willful misconduct in the performance of his duties and responsibilities hereunder;

(3) arrest for, charged in relation to (by criminal information, indictment or otherwise), or conviction of the Executive during the Term of this Agreement of a crime involving breach of trust or moral turpitude;

(4) conduct by the Executive that amounts to gross and willful insubordination or inattention to his duties and responsibilities hereunder; or

(5) conduct by the Executive that results in removal from his position as an officer or executive of the Employer pursuant to a written order by any regulatory agency with authority or jurisdiction over the Employer.

(h) “**Change of Control**” means any one of the following events occurring after the Effective Date:

(1) (i) when a person or a group acquires stock of the Bank that, combined with stock previously owned, controls more than fifty percent (50%) of the value or voting power of the stock of the Bank; (ii) on the date that, during any twelve-month period, either (x) any person or group acquires stock possessing thirty percent (30%) or more of the voting power of the stock of the Bank or (y) the majority of the Board of Directors of the Bank is replaced by persons whose appointment or election is not endorsed by a majority of the Board of Directors of the Bank; or (iii) when a person or group acquires, during any twelve-month period, assets of the Bank having a total gross fair market value equal to forty percent (40%) or more of the total gross fair market value of all of the Bank’s assets.

(2) (i) a “change in the ownership of a corporation,” (ii) a “change in the effective control of a corporation,” or (iii) a “change in the ownership of a substantial portion of the assets of a corporation,” all within the meaning of Code Section 409A; provided, however, that for purposes of determining a “substantial portion of the assets of a corporation,” “eighty-five percent (85%)” shall be used instead of “forty percent (40%).” For purposes of this Section 24(h)(2), “a corporation” refers to only to the Company. Notwithstanding the foregoing, in the event of a merger, consolidation, reorganization share exchange or other transaction as to which the holders of the capital stock of the Company before the transaction continue after the transaction to hold, directly or indirectly through a holding company or otherwise, shares of capital stock of the Company (or other surviving company) representing more than fifty percent (50%) of the value or ordinary voting power to elect directors of the capital stock of the Company (or other surviving company), such transaction shall not constitute a Change of Control for purposes of Section 24(h)(2).

(i) “**Code**” shall mean the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

(j) “**Company**” means Nicolet Bankshares, Inc., a bank holding company organized under the laws of the State of Wisconsin.

(k) “**Competing Business**” shall mean any entity (other than the Employer and their Affiliates) that is conducting business that is the same or substantially the same as the Business of the Employer.

(l) “**Confidential Information**” means data and information relating to the business of the Employer and their Affiliates (which does not rise to the status of a Trade Secret) which is or has been disclosed to the Executive or of which the Executive became aware as a consequence of or through the Executive’s relationship to the Employer and their Affiliates and which has value to the Employer and their Affiliates and is not generally known to its competitors. Confidential Information shall not include any data or information that has been voluntarily disclosed to the public by the Employer or their Affiliates, provided that such public disclosure shall not be deemed to be voluntary when made without authorization by the Executive or any other employee of Employer, or that has been independently developed and disclosed by others, or that otherwise enters the public domain through lawful means.

(m) “**Determination Date**” means (1) during the Executive’s employment, the date for which compliance is being determined, and (2) following Executive’s Termination of Employment, the date of Executive’s Termination of Employment.

(n) “**Disability**” shall mean the inability of the Executive to perform each of his material duties under this Agreement for the duration of the short-term disability period under the Employer’s policy then in effect (or, if no such policy is in effect, a period of one-hundred eighty (180) consecutive days) as certified by a physician chosen by the Employer and reasonably acceptable to the Executive.

(o) “**Effective Date**” means March 7, 2019.

(p) “**Employer Information**” means Confidential Information and Trade Secrets.

(q) “**Good Reason**” shall mean any of the following which occurs on or after the Effective Date:

(1) a material diminution in the authority (including supervisory authority), responsibilities or duties of the Executive as in effect immediately after the Effective Date, without the Executive’s consent, other than any diminution attributable to the sharing of duties and

responsibilities with the Executive's counterpart with whom the offices of Chief Executive Officer and President of the Company are being shared;

(2) following a Change of Control, a material diminution in the Executive's reporting relationships (*e.g.* , the Executive no longer reports directly to the Board of Directors of the Company);

(3) following a Change of Control, a material change in the geography where the Executive must perform his services (*i.e.* , a location that is beyond a fifty-mile radius from the Executive's office location immediately prior to the Change of Control);

(4) following a Change of Control, any material decrease in Annual Base Salary, bonus opportunity, or other benefits provided for in Section 3 from the level in effect immediately prior to the Change of Control; or

(5) a material breach of the Agreement;

provided, however, that in each case of the above, the Executive must provide written notice to the Employer of the occurrence of such action or failure within ninety (90) days after the action or failure first occurs, and the Executive shall only have Good Reason to terminate the Executive's employment if the Employer fails to correct such action or failure within thirty (30) days following receipt of such notice. If the Employer does so fail to correct such action or failure, the Executive must resign effective no later than fifteen (15) days following expiration of the thirty (30)-day correction period.

(r) “ **Material Contact** ” means

(1) with respect to Section 7 of this Agreement, the contact between the Executive and each customer: (i) with whom or which the Executive dealt on behalf of the Employer and/or one or more of their Affiliates in a business capacity or about whom or which the Executive obtained Confidential Information in the ordinary course of business as a result of such Executive's association with the Employer and/or one or more of their Affiliates; and (ii) who or which received products or services from the Employer and/or one or more of their Affiliates within two (2) years prior to the Determination Date; and

(2) with respect to Section 8 of this Agreement, the contact between the Executive and each employee over which the Executive has direct supervisory authority or significant influence and each employee with whom the Executive has obtained Confidential Information regarding, without limitation, that employee's performance and/or compensation giving rise to a competitive advantage by virtue of the Executive's position with the Employer within two (2) years prior to the Determination Date.

(s) “ **Term** ” shall mean the period beginning with the Effective Date and ending on the last business day of the Employer immediately prior to the third anniversary of the Effective Date.

(t) “ **Termination of Employment** ” shall mean a termination of the Executive's employment where either: (1) the Executive has ceased to perform any services for the Employer and all affiliated companies that, together with the Employer, constitute the “service recipient” within the meaning of Code Section 409A and the regulations thereunder (collectively, the “ **Service Recipient** ”) or (2) the level of bona fide services the Executive performs for the Service Recipient after a given date (whether as an employee or as an independent contractor) is reasonably expected to permanently decrease (excluding a decrease as a result of military leave, sick leave, or other bona fide leave of absence if the period of such leave does not exceed six months, or if longer, so long as the Executive retains a right to reemployment with the Service

Recipient under an applicable statute or by contract) to no more than twenty percent (20%) of the average level of bona fide services performed for the Service Recipient (whether as an employee or an independent contractor) over the immediately preceding 36-month period (or the full period of service if the Executive has been providing services to the Service Recipient for less than 36 months). For the avoidance of doubt, whether a Termination of Employment occurs will be made in accordance with Treasury Regulation Section 1.409A-1(b).

(u) “**Trade Secrets**” means Employer or Affiliate information including, but not limited to, technical or nontechnical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans or lists of actual or potential customers or suppliers which:

- (1) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and
- (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

[Signatures on Following Page]

IN WITNESS WHEREOF , the Employer and the Executive have executed and delivered this Agreement as of the date first shown above.

Nicolet Bankshares, Inc.:

By: /s/ Robert B. Atwell
Signature

Robert B. Atwell
Print Name

Chairman, President and Chief Executive Officer
Title

Nicolet National Bank:

By: /s/ Robert B. Atwell
Signature

Robert B. Atwell
Print Name

Chairman
Title

Executive:

/s/ Michael E. Daniels
Michael E. Daniels

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the “Agreement”) is made the 7th day of March, 2019, amending and restating that certain Employment Agreement dated April 29, 2016, to become effective as of the Effective Date (as hereinafter defined), by and between Nicolet Bankshares, Inc., a bank holding company organized under the laws of the State of Wisconsin (the “Company”), Nicolet National Bank, a national bank (the “Bank” and collectively with the Company, the “Employer”), and Robert B. Atwell, a resident of the State of Wisconsin (the “Executive”).

BACKGROUND:

The Employer and Executive are parties to that certain Employment Agreement dated April 29, 2016 (the “Prior Employment Agreement”).

The Bank and the Executive now desire to amend and restate the Prior Employment Agreement to address certain administrative and substantive changes, and (ii) to update the Prior Employment Agreement in a number of respects.

The Employer and the Executive intend that this Agreement embodies the complete terms and conditions of the Executive’s employment with the Employer and supersedes all prior employment and similar agreements between the Executive and the Employer (and/or their Affiliates), as set forth more specifically below.

AGREEMENT:

In consideration of the above premises and the mutual agreements hereinafter set forth, effective as of the Effective Date, the parties hereby agree as follows:

1. Duties.

1.1 Positions. The Executive shall be employed as President and Chief Executive Officer of the Company and as an employee of the Bank, subject to the direction of the Board of Directors, shall perform and discharge faithfully those duties in connection with the conduct of the Business of the Employer for which the Executive is responsible, subject to any specific allocation of duties between the Company and the Bank as may be provided for by the Board of Directors. The duties and responsibilities assumed by, or assigned to, the Executive shall be commensurate with the duties and responsibilities associated with similar positions at other holding companies and community banks of a similar size to the Employer. For as long as the Executive continues to serve on the Board of Directors of the Company and of the Bank, the Executive also shall serve as their Chairperson.

1.2 Full-Time Status. In addition to the duties and responsibilities specifically assigned to the Executive pursuant to Section 1.1 hereof, the Executive shall:

- (a) subject to Section 1.3, devote substantially all of the Executive’s time, energy and skill during regular business hours to the performance of the duties of the Executive’s employment (reasonable vacations and reasonable absences due to illness excepted) and faithfully and industriously perform such duties;

(b) diligently follow and implement all reasonable and lawful management policies and decisions communicated to the Executive by the Board of Directors; and

(c) timely prepare and forward to the Board of Directors all reports and accountings as reasonably may be requested of the Executive.

1.3 Permitted Activities. The Executive shall devote substantially all of the Executive's entire business time, attention and energies to the Business of the Employer, but as long as the following activities do not interfere with the Executive's obligations to the Employer, this shall not be construed as preventing the Executive from:

(a) investing the Executive's personal assets in any manner which will not require any services on the part of the Executive in the operation or affairs of the entity and in which the Executive's participation is solely that of an investor; provided that such investment activity following the Effective Date shall not result in the Executive owning beneficially at any time one percent (1%) or more of the equity securities of any Competing Business; or

(b) participating in civic and professional affairs and organizations and conferences, preparing or publishing papers or books, teaching or serving on the board of directors of an entity so long as any such participation does not interfere with the ability of the Executive to effectively discharge the Executive's duties hereunder; provided further, that the Board of Directors may direct the Executive in writing to resign from any such organization and/or cease such activities should the Board of Directors reasonably conclude that continued membership and/or activities of the type identified would not be in the best interests of the Employer.

2. Term. This Agreement shall remain in effect for the Term. While this Agreement remains in effect, it shall automatically renew each day after the date of this Agreement so that the Term remains a three-year term from day-to-day hereafter unless the Employer or the Executive gives written notice to the other of its or his intent that the automatic renewals shall cease. In the event such notice of non-renewal is properly given, this Agreement and the Term shall expire on the third anniversary of the thirtieth (30th) day following the date such written notice is received. In the event the Executive continues to provide services to the Employer as an employee following the expiration of the Term, but without entering into a new written employment agreement, such post-expiration of the Term employment shall be deemed to be performed on an "at-will" basis and either party may thereafter terminate such employment with or without notice and for any or no reason and without any obligations determined by reference to this Agreement.

3. Compensation. The Employer shall pay or otherwise provide the Executive the following during the Term, except as otherwise provided below:

3.1 Annual Base Salary. The Executive shall be paid a base salary at the annual base rate of Five Hundred Ten Thousand and No/100 Dollars (\$510,000) (the "Annual Base Salary"). The Executive's Annual Base Salary shall be reviewed by the Board of Directors annually for potential increases, as determined by the Board of Directors based on its evaluation of the Executive's performance. The Executive's Annual Base Salary shall be payable in accordance with the Bank's normal payroll practices.

3.2 Annual Incentive Compensation. Unless otherwise prohibited by banking regulation, rule or directive, the Executive shall have the opportunity to earn annual bonus compensation in such manner as may be determined by, and based on performance measures or target levels as may be established by, the Board of Directors upon the recommendation of the Compensation Committee of the Board of Directors (the "Committee") consistent with the Bank's strategic planning process, pursuant to any incentive compensation

program as may be adopted from time to time by the Board of Directors (an “Annual Bonus”). Any Annual Bonus earned shall be payable in cash or cash equivalents by March 15th of the calendar year following the calendar year in which the bonus is earned in accordance with the Bank’s normal practices for the payment of short-term incentives. To be entitled to any payment of bonus compensation from the Bank pursuant to Section 3.2, the Executive must be employed by the Employer on the last day of the applicable performance period and must continue to be employed until the date that such payment is made.

3.3 Equity Award. The Executive shall be entitled to such equity incentive awards in the discretion of the Board of Directors of the Company (or any committee thereof) based upon and/or subject to any performance measures as may be established by the granting entity; provided, however, that, in general, the Company shall make awards at such times and subject to such terms and conditions that are no less favorable than awards granted to similarly situated executives.

3.4 Life Insurance. The Employer shall provide the Executive with term life insurance coverage on the Executive’s life with a death benefit of no less than One Million Five Hundred Thousand Dollars (\$1,500,000), with such death benefit payable to such beneficiary or beneficiaries as the Executive may designate.

3.5 Business and Professional Education Expenses; Memberships. In accordance with the reimbursement policies from time to time adopted by the Board of Directors and consistent with the annual budget approved for the period during which an expense was incurred, the Employer specifically agrees to reimburse the Executive for reasonable and necessary business expenses incurred by the Executive in the performance of the Executive’s duties hereunder; provided, however, that the Executive shall, as a condition of any such reimbursement, submit verification of the nature and amount of such expenses in accordance with such reimbursement policies and in sufficient detail to comply with rules and regulations promulgated by the United States Treasury Department. Notwithstanding anything to the contrary in the foregoing, the Employer acknowledges and agrees that reasonable and necessary business expenses for purposes of this Section 3.5 shall include reimbursement for the cost of the annual dues for membership in the country clubs in which the Executive is a member as of the Effective Date and the use of an automobile of a make and model determined by the Employer. The Employer shall pay the expenses associated with the operation, maintenance, repair and insurance for the automobile. The Executive shall be responsible for maintaining adequate records of the Executive’s personal use of the automobile and for timely providing the Employer with such records on an annual basis. In the event of any failure to do so, the Employer shall report the entire value of the use of the automobile and related reimbursements as taxable income to the Executive. Except as otherwise provided in this Section 3.5, the Executive acknowledges that the Employer makes no representation with respect to the taxability or non-taxability of the benefits provided under this Section 3.5.

3.6 Paid Leave. The Executive shall be entitled to paid leave of no less than twenty-four (24) days per calendar year, subject to proration and exclusive of paid leave for holidays and sickness, with such paid leave to be taken in accordance with the Bank’s policy for paid leave as may be in effect from time to time. All use of Executive’s paid leave shall be determined in accordance with the Bank’s paid leave policy as in effect from time to time.

3.7 Benefits. In addition to the benefits specifically described in this Agreement, the Executive shall be entitled to such benefits as may be available from time to time to similarly situated employees of the Employer. All such benefits shall be awarded and administered in accordance with the Employer’s standard policies and practices.

3.8 Withholding. The Employer may deduct from each payment of compensation hereunder all amounts required to be deducted and withheld in accordance with applicable federal and state income, FICA

and other withholding requirements. The Executive further acknowledges and agrees that the Employer's provision of certain in-kind benefits and reimbursements of expenses will result in income or imputed income for income tax purposes in accordance with applicable tax laws and that such income or imputed income also may be subject to tax withholding obligations that may be satisfied by deductions made from other compensation otherwise payable to the Executive by the Employer.

3.9 Apportionment of Obligations . The obligations for the payment of the amounts otherwise payable pursuant to this Section 3 shall be apportioned between the Company and the Bank as they may agree from time to time in their sole discretion. The satisfaction of the obligations in this Section 3 and Section 4 shall be subject to any approvals or non-objections from, and any conditions or restrictions imposed by, any regulator of the Employer.

3.10 Reimbursement of Expenses; In-Kind Benefits . All expenses eligible for reimbursements described in this Agreement must be incurred by the Executive during the Term to be eligible for reimbursement. All in-kind benefits described in this Section 3 must be provided by the Employer during the Term. The amount of reimbursable expenses incurred, and the amount of in-kind benefits provided, in one taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits provided, in any other taxable year. Each category of reimbursement shall be paid as soon as administratively practicable, but in no event shall any such reimbursement be paid after the last day of the calendar year following the calendar year in which the expense was incurred. Neither rights to reimbursement nor in-kind benefits are subject to liquidation or exchanges for other benefits.

3.11 Clawback of Incentive Compensation . The Executive agrees to repay any incentive compensation previously paid or otherwise made available to the Executive under this Agreement that is subject to recovery under any applicable law (including any rule of any exchange or service through which the securities of the Employer are then traded), including, but not limited to, the following circumstances:

- (a) where such compensation was in excess of what should have been paid or made available because the determination of the amount due was based, in whole or in part, on materially inaccurate financial information of the Employer;
- (b) where such compensation constitutes "excessive compensation" within the meaning of 12 C.F.R. Part 30, Appendix A;
- (c) where the Executive has committed, is substantially responsible for, or has violated, the respective acts, omissions, conditions, or offenses outlined under 12 C.F.R. Section 359.4(a)(4); and
- (d) if the Employer becomes, and for so long as the Employer remains, subject to the provisions of 12 U.S.C. Section 1831o(f), where such compensation exceeds the restrictions imposed on the senior executive officers of such an entity.

The Executive agrees to return promptly any such compensation identified by the Employer by written notice provided pursuant to Section 12. If the Executive fails to return such compensation promptly, the Executive agrees that the amount of such compensation may be deducted from any and all other compensation owed to the Executive by the Employer. If the Executive is then employed by the Employer, the Executive acknowledges that the Employer may take appropriate disciplinary action (up to, and including, Termination of Employment) if the Executive fails to return such compensation. The Executive acknowledges the Employer's rights to engage in any legal or equitable action or proceeding in order to enforce the provisions

of this Section 3.11. The provisions of this Section 3.11 shall be modified to the extent, and remain in effect for the period, required by applicable law.

4. Termination; Suspension or Reduction of Benefits.

4.1 Termination of Employment. During the Term, the Executive's Termination of Employment under this Agreement may only occur as follows:

(a) By the Employer by notice in writing:

(1) for Cause; provided that the Employer shall give the Executive any prior written notice required by Section 24(g);

(2) without Cause (other than pursuant to Section 4.1(a)(3) below) at any time, provided that the Employer shall give the Executive thirty (30) days prior written notice of its intent; or

(3) in the event that a regulator for the Employer requires the Executive's removal from service in one or more of the positions described in Section 1.1.

(b) By the Executive:

(1) for any reason (other than pursuant to Section 4.1(b)(2)), provided that the Executive shall give the Employer thirty (30) days' prior written notice of the Executive's intent to effect such a Termination of Employment; or

(2) for Good Reason, provided that the Executive shall give the Employer the prior written notice described in Section 24(q).

(c) Upon the Executive becoming subject to a Disability; provided however, that if this Section 4.1(c) is invoked by the Employer, the Employer shall provide the Executive with at least sixty (60) days' prior written notice of the effective date of the Termination of Employment, in which event, the Employer shall be required to continue to meet its obligations under Section 3.1 for a period of six (6) months following the Termination of Employment or until the Executive begins receiving payments under the Bank's long-term disability policy, whichever occurs first.

(d) At any time upon mutual, written agreement of the parties.

(e) Upon expiration, including non-renewal, of the Term.

(f) Notwithstanding anything in this Agreement to the contrary, the Term shall end automatically upon the Executive's death.

4.2 Severance. If, during the Term but prior to, or more than six (6) months following, a Change of Control, the Executive experiences an involuntary Termination of Employment by the Employer without Cause pursuant to Section 4.1(a)(2) or a Termination of Employment due to a resignation by the Executive for Good Reason pursuant to Section 4.1(b)(2), the Executive shall receive as liquidated damages, in lieu of all other claims and payments under this Agreement, severance in the form of (a) the continuation of Annual Base Salary, at the rate of Annual Base Salary in effect as of the effective date of the Termination of Employment, for a period of twelve (12) months, and (b) reimbursement by the Employer for the Executive's cost of such health coverage as was in effect immediately prior to the Termination of Employment for himself

and covered dependents with such reimbursement to continue for the lesser of (i) twelve (12) months, or (ii) the health continuation coverage period for which the Executive is eligible as a result of the Termination of Employment. Any severance payable pursuant to this Section 4.2 shall be paid in substantially equal increments in cash or cash equivalents in accordance with the Bank's regular payroll practices, but no less frequently than monthly, commencing with the first payroll date that is more than sixty (60) days following the date of the Executive's Termination of Employment.

4.3 Change of Control. If, within six (6) months following a Change of Control, the Executive experiences an involuntary Termination of Employment by the Employer without Cause pursuant to Section 4.1(a)(2) or a Termination of Employment due to a resignation by the Executive for Good Reason pursuant to Section 4.1(b)(2), the Executive shall receive, as liquidated damages, in lieu of all other claims and payments under this Agreement, the following:

(a) if the Change of Control is an event described in Section 24(h)(1)(i) or (iii), (1) severance as a lump sum payment equal to two (2) times the sum of the Annual Base Salary and the target Annual Bonus opportunity as was in effect immediately prior to the Change of Control, plus (2) reimbursement by the Employer for the Executive's cost of such health coverage as was in effect immediately prior to the Change of Control for himself and covered dependents with such reimbursements equal to the amounts that would be paid for the lesser of (i) twelve (12) months, or (ii) the health continuation coverage period for which the Executive is eligible as a result of the Termination of Employment.

(b) if the Change of Control is an event described in Section 24(h)(1)(ii) or Section 24(h)(2) that is also *not* an event described in Section 24(h)(1)(i) or (iii), (1) severance in the form of pay continuation, at the rate equal to two (2) times the sum of the Annual Base Salary and the target Annual Bonus opportunity as was in effect immediately prior to the Change of Control for a period of twelve (12) months, plus (2) reimbursement by the Employer for the Executive's cost of such health coverage as was in effect immediately prior to the Change of Control for himself and covered dependents with such reimbursements to continue for the lesser of (i) twelve (12) months, or (ii) the health continuation coverage period for which the Executive is eligible as a result of the Termination of Employment.

Any severance payable pursuant to Section 4.3(a)(1) shall be paid in a lump sum on the first payroll date that is more than sixty (60) days following the date of the Executive's Termination of Employment. Any severance payable pursuant to Section 4.3(a)(2) or 4.3(b) shall be paid in substantially equal increments in cash or cash equivalents in accordance with the Bank's regular payroll practices, but no less frequently than monthly, commencing with the first payroll date that is more than sixty (60) days following the date of the Executive's Termination of Employment.

4.4 Parachute Payments. In no event shall any payment or other consideration payable to the Executive by the Employer exceed the amount permitted by Code Section 280G. Therefore, if the aggregate present value (determined in accordance with the provisions of Code Section 280G) of both the amounts payable to the Executive under this Agreement and all other amounts payable to the Executive by the Employer in the nature of compensation (the "Aggregate Payments") would result in a "parachute payment," as defined under Code Section 280G, then the Aggregate Payments shall not be greater than an amount equal to 2.99 multiplied by the Executive's "base amount" for the "base period", as those terms are defined under Code Section 280G. In the event the Aggregate Payments are required to be reduced pursuant to this Section, the Aggregate Payments will be reduced by category in the following order: (a) cancellation of accelerated vesting of equity awards; (b) reduction or elimination of cash severance benefits that are subject to Code Section 409A; (c) reduction or elimination of cash severance benefits that are not subject to Code Section

409A; (d) reduction or elimination of any remaining portion of the Aggregate Payments that are subject to Code Section 409A; and (e) reduction or elimination of any remaining portion of the Aggregate Payments that are not subject to Code Section 409A. In the event that acceleration of vesting of equity award compensation is to be cancelled, such acceleration of vesting will be cancelled in the reverse order of the date of grant of the Executive's equity awards. Within each other category, cash payments and payments with respect to any equity award will be reduced pro rata based on the portion of cash or other payment with respect to the Aggregate Payments, in each case beginning with payments that would otherwise be made last in time; provided that in no event shall the cash portion of the Aggregate Payments be less than the amount of federal and state income tax withholding owed by the Executive with respect to the Aggregate Payments.

4.5 Effect of Termination of Employment.

(a) Upon Executive's Termination of Employment hereunder for any reason, the Employer shall have no further obligations to the Executive or the Executive's estate with respect to this Agreement, except for (1) the payment of any amount earned and owing under this Agreement; (2) the reimbursement of any expenses under Section 3.5; and (3) any payment set forth in Section 4.2 or Section 4.3, if applicable.

(b) Notwithstanding any other provision of this Agreement to the contrary, as a condition of the Employer's payment of any amount in connection with the Executive's Termination of Employment pursuant to Section 4.2 or Section 4.3, the Executive must execute and not timely revoke during any revocation period provided therein, a release in the form provided by the Employer. The Employer shall provide the release to the Executive in sufficient time so that if the Executive timely executes and returns the release, the revocation period will expire no later than sixty (60) days following the effective date of the Termination of Employment.

(c) Notwithstanding any provision in the Agreement to the contrary, to the extent necessary to avoid the imposition of tax on the Executive under Code Section 409A, any payments that are otherwise payable to the Executive within the first six (6) months following the effective date of Termination of Employment, shall be suspended and paid as soon as practicable following the end of the six-month period following such effective date if, immediately prior to the Executive's Termination of Employment, the Executive is determined to be a "specified employee" (within the meaning of Code Section 409A(a)(2)(B)(i)) of the Employer (or any related "service recipient" within the meaning of Code Section 409A and the regulations thereunder). Any payments suspended by operation of the foregoing sentence shall be paid as a lump sum within thirty (30) days following the end of such six-month period.

(d) If the Executive is a member of the board of directors of either the Company or any Affiliate of the Company and the Executive's employment is terminated by the Employer or by the Executive pursuant to Section 4.1, the Executive shall immediately resign from the Executive's position(s) on such board(s) of directors, effective no later than the effective date of the Termination of Employment.

(e) Notwithstanding anything contained in this Agreement to the contrary, no payments shall be made pursuant to Section 4 or any other provision herein in contravention of the requirements of Section 18(k) of the Federal Deposit Insurance Act ("FDIA") (12 U.S.C. Section 1828(k)).

4.6 Regulatory Action.

(a) If the Executive is removed and/or permanently prohibited from participating in the conduct of the Employer's affairs by an order issued under Section 8(e)(4) or 8(g)(1) of the FDIA (12 U.S.C. Sections 1818(e)(4) and (g)(1)), all obligations of the Employer under this Agreement shall terminate, as of the effective date of such order, except for the payment of Annual Base Salary due and owing under Section 3.1 on the effective date of said order, and reimbursement under Section 3.5 of expenses incurred as of the effective date of termination.

(b) If the Executive is suspended and/or temporarily prohibited from participating in the conduct of the Employer's affairs by a notice served under Section 8(e)(3) or 8(g)(1) of the FDIA (12 U.S.C. Sections 1818(e)(3) and (g)(1)), all obligations of the Employer under this Agreement shall be suspended as of the date of service, unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Employer shall reinstate any of its obligations which were suspended to the extent permitted by applicable law.

(c) If the Employer is in default (as defined in Section 3(x)(1) of the FDIA), all obligations under this Agreement shall terminate as of the date of default, but the vested rights of the parties shall not be affected.

(d) If the Federal Deposit Insurance Corporation (" FDIC ") is appointed receiver or conservator under Section 11(c) of the FDIA (12 U.S.C. Section 1821(c)) of the Company or any depository institution controlled by the Company, the Employer shall have the right to terminate all obligations of the Employer under this Agreement as of the date of such receivership or conservatorship, other than any rights of the Executive that vested prior to such appointment. To the extent the Employer is or encompasses a depository institution, any vested rights of the Executive may be subject to such modifications that are consistent with the authority of the FDIC.

(e) If the FDIC provides open bank assistance under Section 13(c) of the FDIA (12 U.S.C. Section 1823(c)) to the Company or any depository institution controlled by the Company, but excluding any such assistance provided to the industry generally, the Employer shall have the right to terminate all obligations of the Employer under this Agreement as of the date of such assistance, other than any rights of the Executive that vested prior to the FDIC action. To the extent the Employer is or encompasses a depository institution, any vested rights of the Executive may be subject to such modifications that are consistent with the authority of the FDIC.

(f) If the FDIC requires a transaction under Section 13(f) or 13(k) of the FDIA (12 U.S.C. Sections 1823(f) and (k)) by the Employer or any depository institution controlled by the Employer, the Employer shall have the right to terminate all obligations of the Employer under this Agreement as of the date of such transaction, other than any rights of the Executive that vested prior to the transaction. To the extent the Employer is or encompasses a depository institution, any vested rights of the Executive may be subject to such modifications that are consistent with the authority of the FDIC.

(g) Notwithstanding the timing for the payment of any severance amount described in Section 4.2 or Section 4.3, no such payments shall be made or commence, as applicable, that require the concurrence or consent of the appropriate federal banking agency of the Employer pursuant to 12 C.F.R. Section 359 prior to the receipt of such concurrence or consent.

(h) All obligations under this Agreement are further subject to such conditions, restrictions, limitations and forfeiture provisions as may separately apply pursuant to any applicable state banking laws.

1. **Employer Information.**

5.1 Ownership of Employer Information. All Employer Information received or developed by the Executive or by the Employer while the Executive is employed by the Employer will remain the sole and exclusive property of the Employer.

5.2 Obligations of the Executive. The Executive agrees:

- (a) to hold Employer Information in strictest confidence;
- (b) not to use, duplicate, reproduce, distribute, disclose or otherwise disseminate Employer Information or any physical embodiments of Employer Information to any unauthorized recipient; and
- (c) in any event, not to take any action causing, or fail to take any action necessary in order to prevent, any Employer Information from losing its character or ceasing to qualify as Confidential Information or a Trade Secret;

provided however, that none of the foregoing obligations shall preclude the Executive from making any disclosures of Employer Information required by law. In the event that the Executive is required by law to disclose any Employer Information, the Executive will not make such disclosure unless (and then only to the extent that) the Executive has been advised by independent legal counsel that such disclosure is required by law and then only after prior written notice is given to the Employer when the Executive becomes aware that such disclosure has been requested and is required by law. This Section 5 shall survive for a period of twelve (12) months following termination of this Agreement for any reason with respect to Confidential Information, and shall survive termination of this Agreement for any reason for so long as is permitted by applicable law with respect to Trade Secrets.

5.3 Delivery upon Request or Termination. Upon request by the Employer, and in any event upon the Executive's Termination of Employment with the Employer, the Executive will promptly deliver to the Employer all property belonging to the Employer and their Affiliates, including, without limitation, all Employer Information then in the Executive's possession or control.

- 2. **Non-Competition.** The Executive agrees that during the Executive's employment by the Employer hereunder, and in the event of the Executive's Termination of Employment, regardless of the reason, for a period of twenty-four (24) months thereafter, the Executive will not (except on behalf of or with the prior written consent of the Employer), within the Area, either directly or indirectly, on the Executive's own behalf or in the service or on behalf of others, perform for any Competing Business any services which are the same as or essentially the same as the services the Executive provided for the Employer. The Executive acknowledges and agrees that the Business of the Employer is conducted in the Area.
- 3. **Non-Solicitation of Customers.** The Executive agrees that during the Executive's employment by the Employer hereunder, and in the event of the Executive's Termination of Employment, regardless of the reason, for a period of twenty-four (24) months thereafter, the Executive will not (except on behalf of or with the prior written consent of the Employer) on the Executive's own behalf or in the service or on behalf of others, solicit, divert or appropriate or attempt to solicit, divert or appropriate,

any business from any of the Employer's customers with whom the Executive has or had Material Contact for purposes of providing products or services that are competitive with those provided by the Employer in connection with the Business of the Employer.

4. **Non-Solicitation of Employees**. The Executive agrees that during the Executive's employment by the Employer hereunder, and in the event of the Executive's Termination of Employment, regardless of the reason, for a period of twenty-four (24) months thereafter, the Executive will not (except on behalf of or with the prior written consent of the Employer) on the Executive's own behalf or in the service or on behalf of others, solicit or recruit or attempt to solicit or recruit any employee of the Employer with whom the Executive had Material Contact, whether or not such employee is a full-time employee or a temporary employee of the Employer, such employment is pursuant to written agreement, for a determined period, or at will.
5. **Remedies**. The Executive agrees that the covenants contained in Sections 5 through 8 of this Agreement are of the essence of this Agreement, that each of the covenants is reasonable and necessary to protect the business, interests and properties of the Employer and their Affiliates, and that irreparable loss and damage will be suffered by the Employer should the Executive breach any of the covenants. Therefore, the Executive agrees and consents that, in addition to all the remedies provided by law or in equity, the Employer shall be entitled to seek a temporary restraining order and temporary and permanent injunctions to prevent a breach or contemplated breach of any of the covenants. Furthermore, in addition to any other remedies, the Executive agrees that any willful violation of the covenants in Sections 5 through 8 that results in material harm to the Employer will result in the immediate forfeiture of any payment that otherwise is or may become due under Section 4.2 or Section 4.3. The Employer and the Executive agree that all remedies available to the Employer shall be cumulative.
6. **Severability**. The parties agree that each of the provisions included in this Agreement is separate, distinct and severable from the other provisions of this Agreement and that the invalidity or unenforceability of any Agreement provision shall not affect the validity or enforceability of any other provision of this Agreement. Further, if any provision of this Agreement is ruled invalid or unenforceable by a court of competent jurisdiction because of a conflict between the provision and any applicable law or public policy, the provision shall be redrawn to make the provision consistent with, and valid and enforceable under, the law or public policy.
7. **No Set-Off by the Executive**. The existence of any claim, demand, action or cause of action by the Executive against the Employer whether predicated upon this Agreement or otherwise, shall not constitute a defense to the enforcement by the Employer of any of its rights hereunder.
8. **Notice**. All notices, requests, waivers and other communications required or permitted hereunder shall be in writing and shall be either personally delivered, sent by reputable overnight courier service or mailed by first class mail, return receipt requested, to the recipient at the address below indicated:

If to the Employer: Nicolet Bankshares, Inc.
111 N. Washington Street
Green Bay, Wisconsin 54301
Attn: Executive Committee

If to the Executive: The address most recently on file with the Employer

or such other address or to the attention of such other person as the recipient party shall have specified by prior written notice to the sending party. All such notices, requests, waivers and other communications shall be deemed to have been effectively given: (a) when personally delivered to the party to be notified; (b) when sent by confirmed facsimile to the party to be notified; (c) five (5) business days after deposit in the United States Mail postage prepaid by certified or registered mail with return receipt requested at any time other than during a general discontinuance of postal service due to strike, lockout, or otherwise (in which case such notice, request, waiver or other communication shall be effectively given upon receipt) and addressed to the party to be notified as set forth above; or (d) two (2) business days after deposit with a reputable overnight delivery service, postage prepaid, addressed to the party to be notified as set forth above with next-business-day delivery guaranteed. A party may change its or her notice address given above by giving the other party ten (10) days' written notice of the new address in the manner set forth above.

9. **Assignment**. The rights and obligations of the Employer under this Agreement shall inure to the benefit of and shall be binding upon the successors and permitted assigns of the Employer, including without limitation, a purchaser of all or substantially all the assets of the Employer. If the Agreement is assigned pursuant to the foregoing sentence, the assignment shall be by novation and the Employer shall have no further liability hereunder, and the successor or assign, as applicable, shall become the "Employer" hereunder, but the Executive will not be deemed to have experienced a Termination of Employment by virtue of such assignment. The Agreement is a personal contract and the rights and interest of the Executive may not be assigned by the Executive. This Agreement shall inure to the benefit of and be enforceable by the Executive and the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.
10. **Waiver**. A waiver by one party to this Agreement of any breach of this Agreement by any other party to this Agreement shall not be effective unless in writing, and no waiver shall operate or be construed as a waiver of the same or another breach on a subsequent occasion.
11. **Mediation**. Except with respect to Sections 5 through 9 above, and as provided in Section 16 hereof, if any dispute arises out of or relates to this Agreement, or a breach thereof, and if the dispute cannot be settled through direct discussions between the parties, the parties agree to first endeavor to settle the dispute in an amicable manner by mediation under the Commercial Mediation Rules of the American Arbitration Association before resorting to any other process for resolving the dispute.
12. **Applicable Law and Choice of Forum**. This Agreement shall be construed and enforced under and in accordance with the laws of the State of Wisconsin. The parties agree that any appropriate state court located in Brown County, Wisconsin or federal court for the Eastern District of Wisconsin shall have jurisdiction of any case or controversy arising under or in connection with this Agreement shall be a proper forum in which to adjudicate such case or controversy. The parties consent and waive any objection to the jurisdiction or venue of such courts.
13. **Interpretation**. Words importing any gender include all genders. Words importing the singular form shall include the plural and vice versa. The terms "herein," "hereunder," "hereby," "hereto," "hereof" and any similar terms refer to this Agreement. Any captions, titles or headings preceding the text of any article, section or subsection herein are solely for convenience of reference and shall not constitute part of this Agreement or affect its meaning, construction or effect.
14. **Entire Agreement**. This Agreement embodies the entire and final agreement of the parties on the subject matter stated in this Agreement. No amendment or modification of this Agreement shall be valid or binding upon the Employer or the Executive unless made in writing and signed by all parties. All prior understandings and agreements relating to the subject matter of this Agreement, including,

but not limited to, the Prior Employment Agreement, are hereby expressly terminated without any obligations owing to the Executive on account of the termination of those agreements.

15. **Rights of Third Parties**. Nothing herein expressed is intended to or shall be construed to confer upon or give to any person, firm or other entity, other than the parties hereto and their permitted assigns, any rights or remedies under or by reason of this Agreement.
16. **Costs of Enforcement**. In the event of a dispute related to a breach of the Agreement results in a legal action initiated by either party to enforce its rights thereunder, the successful or prevailing party or parties in such action shall be entitled to recover reasonable attorneys' fees, court costs and all expenses, incurred in that action, in addition to any other relief to which such party or parties may be entitled. The non-prevailing party shall pay such costs and expenses to the prevailing party within sixty (60) days after a final determination (excluding any appeals) is made with respect to the litigation.
17. **Survival**. The obligations of the parties pursuant to Sections 3.11, 4.2, 4.3, 5 through 9, 15, 16, 17, and 22, as applicable, shall survive the Executive's Termination of Employment hereunder for the period designated under each of those respective sections.
18. **Representation Regarding Restrictive Covenants**. The Executive represents that the Executive is not and, during the Term, will not become a party to any non-competition or non-solicitation agreement or any other agreement which would prohibit the Executive from entering into this Agreement or providing the services for the Employer contemplated by this Agreement on or after the Effective Date. In the event the Executive is subject to any such agreement, this Agreement shall be rendered null and void and the Employer shall have no obligations to the Executive under this Agreement.
19. **Section 409A**. It is the intent of the parties that any payment to which the Executive is entitled under this Agreement be exempt from Section 409A of the Code to the maximum extent permitted under Section 409A of the Code. However, to the extent any such amounts are considered to be "nonqualified deferred compensation" subject to Section 409A of the Code, such amounts shall be paid and provided in a manner, and at such time and form, as complies with the applicable requirements of Section 409A of the Code to avoid the unfavorable tax consequences provided therein for non-compliance. Neither the Executive nor the Employer shall intentionally take any action to accelerate or delay the payment of any amounts in any manner which would not be in compliance with Section 409A of the Code without the consent of the other party. For purposes of this Agreement, all rights to payments shall be treated as rights to receive a series of separate payments to the fullest extent allowed by Section 409A of the Code. It is also intended that the payments satisfy, to the greatest extent possible, the exemptions from the application of Code Section 409A, including those provided under Treasury Regulations Section 1.409A-1(b)(4) (regarding short-term deferrals), Section 1.409A-1(b)(9)(iii) (regarding the severance pay exception) and Section 1.409A-1(b)(9)(iv) (regarding reimbursements and other separation pay).
20. **Definitions**. Whenever used in this Agreement, the following terms and their variant forms shall have the meanings set forth below:
 - (a) **"Affiliate"** shall mean any entity which controls, is controlled by, or is under common control with another entity. For this purpose, "control" means ownership of more than fifty percent (50%) of the ordinary voting power of the outstanding equity securities of an entity.
 - (b) **"Agreement"** shall mean this Agreement and any exhibits incorporated herein together with any amendments hereto made in the manner described in this Agreement.

(c) “**Area**” shall mean the geographic areas encompassed by a fifty (50) mile radius from the Bank’s corporate office and each branch office, it being the express intent of the parties that the Area as defined herein is the area where the Executive performs services on behalf of the Employer under this Agreement.

(d) “**Bank**” means Nicolet National Bank, a national bank, or any successor thereto.

(e) “**Board of Directors**” shall mean the board of directors of Company and/or of the Bank, as the context requires and, where appropriate, includes any committee thereof or other designee.

(f) “**Business of the Employer**” shall mean the business conducted by the Employer, which is the business of commercial and consumer banking and the provision of wealth management products and services.

(g) “**Cause**” shall mean any one of the following events:

(1) a material breach of the terms of this Agreement by the Executive, including, without limitation, failure by the Executive to perform his duties and responsibilities in the manner and to the extent required under this Agreement, which remains uncured after the expiration of thirty (30) days following the delivery of written notice of such breach to the Executive by the Employer. Such notice shall (i) specifically identify the duties that the Board of Directors believes the Executive has failed to perform, (ii) state the facts upon which the Board of Directors made such determination, and (iii) be approved by a resolution passed by two-thirds ($\frac{2}{3}$) of the directors then in office;

(2) conduct by the Executive that amounts to fraud, dishonesty or willful misconduct in the performance of his duties and responsibilities hereunder;

(3) arrest for, charged in relation to (by criminal information, indictment or otherwise), or conviction of the Executive during the Term of this Agreement of a crime involving breach of trust or moral turpitude;

(4) conduct by the Executive that amounts to gross and willful insubordination or inattention to his duties and responsibilities hereunder; or

(5) conduct by the Executive that results in removal from his position as an officer or executive of the Employer pursuant to a written order by any regulatory agency with authority or jurisdiction over the Employer.

(h) “**Change of Control**” means any one of the following events occurring after the Effective Date:

(1) (i) when a person or a group acquires stock of the Bank that, combined with stock previously owned, controls more than fifty percent (50%) of the value or voting power of the stock of the Bank; (ii) on the date that, during any twelve-month period, either (x) any person or group acquires stock possessing thirty percent (30%) or more of the voting power of the stock of the Bank or (y) the majority of the Board of Directors of the Bank is replaced by persons whose appointment or election is not endorsed by a majority of the Board of Directors of the Bank; or (iii) when a person or group acquires, during any twelve-month period, assets of the Bank having a total gross fair market value equal to forty percent (40%) or more of the total gross fair market value of all of the Bank’s assets.

(2) (i) a “change in the ownership of a corporation,” (ii) a “change in the effective control of a corporation,” or (iii) a “change in the ownership of a substantial portion of the assets of a corporation,” all within the meaning of Code Section 409A; provided, however, that for purposes of determining a “substantial portion of the assets of a corporation,” “eighty-five percent (85%)” shall be used instead of “forty percent (40%).” For purposes of this Section 24(h)(2), “a corporation” refers to only to the Company. Notwithstanding the foregoing, in the event of a merger, consolidation, reorganization share exchange or other transaction as to which the holders of the capital stock of the Company before the transaction continue after the transaction to hold, directly or indirectly through a holding company or otherwise, shares of capital stock of the Company (or other surviving company) representing more than fifty percent (50%) of the value or ordinary voting power to elect directors of the capital stock of the Company (or other surviving company), such transaction shall not constitute a Change of Control for purposes of Section 24(h)(2).

(i) “**Code**” shall mean the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

(j) “**Company**” means Nicolet Bankshares, Inc., a bank holding company organized under the laws of the State of Wisconsin.

(k) “**Competing Business**” shall mean any entity (other than the Employer and their Affiliates) that is conducting business that is the same or substantially the same as the Business of the Employer.

(l) “**Confidential Information**” means data and information relating to the business of the Employer and their Affiliates (which does not rise to the status of a Trade Secret) which is or has been disclosed to the Executive or of which the Executive became aware as a consequence of or through the Executive’s relationship to the Employer and their Affiliates and which has value to the Employer and their Affiliates and is not generally known to its competitors. Confidential Information shall not include any data or information that has been voluntarily disclosed to the public by the Employer or their Affiliates, provided that such public disclosure shall not be deemed to be voluntary when made without authorization by the Executive or any other employee of Employer, or that has been independently developed and disclosed by others, or that otherwise enters the public domain through lawful means.

(m) “**Determination Date**” means (1) during the Executive’s employment, the date for which compliance is being determined, and (2) following Executive’s Termination of Employment, the date of Executive’s Termination of Employment.

(n) “**Disability**” shall mean the inability of the Executive to perform each of his material duties under this Agreement for the duration of the short-term disability period under the Employer’s policy then in effect (or, if no such policy is in effect, a period of one-hundred eighty (180) consecutive days) as certified by a physician chosen by the Employer and reasonably acceptable to the Executive.

(o) “**Effective Date**” means March 7, 2019.

(p) “**Employer Information**” means Confidential Information and Trade Secrets.

(q) “**Good Reason**” shall mean any of the following which occurs on or after the Effective Date:

(1) a material diminution in the authority (including supervisory authority), responsibilities or duties of the Executive as in effect immediately after the Effective Date, without the Executive’s consent, other than any diminution attributable to the sharing of duties and

responsibilities with the Executive's counterpart with whom the offices of Chief Executive Officer and President of the Company are being shared;

(2) following a Change of Control, a material diminution in the Executive's reporting relationships (*e.g.* , the Executive no longer reports directly to the Board of Directors of the Company);

(3) following a Change of Control, a material change in the geography where the Executive must perform his services (*i.e.* , a location that is beyond a fifty-mile radius from the Executive's office location immediately prior to the Change of Control);

(4) following a Change of Control, any material decrease in Annual Base Salary, bonus opportunity, or other benefits provided for in Section 3 from the level in effect immediately prior to the Change of Control; or

(5) a material breach of the Agreement;

provided, however, that in each case of the above, the Executive must provide written notice to the Employer of the occurrence of such action or failure within ninety (90) days after the action or failure first occurs, and the Executive shall only have Good Reason to terminate the Executive's employment if the Employer fails to correct such action or failure within thirty (30) days following receipt of such notice. If the Employer does so fail to correct such action or failure, the Executive must resign effective no later than fifteen (15) days following expiration of the thirty (30)-day correction period.

(r) “ **Material Contact** ” means

(1) with respect to Section 7 of this Agreement, the contact between the Executive and each customer: (i) with whom or which the Executive dealt on behalf of the Employer and/or one or more of their Affiliates in a business capacity or about whom or which the Executive obtained Confidential Information in the ordinary course of business as a result of such Executive's association with the Employer and/or one or more of their Affiliates; and (ii) who or which received products or services from the Employer and/or one or more of their Affiliates within two (2) years prior to the Determination Date; and

(2) with respect to Section 8 of this Agreement, the contact between the Executive and each employee over which the Executive has direct supervisory authority or significant influence and each employee with whom the Executive has obtained Confidential Information regarding, without limitation, that employee's performance and/or compensation giving rise to a competitive advantage by virtue of the Executive's position with the Employer within two (2) years prior to the Determination Date.

(s) “ **Term** ” shall mean the period beginning with the Effective Date and ending on the last business day of the Employer immediately prior to the third anniversary of the Effective Date.

(t) “ **Termination of Employment** ” shall mean a termination of the Executive's employment where either: (1) the Executive has ceased to perform any services for the Employer and all affiliated companies that, together with the Employer, constitute the “service recipient” within the meaning of Code Section 409A and the regulations thereunder (collectively, the “ **Service Recipient** ”) or (2) the level of bona fide services the Executive performs for the Service Recipient after a given date (whether as an employee or as an independent contractor) is reasonably expected to permanently decrease (excluding a decrease as a result of military leave, sick leave, or other bona fide leave of absence if the period of such leave does not exceed six months, or if longer, so long as the Executive retains a right to reemployment with the Service

Recipient under an applicable statute or by contract) to no more than twenty percent (20%) of the average level of bona fide services performed for the Service Recipient (whether as an employee or an independent contractor) over the immediately preceding 36-month period (or the full period of service if the Executive has been providing services to the Service Recipient for less than 36 months). For the avoidance of doubt, whether a Termination of Employment occurs will be made in accordance with Treasury Regulation Section 1.409A-1(b).

(u) “**Trade Secrets**” means Employer or Affiliate information including, but not limited to, technical or nontechnical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans or lists of actual or potential customers or suppliers which:

- (1) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and
- (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

[Signatures on Following Page]

IN WITNESS WHEREOF , the Employer and the Executive have executed and delivered this Agreement as of the date first shown above.

Nicolet Bankshares, Inc.:

By: /s/ Michael E. Daniels
Signature

Michael E. Daniels
Print Name

Executive Vice President & Secretary
Title

Nicolet National Bank:

By: /s/ Michael E. Daniels
Signature

Michael E. Daniels
Print Name

President & CEO
Title

Executive:

/s/ Robert B. Atwell
Robert B. Atwell

Exhibit 10.12
AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT is made as of the 7th day of March, 2019 (the "Agreement"), by and among (i) NICOLET NATIONAL BANK (the "Bank"), a National Bank organized under the laws of the State of Wisconsin, a wholly owned subsidiary of NICOLET BANKSHARES, INC. (the "Company"), a bank holding company organized under the laws of the State of Wisconsin, (ii) the Company (the Bank and the Company collectively referred to as the "Employer"), and (iii) ANN K. LAWSON, a resident of the State of Wisconsin (the "Executive").

BACKGROUND:

The Executive and the Employer are parties to that certain Employment Agreement dated November 6, 2014 (the "Prior Employment Agreement").

The Bank and the Executive now desire to amend and restate the Prior Employment Agreement to address certain administrative and substantive changes, and (ii) to update the Prior Employment Agreement in a number of respects.

The Employer and the Executive intend that this Agreement embodies the complete terms and conditions of the Executive's employment with the Employer and supersedes all prior employment and similar agreements between the Executive and the Employer (and/or their affiliates), as set forth more specifically below.

AGREEMENT:

In consideration of the above premises and the mutual agreements hereinafter set forth, effective as of the Effective Date, the parties hereby agree as follows:

1. Definitions. Whenever used in this Agreement, the following terms and their variant forms shall have the meaning set forth below:
 - 1.1 "Agreement" shall mean this Agreement and any exhibits incorporated herein together with any amendments hereto made in the manner described in this Agreement.
 - 1.2 "Area" shall mean the geographic area within a fifty (50) mile radius of the Bank's corporate office and each branch office, it being the express intent of the parties that the Area as defined herein is the area where the Executive performs or performed services on behalf of the Bank under this Agreement as of, or within a reasonable time prior to, the termination of the Executive's employment hereunder.
 - 1.3 "Bank Information" means Confidential Information and Trade Secrets.
 - 1.4 "Business of the Employer" shall mean the business conducted by the Bank, which is the business of commercial and consumer banking and the provision of wealth management products and services.
 - 1.5 "Cause" shall mean:
 - a. a material breach of the terms of this Agreement by the Executive, including, without limitation, failure by the Executive to perform her duties and responsibilities in the manner and to the extent required under this Agreement, which remains uncured after the expiration of thirty (30) days following the delivery of written notice of such breach to the Executive by the Employer. Such notice shall (i) specifically identify the duties that the Board of Directors of the Company or the Bank, as applicable, believes the Executive has failed to perform, (ii) state the facts upon which such Board of Directors made such determination, and (iii) be approved by a resolution passed by two-thirds (2/3) of the applicable directors then in office;

- b. conduct by the Executive that amounts to fraud, dishonesty or willful misconduct in the performance of her duties and responsibilities hereunder;
- c. arrest for, charged in relation to (by criminal information, indictment or otherwise), or conviction of the Executive during the Term of this Agreement of a crime involving breach of trust or moral turpitude;
- d. conduct by the Executive that amounts to gross and willful insubordination or inattention to her duties and responsibilities hereunder; or
- e. conduct by the Executive that results in removal from her position as an officer or executive of the Bank pursuant to a written order by any regulatory agency with authority or jurisdiction over the Bank.

1.6 “Change of Control” means any one of the following events the effective date of which occurs during the Term:

- a. the acquisition by any one person, or more than one person acting as a group (other than any person or more than one person acting as a group who is considered to own more than fifty percent (50%) of the total fair market value or voting power of the Bank or the Company, as applicable, prior to such acquisition) of stock of the Bank or the Company, as applicable, that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or voting power of the stock of the Bank or the Company, as applicable;
- b. the date any one person, or more than one person acting as a group, acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person or group, which date is not prior to the first day of the Term) ownership of stock of the Bank or the Company, as applicable, possessing thirty percent (30%) or more of the total voting power of the stock of the Bank or the Company, as applicable;
- c. the date a majority of members of the Company’s Board of Directors is replaced during any twelve-month period, commencing no earlier than the first day of the Term, by the directors whose appointment is not endorsed by a majority of the members of the Company’s Board of Directors before the date of the appointment or election; or
- d. the date that any one person, or more than one person acting as a group, acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person or group, which date is not prior to the first day of the Term) assets of the Company that have a total gross fair market value of forty percent (40%) or more of the total gross fair market value of all of the assets of the Company immediately before such acquisition or acquisitions; provided, however, that transfers to the following entities or person(s) shall not be deemed to result in a Change of Control under this Subsection (d):
 - i. an entity that is controlled by the shareholders of the Company immediately after the transfer;
 - ii. a shareholder (determined immediately before the asset transfer) of the Company in exchange for or with respect to its stock;
 - iii. an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company;
 - iv. a person, or more than one person acting as a group, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Company; or
 - v. an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a person described in the above Subsection (d)(iv).

For purposes of this Section 1.6, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company or the Bank. Notwithstanding the other provisions of this Section 1.6, no Change of Control shall be deemed to have occurred for purposes of this Agreement by reason of any actions

or events in which the Executive participates in a capacity other than in the Executive's capacity as an employee and, if applicable, the Executive's capacity as a director or shareholder of the Company or the Bank. Notwithstanding the other provisions of this Section 1.6, in the event of a merger, consolidation, reorganization, share exchange or other transaction as to which the holders of the capital stock of the Company before the transaction continue after the transaction to hold, directly or indirectly through a holding company or otherwise, shares of capital stock of the Company (or other surviving company) representing more than fifty percent (50%) of the value or ordinary voting power to elect directors of the capital stock of the Company (or other surviving company), such transaction shall not constitute a Change of Control. The provisions of this Section 1.6 shall be construed in a manner consistent with the applicable provisions of Section 409A of the Internal Revenue Code and the rules and regulations promulgated thereunder.

1.7 " Company " shall mean Nicolet Bankshares, Inc., a bank holding company incorporated under the laws of the State of Wisconsin.

1.8 " Confidential Information " means data and information relating to the business of the Bank or the Company (which does not rise to the status of a Trade Secret) which is or has been disclosed to the Executive or of which the Executive became aware as a consequence of or through the Executive's relationship to the Bank or the Company and which has value to the Bank and is not generally known to its competitors. Confidential Information shall not include any data or information that has been voluntarily disclosed to the public by the Bank or the Company (except where such public disclosure has been made by the Executive without authorization) or that has been independently developed and disclosed by others, or that otherwise enters the public domain through lawful means.

1.9 " Disability " shall mean the inability of the Executive to perform each of her material duties under this Agreement for the duration of the short-term disability period under the Bank's policy then in effect (or, if no such policy is in effect, a period of one-hundred eighty (180) consecutive days) as certified by a physician chosen by the Bank and reasonably acceptable to the Executive.

1.10 " Determination Date " means (1) during the Executive's employment, the date for which compliance is being determined, and (2) following Executive's Separation from Service, the date of Executive's Separation from Service.

1.11 " Effective Date " means March 7, 2019.

1.12 " Good Reason " shall mean any of the following which occurs on or after the Effective Date:

- a. a material diminution to the scope of the Executive's authority (including supervisory authority), duties or responsibility;
- b. following a Change of Control, a material diminution of reporting relationship;
- c. following a Change of Control, a material change in the geography where the Executive must perform her service (e.g. a location that is beyond a 50-mile radius from the Executive's office location immediately prior to the Change of Control);
- d. following a Change of Control, any material decrease in base compensation, bonus opportunity or other benefits provided for in Section 4 from the level in effect immediately prior to the Change of Control;
- e. any other material breach in the Agreement;

provided, however, that in each case of the above, the Executive must provide written notice to the Employer of the occurrence of such action or failure within ninety (90) days after the action or failure first occurs, and the Executive shall only have Good Reason to terminate the Executive's employment if the Employer fails to correct such action or failure within thirty (30) days following receipt of such notice. If the Employer does so fail to correct such action or failure, the Executive must resign effective no later than fifteen (15) days following expiration of the thirty (30)-day correction period.

1.13 " Initial Term " shall mean that period of time commencing on the date of this Agreement and running until the close of business on the last business day immediately preceding the third

anniversary of the date of this Agreement or any earlier termination of employment of the Executive under this Agreement as provided for in Section 3.

1.14 “Material Contact” means

a. with respect to Section 7 of this Agreement, the contact between the Executive and each customer: (i) with whom or which the Executive dealt on behalf of the Employer and/or one or more of their affiliates in a business capacity or about whom or which the Executive obtained Confidential Information in the ordinary course of business as a result of such Executive’s association with the Employer and/or one or more of their affiliates; and (ii) who or which received products or services from the Employer and/or one or more of their affiliates within two (2) years prior to the Determination Date; and

b. with respect to Section 8 of this Agreement, the contact between the Executive and each employee over which the Executive has direct supervisory authority or significant influence and each employee with whom the Executive has obtained Confidential Information regarding, without limitation, that employee’s performance and/or compensation giving rise to a competitive advantage by virtue of the Executive’s position with the Employer within two (2) years prior to the Determination Date.

1.15 “Separation from Service” shall mean a termination of the Executive’s employment with the Employer and all affiliated companies that, together with the Employer, constitute the “service recipient” within the meaning of Code Section 409A and the regulations thereunder that constitutes a “separation from service” within the meaning of Code Section 409A and the regulations thereunder.

1.16 “Term” shall mean the last day of the Initial Term or most recent subsequent renewal period.

1.17 “Trade Secrets” means Bank or Company information including, but not limited to, technical or nontechnical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans or lists of actual or potential customers or suppliers which:

a. derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and

b. is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

2. Duties.

2.1 Position. The Executive is employed as the Chief Financial Officer of the Bank and the Company, subject to the direction of the Chief Executive Officer (hereinafter “CEO”) or its designee(s) and shall perform and discharge well and faithfully the duties which may be assigned to her from time to time by the Employer in connection with the conduct of its business. The duties and responsibilities of the Executive are set forth on Exhibit A attached hereto.

2.2 Full-Time Status. In addition to the duties and responsibilities specifically assigned to the Executive pursuant to Section 2.1 hereof, the Executive shall:

a. devote substantially all of her time, energy and skill during regular business hours to the performance of the duties of her employment (reasonable vacations and reasonable absences due to illness excepted) and faithfully and industriously perform such duties;

b. diligently follow and implement all reasonable and lawful management policies and decisions communicated to her by the Board of Directors of the Bank or the Company, as applicable; and

c. timely prepare and forward to the CEO or its designees all reports and accountings as may be requested of the Executive.

2.3 Permitted Activities. The Executive shall devote her entire business time, attention and energies to the Business of the Employer and shall not during the Term be engaged (whether or not during normal business hours) in any other business or professional activity, whether or not such activity is pursued

for gain, profit or other pecuniary advantage; but this shall not be construed as preventing the Executive from:

- a. investing her personal assets in businesses which (subject to clause (b) below) are not in competition with the Business of the Employer and which will not require any services on the part of the Executive in their operation or affairs and in which her participation is solely that of an investor;
- b. purchasing securities in any corporation whose securities are regularly traded provided that such purchase shall not result in her collectively owning beneficially at any time five percent (5%) or more of the equity securities of any business in competition with the Business of the Employer; and
- c. participating in civic and professional affairs and organizations and conferences, preparing or publishing papers or books or teaching so long as the Board of Directors of the Bank or the Company, as applicable, approves of such activities prior to the Executive's engaging in them.

3. Term and Termination.

3.1 Term. This Agreement shall remain in effect for the Term. While this Agreement remains in effect, it shall automatically renew each day after the date of this Agreement so that the Term remains a three-year term from day-to-day hereafter unless the Employer or the Executive gives written notice to the other of its intent that the automatic renewals shall cease. In the event such notice of non-renewal is properly given, this Agreement and the Term shall expire on the third anniversary of the thirtieth (30th) day following the date such written notice is received.

3.2 Termination. During the Term, the employment of the Executive under this Agreement may be terminated only as follows:

- a. By the Employer:
 - i. For Cause, upon written notice to the Executive pursuant to Section 1.5 hereof, where the notice has been approved by a resolution passed by two-thirds (2/3) of the directors of the Bank or the Company, as applicable, then in office; or
 - ii. Without Cause at any time, provided that the Employer shall give the Executive thirty (30) days' prior written notice of its intent to terminate, in which event the Employer shall be required to (1) continue to meet its obligations under Section 4.1 for a period equal to the lesser of (i) twelve (12) months following the termination or (ii) the remaining Term of the Agreement, and (2) reimburse the Executive for the cost of premium payments paid by the Executive to continue her then existing health insurance for herself and her covered dependents as provided by the Employer for the lesser of (i) twelve (12) months following the date of termination of employment, or (ii) the health continuation coverage period for which the Executive is eligible as a result of the termination of employment.
- b. By the Executive:
 - i. For Good Reason, provided that the Executive shall give the Employer the prior written notice described in Section 1.12, in which event the Employer shall be required to (1) continue to meet its obligations under Section 4.1 for a period equal to the lesser of (i) twelve (12) months following the termination or (ii) the remaining Term of the Agreement, and (2) reimburse the Executive for the cost of premium payments paid by the Executive to continue her then existing health insurance for herself and her covered dependents as provided by the Employer for the lesser of (i) twelve (12) months following the date of termination of employment, or (ii) the health continuation coverage period for which the Executive is eligible as a result of the termination of employment; or
 - ii. For any reason other than Good Reason, provided that the Executive shall give the Employer thirty (30) days' prior written notice of her intent to terminate.
- c. Upon the Disability of the Executive at any time; provided that the Employer shall provide the Executive with at least thirty (30) days' prior written notice of its intent to terminate the Executive, in which event, the Employer shall be required to continue to meet its obligations under

Section 4.1 for a period of six (6) months following the termination or until the Executive begins receiving payments under the Bank's long-term disability policy, whichever occurs first.

d. At any time upon mutual, written agreement of the parties.

e. Notwithstanding anything in this Agreement to the contrary, the Term shall end automatically upon the Executive's death.

3.3 Change of Control.

a. If, within six (6) months after a Change of Control as defined in Section 1.6, the Executive experiences an involuntary termination without Cause or the Executive terminates her employment with the Employer for Good Reason, the Executive, or in the event of her subsequent death, her designated beneficiaries or her estate, as the case may be, shall receive, as liquidated damages, in lieu of all other claims, (1) a lump sum severance payment equal to one and one-half (1.5) times the sum of the Executive's Base Salary and target Annual Bonus opportunity as was in effect immediately preceding the Change of Control, if any; plus (2) reimbursement for the cost of premium payments paid by the Executive to continue her then existing health insurance for herself and her covered dependents as provided by the Employer for the lesser of (i) twelve (12) months following the date of termination of employment, or (ii) the health continuation coverage period for which the Executive is eligible as a result of the termination of employment, which shall be paid in cash in accordance with the Bank's regular payroll practices, but no less frequently than monthly.

b. In no event shall the payment(s) described in this Section 3.3 exceed the amount permitted by Section 280G of the Internal Revenue Code, as amended (the 'Code'). Therefore, if the aggregate present value (determined as of the date of the Change of Control in accordance with the provisions of Section 280G of the Code) of both the severance payment and all other payments to the Executive in the nature of compensation which are contingent on a change in ownership or effective control of the Bank or the Company or in the ownership of a substantial portion of the assets of the Bank or the Company (the 'Aggregate Severance') would result in a 'parachute payment,' as defined under Section 280G of the Code, then the Aggregate Severance shall not be greater than an amount equal to 2.99 multiplied by the Executive's 'base amount' for the 'base period,' as those terms are defined under Section 280G of the Code. In the event the Aggregate Severance is required to be reduced pursuant to this Section 3.3, the latest payments in time shall be reduced first and if multiple portions of the Aggregate Severance to be reduced are paid at the same time, any non-cash payments will be reduced before any cash payments, and any remaining cash payments will be reduced pro rata.

3.4 Severance.

a. Payment of severance amounts due upon the Executive's termination of employment pursuant to Sections 3.2.1(b); Section 3.2.2(a); Section 3.2.3 or Section 3.3, as applicable, including any reimbursements to which the Executive is entitled pursuant to Section 4.3, shall commence or be made, as applicable, on the first payroll date that is more than sixty (60) days after the Executive experiences a Separation from Service on or after the date the Executive's employment is terminated.

b. Notwithstanding any provision in the Agreement to the contrary, to the extent necessary to avoid the imposition of tax on the Executive under Code Section 409A, any payments that are otherwise payable to the Executive within the first six (6) months following the effective date of the Executive's Separation from Service, shall be suspended and paid as soon as practicable following the end of the six-month period following such effective date if, immediately prior to the Executive's Separation from Service, the Executive is determined to be a "specified employee" (within the meaning of Code Section 409A(a)(2)(B)(i)) of the Employer (or any related "service recipient" within the meaning of Code Section 409A and the regulations thereunder). Any payments suspended by operation of the foregoing sentence shall be paid as a lump sum in the seventh month following such effective date. Payments (or portions thereof) that would be paid latest in time during the six-month period will be suspended first.

3.5 Effect of Termination of Employment.

a. Upon termination of the Executive's employment hereunder, the Employer shall have no further obligations to the Executive or the Executive's estate with respect to this Agreement, except for the payment of salary and bonus amounts, if any, accrued pursuant to Sections 4.1 and 4.2 hereof and unpaid as of the effective date of the termination of employment and payments set forth in Sections 3.2.1(b); Section 3.2.2(a); Section 3.2.3; Section 3.3; and Section 4.3, as applicable. Nothing contained herein shall limit or impinge upon any other rights or remedies of the Employer or the Executive under any other agreement or plan to which the Executive is a party or of which the Executive is a beneficiary.

b. Notwithstanding any other provision of this Agreement to the contrary, as a condition of the Employer's payment of any amount in connection with the Executive's termination of employment pursuant to Sections 3.2.1(b); Section 3.2.2(a); Section 3.2.3; Section 3.3; and Section 4.3, as applicable, the Executive must execute and not timely revoke during any revocation period provided therein, a release in the form provided by the Employer. The Employer shall provide the release to the Executive in sufficient time so that if the Executive timely executes and returns the release, the revocation period will expire no later than sixty (60) days following the effective date of the termination of employment.

4. Compensation. The Executive shall receive the following salary and benefits during the Term, except as otherwise provided below:

4.1 Base Salary. During the Term in effect at the time of this Agreement, the Executive shall be compensated at a base rate of \$290,000 per year (the "Base Salary"). The Executive's Base Salary shall be reviewed by the CEO at least annually, and based on its evaluation of Executive's performance, may recommend to the Board of Directors of the Bank or the Company, as applicable, that the Executive's Base Salary be increased in such amount, if any, as may be determined by the Board of Directors of the Bank or the Company, as applicable. Base Salary shall be payable in accordance with the Employer's normal payroll practices.

4.2 Annual Incentive Compensation. Unless otherwise prohibited by banking regulation, rule or directive, the Executive shall have the opportunity to earn annual bonus compensation in such manner as may be determined by, and based on performance measures and target levels as may be established by, the Board of Directors upon the recommendation of the Compensation Committee of the Board of Directors (the "Committee") consistent with the Bank's strategic planning process, pursuant to any incentive compensation program as may be adopted from time to time by the Board of Directors (an "Annual Bonus"). Any Annual Bonus earned shall be payable in cash or cash equivalents by March 15th of the calendar year following the calendar year in which the bonus is earned in accordance with the Bank's normal practices for the payment of short-term incentives. To be entitled to any payment of bonus compensation from the Bank pursuant to Section 4.2, the Executive must be employed by the Employer on the last day of the applicable performance period and must continue to be employed until the date that such payment is made.

4.3 Business Expenses; Memberships. The Employer specifically agrees to reimburse the Executive for:

a. reasonable and necessary business (including travel) expenses incurred by her in the performance of her duties hereunder, as approved by the CEO; and

b. reasonable dues and business related expenditures, including initiation fees, associated with memberships, as selected by the Executive, including country clubs and professional associations which are commensurate with her position.

provided, however, that the Executive shall, as a condition of reimbursement, submit verification of the nature and amount of such expenses in accordance with reimbursement policies from time to time adopted by the Employer and in sufficient detail to comply with rules and regulations promulgated by the Internal Revenue Service. In no event shall any reimbursement pursuant to this Agreement be paid after the last day of the taxable year following the taxable year in which the expense was incurred. The amount of reimbursable

expenses incurred in one taxable year shall not affect the expenses eligible for reimbursement in any other taxable year. Such right to reimbursement is not subject to liquidation or exchange for another benefit.

4.4 Benefits. In addition to the benefits specifically described in this Agreement, the Executive shall be entitled to such benefits as may be available from time to time to executives of the Employer similarly situated to the Executive. All such benefits shall be awarded and administered in accordance with the Employer's standard policies and practices. Such benefits may include, by way of example only, vacation pay, profit-sharing plans, retirement or investment funds, dental, health, life and disability insurance benefits and such other benefits as the Employer deems appropriate.

4.5 Withholding. The Employer may deduct from each payment of compensation hereunder all amounts required to be deducted and withheld in accordance with applicable federal and state income, FICA and other withholding requirements.

4.6 Reimbursement of Expenses; In-Kind Benefits. All expenses eligible for reimbursement under this Agreement must be incurred by the Executive during the Term of this Agreement to be eligible for reimbursement. All in-kind benefits described in this Agreement must be provided by the Employer during the Term of this Agreement. The amount of reimbursable expenses incurred, and the amount of in-kind benefits provided, in one taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits provided, in any other taxable year. All reimbursements shall be paid as soon as administratively practicable, but in no event shall any reimbursement be paid after the last day of the calendar year following the calendar year in which the expense was incurred. Such right to reimbursement or in-kind benefits are not subject to liquidation or exchange for another benefit.

5. Bank Information.

5.1 Ownership of Bank Information. All Bank Information received or developed by the Executive while employed by the Employer will remain the sole and exclusive property of the Employer.

5.2 Obligations of the Executive. The Executive agrees:

- a. to hold Bank Information in strictest confidence;
- b. not to use, duplicate, reproduce, distribute, disclose or otherwise disseminate Bank Information or any physical embodiments of Bank Information; and
- c. in any event, not to take any action causing or fail to take any action necessary in order to prevent any Bank Information from losing its character or ceasing to qualify as Confidential Information or a Trade Secret.

In the event that the Executive is required by law to disclose any Bank Information, the Executive will not make such disclosure unless (and then only to the extent that) the Executive has been advised by independent legal counsel that such disclosure is required by law and then only after prior written notice is given to the Employer when the Executive becomes aware that such disclosure has been requested and is required by law. This Section 5 shall survive for a period of twelve (12) months following termination of this Agreement for any reason with respect to Confidential Information, and shall survive termination of this Agreement for any reason for so long as is permitted by applicable law, with respect to Trade Secrets.

5.3 Delivery upon Request or Termination. Upon request by the Employer, and in any event upon termination of her employment with the Employer, the Executive will promptly deliver to the Employer all property belonging to the Employer, including, without limitation, all Bank Information then in her possession or control.

6. Non-Competition. The Executive agrees that during her employment by the Employer hereunder and, in the event of her termination:

- by the Employer for Cause pursuant to Section 3.2.1(a),
- by the Executive other than for Good Reason pursuant to Section 3.2.2(b), or
- by the Executive in connection with a Change of Control pursuant to Section 3.3,

for a period of twelve (12) months thereafter, she will not (except on behalf of or with the prior written consent of the Employer), within the Area, either directly or indirectly, on her own behalf or in the service or on behalf of others, as an executive employee or in any other capacity which involves duties and responsibilities similar to those undertaken for the Employer (including as an organizer or proposed executive officer of a new financial institution), engage in any business which is the same as or essentially the same as the Business of the Employer and which is or is foreseeable to be competitive with the Employer. The Executive acknowledges that the degree of Confidential Information made available to her are protectable interests warranting such restriction.

7. Non-Solicitation of Customers. The Executive agrees that during her employment by the Employer hereunder and, in the event of her termination:

- by the Employer for Cause pursuant to Section 3.2.1(a),
- by the Executive other than for Good Reason pursuant to Section 3.2.2(b), or
- by the Executive in connection with a Change of Control pursuant to Section 3.3,

for a period of twelve (12) months thereafter, she will not (except on behalf of or with the prior written consent of the Employer), within the Area, on her own behalf or in the service or on behalf of others, solicit, divert or appropriate or attempt to solicit, divert or appropriate, any business from any of the Employer's customers with whom the Executive has or had Material Contact, for purposes of providing products or services that are competitive with the Business of the Employer.

8. Non-Solicitation of Employees. The Executive agrees that during her employment by the Employer hereunder and, in the event of her termination:

- by the Employer for Cause pursuant to Section 3.2.1(a),
- by the Executive other than for Good Reason pursuant to Section 3.2.2(b), or
- by the Executive in connection with a Change of Control pursuant to Section 3.3,

for a period of twelve (12) months thereafter, she will not, within the Area, on her own behalf or in the service or on behalf of others, solicit, recruit or hire away or attempt to solicit, recruit or hire away, any employee of the Employer with whom the Executive has or had Material Contact to another person or entity providing products or services that are competitive with the Business of the Employer, whether or not:

- such employee is a full-time employee or a temporary employee of the Employer,
- such employment is pursuant to written agreement, and
- such employment is for a determined period or is at will.

9. Remedies. The Executive agrees that the covenants contained in Sections 5 through 8 of this Agreement are of the essence of this Agreement; that each of the covenants is reasonable and necessary to protect the business, interests and properties of the Employer, and that irreparable loss and damage will be suffered by the Employer should she breach any of the covenants. Therefore, the Executive agrees and consents that, in addition to all the remedies provided by law or in equity, the Employer shall be entitled to a temporary restraining order and temporary and permanent injunctions to prevent a breach or contemplated breach of any of the covenants. The Employer and the Executive agree that all remedies available to the Employer or the Executive, as applicable, shall be cumulative.

10. Severability. The parties agree that each of the provisions included in this Agreement is separate, distinct and severable from the other provisions of this Agreement and that the invalidity or unenforceability of any Agreement provision shall not affect the validity or enforceability of any other provision of this Agreement. Further, if any provision of this Agreement is ruled invalid or unenforceable by a court of competent jurisdiction because of a conflict between the provision and any applicable law or public policy, the provision shall be redrawn to make the provision consistent with and valid and enforceable under the law or public policy.

11. No Set-Off by the Executive. The existence of any claim, demand, action or cause of action by the Executive against the Employer whether predicated upon this Agreement or otherwise, shall not constitute a defense to the enforcement by the Employer of any of its rights hereunder.

12. Notice. All notices and other communications required or permitted under this Agreement shall be in writing and, if mailed by prepaid first-class mail or certified mail, return receipt requested, shall be deemed to have been received on the earlier of the date shown on the receipt or three (3) business days after the postmarked date thereof. In addition, notices hereunder may be delivered by hand or overnight courier, in which event the notice shall be deemed effective when delivered. All notices and other communications under this Agreement shall be given to the parties hereto at the following addresses:

	Post Office Box 23900
If to the Employer:	Green Bay, Wisconsin 54305-3900
If to the Executive:	The address most recently on file with the Employer

13. Assignment. Neither party hereto may assign or delegate this Agreement or any of its rights and obligations hereunder without the written consent of the other party to this Agreement; provided, however, that the rights and obligations of the Employer shall apply to its successor(s) and the rights of the Executive shall inure to the benefit of the heirs or the estate of the Executive.

14. Waiver. A waiver by one party to this Agreement of any breach of this Agreement by the other party to this Agreement shall not be effective unless in writing, and no waiver shall operate or be construed as a waiver of the same or another breach on a subsequent occasion.

15. Mediation. Except with respect to Sections 5 through 9 above, and as provided in Section 17 hereof, if any dispute arises out of or relates to this Agreement, or a breach thereof, and if the dispute cannot be settled through direct discussions between the parties, the parties agree to first endeavor to settle the dispute in an amicable manner by mediation under the Commercial Mediation Rules of the American Arbitration Association before resorting to any other process for resolving the dispute.

16. Attorneys' Fees. In the event that the parties have complied with this Agreement with respect to mediation of disputes and litigation ensues between the parties concerning the enforcement of an arbitration award, the party prevailing in such litigation shall be entitled to receive from the other party all reasonable costs and expenses, including without limitation attorneys' fees, incurred by the prevailing party in connection with such litigation, and the other party shall pay such costs and expenses to the prevailing party within sixty (60) days after a final determination (excluding any appeals) is made with respect to the litigation.

17. Applicable Law. This Agreement shall be construed and enforced under and in accordance with the laws of the State of Wisconsin. The parties agree that any appropriate state court located in Brown County, Wisconsin or federal court for the Eastern District of Wisconsin shall have jurisdiction of any case or controversy arising under or in connection with this Agreement shall be a proper forum in which to adjudicate such case or controversy. The parties consent and waive any objection to the jurisdiction or venue of such courts.

18. Interpretation. Words importing any gender include all genders. Words importing the singular form shall include the plural and vice versa. The terms "herein", "hereunder", "hereby", "hereto", "hereof" and any similar terms refer to this Agreement. Any captions, titles or headings preceding the text of any article, section or subsection herein are solely for convenience of reference and shall not constitute part of this Agreement or affect its meaning, construction or effect.

19. Entire Agreement. This Agreement embodies the entire and final agreement of the parties on the subject matter stated in this Agreement. No amendment or modification of this Agreement shall be valid or binding upon the Employer or the Executive unless made in writing and signed by both parties. All prior understandings and agreements relating to the subject matter of this Agreement, including, but not limited to, the Prior Employment Agreement, are hereby expressly terminated without any obligations owing to the Executive on account of the termination of those agreements.

20. Rights of Third Parties. Nothing herein expressed is intended to or shall be construed to confer upon or give to any person, firm or other entity, other than the parties hereto and their permitted assigns, any rights or remedies under or by reason of this Agreement.

21. Survival. The obligations of the Executive pursuant to Sections 5, 6, 7, 8 and 9 shall survive the termination of the employment of the Executive hereunder for the period designated under each of those respective sections.

IN WITNESS WHEREOF, the parties have caused this Employment Agreement to be executed on the day and year first above written.

NICOLET BANKSHARES, INC.:

By: /s/ Robert B. Atwell
Signature

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

Print Name/Title

NICOLET NATIONAL BANK:

By: /s/ Michael E. Daniels
Signature

Michael E. Daniels, President and Chief Executive Officer

Print Name/Title

EXECUTIVE:

By: /s/ Ann K. Lawson
Ann K. Lawson

Exhibit A

Duties and Responsibilities of the Executive

Under the joint direction of the Employer CEO and the Board of Directors, the Executive is responsible for

Principal Accountabilities:

See Attached Job Description

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT is made as of the 7th day of March, 2019 (the "Agreement"), by and among (i) NICOLET NATIONAL BANK (the "Bank"), a National Bank organized under the laws of the State of Wisconsin, a wholly owned subsidiary of NICOLET BANKSHARES, INC. (the "Company"), a bank holding company organized under the laws of the State of Wisconsin, (ii) the Company (the Bank and the Company collectively referred to as the "Employer"), and (iii) ERIC J. WITCZAK, a resident of the State of Wisconsin (the "Executive").

BACKGROUND:

The Executive and the Employer are parties to that certain Employment Agreement dated May 13, 2013 as amended on December 2, 2014 (the "Prior Employment Agreement").

The Bank and the Executive now desire to amend and restate the Prior Employment Agreement to address certain administrative and substantive changes, and (ii) to update the Prior Employment Agreement in a number of respects.

The Employer and the Executive intend that this Agreement embodies the complete terms and conditions of the Executive's employment with the Employer and supersedes all prior employment and similar agreements between the Executive and the Employer (and/or their affiliates), as set forth more specifically below.

AGREEMENT:

In consideration of the above premises and the mutual agreements hereinafter set forth, effective as of the Effective Date, the parties hereby agree as follows:

1. Definitions. Whenever used in this Agreement, the following terms and their variant forms shall have the meaning set forth below:
 - 1.1 "Agreement" shall mean this Agreement and any exhibits incorporated herein together with any amendments hereto made in the manner described in this Agreement.
 - 1.2 "Area" shall mean the geographic area within a fifty (50) mile radius of the Bank's corporate office and each branch office, it being the express intent of the parties that the Area as defined herein is the area where the Executive performs or performed services on behalf of the Bank under this Agreement as of, or within a reasonable time prior to, the termination of the Executive's employment hereunder.
 - 1.3 "Bank Information" means Confidential Information and Trade Secrets.
 - 1.4 "Business of the Employer" shall mean the business conducted by the Bank, which is the business of commercial and consumer banking and the provision of wealth management products and services.
 - 1.5 "Cause" shall mean:
 - a. a material breach of the terms of this Agreement by the Executive, including, without limitation, failure by the Executive to perform his duties and responsibilities in the manner and to the extent required under this Agreement, which remains uncured after the expiration of thirty (30) days following the delivery of written notice of such breach to the Executive by the Employer. Such notice shall (i) specifically identify the duties that the Board of Directors of the Company or the Bank, as applicable, believes the Executive has failed to perform, (ii) state the facts upon which such Board of Directors made such determination, and (iii) be approved by a resolution passed by two-thirds (2/3) of the applicable directors then in office;

- b. conduct by the Executive that amounts to fraud, dishonesty or willful misconduct in the performance of his duties and responsibilities hereunder;
- c. arrest for, charged in relation to (by criminal information, indictment or otherwise), or conviction of the Executive during the Term of this Agreement of a crime involving breach of trust or moral turpitude;
- d. conduct by the Executive that amounts to gross and willful insubordination or inattention to his duties and responsibilities hereunder; or
- e. conduct by the Executive that results in removal from his position as an officer or executive of the Bank pursuant to a written order by any regulatory agency with authority or jurisdiction over the Bank.

1.6 “Change of Control” means any one of the following events the effective date of which occurs during the Term:

- a. the acquisition by any one person, or more than one person acting as a group (other than any person or more than one person acting as a group who is considered to own more than fifty percent (50%) of the total fair market value or voting power of the Bank or the Company, as applicable, prior to such acquisition) of stock of the Bank or the Company, as applicable, that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or voting power of the stock of the Bank or the Company, as applicable;
- b. the date any one person, or more than one person acting as a group, acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person or group, which date is not prior to the first day of the Term) ownership of stock of the Bank or the Company, as applicable, possessing thirty percent (30%) or more of the total voting power of the stock of the Bank or the Company, as applicable;
- c. the date a majority of members of the Company’s Board of Directors is replaced during any twelve-month period, commencing no earlier than the first day of the Term, by the directors whose appointment is not endorsed by a majority of the members of the Company’s Board of Directors before the date of the appointment or election; or
- d. the date that any one person, or more than one person acting as a group, acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person or group, which date is not prior to the first day of the Term) assets of the Company that have a total gross fair market value of forty percent (40%) or more of the total gross fair market value of all of the assets of the Company immediately before such acquisition or acquisitions; provided, however, that transfers to the following entities or person(s) shall not be deemed to result in a Change of Control under this Subsection (d):
 - i. an entity that is controlled by the shareholders of the Company immediately after the transfer;
 - ii. a shareholder (determined immediately before the asset transfer) of the Company in exchange for or with respect to its stock;
 - iii. an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company;
 - iv. a person, or more than one person acting as a group, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Company; or
 - v. an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a person described in the above Subsection (d)(iv).

For purposes of this Section 1.6, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company or the Bank. Notwithstanding the other provisions of this Section 1.6, no Change of Control shall be deemed to have occurred for purposes of this Agreement by reason of any actions

or events in which the Executive participates in a capacity other than in the Executive's capacity as an employee and, if applicable, the Executive's capacity as a director or shareholder of the Company or the Bank. Notwithstanding the other provisions of this Section 1.6, in the event of a merger, consolidation, reorganization, share exchange or other transaction as to which the holders of the capital stock of the Company before the transaction continue after the transaction to hold, directly or indirectly through a holding company or otherwise, shares of capital stock of the Company (or other surviving company) representing more than fifty percent (50%) of the value or ordinary voting power to elect directors of the capital stock of the Company (or other surviving company), such transaction shall not constitute a Change of Control. The provisions of this Section 1.6 shall be construed in a manner consistent with the applicable provisions of Section 409A of the Internal Revenue Code and the rules and regulations promulgated thereunder.

1.7 " Company " shall mean Nicolet Bankshares, Inc., a bank holding company incorporated under the laws of the State of Wisconsin.

1.8 " Confidential Information " means data and information relating to the business of the Bank or the Company (which does not rise to the status of a Trade Secret) which is or has been disclosed to the Executive or of which the Executive became aware as a consequence of or through the Executive's relationship to the Bank or the Company and which has value to the Bank and is not generally known to its competitors. Confidential Information shall not include any data or information that has been voluntarily disclosed to the public by the Bank or the Company (except where such public disclosure has been made by the Executive without authorization) or that has been independently developed and disclosed by others, or that otherwise enters the public domain through lawful means.

1.9 " Disability " shall mean the inability of the Executive to perform each of his material duties under this Agreement for the duration of the short-term disability period under the Bank's policy then in effect (or, if no such policy is in effect, a period of one-hundred eighty (180) consecutive days) as certified by a physician chosen by the Bank and reasonably acceptable to the Executive.

1.10 " Determination Date " means (1) during the Executive's employment, the date for which compliance is being determined, and (2) following Executive's Separation from Service, the date of Executive's Separation from Service.

1.11 " Effective Date " means March 7, 2019.

1.12 " Good Reason " shall mean any of the following which occurs on or after the Effective Date:

- a. a material diminution to the scope of the Executive's authority (including supervisory authority), duties or responsibility;
- b. following a Change of Control, a material diminution of reporting relationship;
- c. following a Change of Control, a material change in the geography where the Executive must perform his service (e.g. a location that is beyond a 50-mile radius from the Executive's office location immediately prior to the Change of Control);
- d. following a Change of Control, any material decrease in base compensation, bonus opportunity or other benefits provided for in Section 4 from the level in effect immediately prior to the Change of Control;
- e. any other material breach in the Agreement;

provided, however, that in each case of the above, the Executive must provide written notice to the Employer of the occurrence of such action or failure within ninety (90) days after the action or failure first occurs, and the Executive shall only have Good Reason to terminate the Executive's employment if the Employer fails to correct such action or failure within thirty (30) days following receipt of such notice. If the Employer does so fail to correct such action or failure, the Executive must resign effective no later than fifteen (15) days following expiration of the thirty (30)-day correction period.

1.13 " Initial Term " shall mean that period of time commencing on the date of this Agreement and running until the close of business on the last business day immediately preceding the third

anniversary of the date of this Agreement or any earlier termination of employment of the Executive under this Agreement as provided for in Section 3.

1.14 “Material Contact” means

a. with respect to Section 7 of this Agreement, the contact between the Executive and each customer: (i) with whom or which the Executive dealt on behalf of the Employer and/or one or more of their affiliates in a business capacity or about whom or which the Executive obtained Confidential Information in the ordinary course of business as a result of such Executive’s association with the Employer and/or one or more of their affiliates; and (ii) who or which received products or services from the Employer and/or one or more of their affiliates within two (2) years prior to the Determination Date; and

b. with respect to Section 8 of this Agreement, the contact between the Executive and each employee over which the Executive has direct supervisory authority or significant influence and each employee with whom the Executive has obtained Confidential Information regarding, without limitation, that employee’s performance and/or compensation giving rise to a competitive advantage by virtue of the Executive’s position with the Employer within two (2) years prior to the Determination Date.

1.15 “Separation from Service” shall mean a termination of the Executive’s employment with the Employer and all affiliated companies that, together with the Employer, constitute the “service recipient” within the meaning of Code Section 409A and the regulations thereunder that constitutes a “separation from service” within the meaning of Code Section 409A and the regulations thereunder.

1.16 “Term” shall mean the last day of the Initial Term or most recent subsequent renewal period.

1.17 “Trade Secrets” means Bank or Company information including, but not limited to, technical or nontechnical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans or lists of actual or potential customers or suppliers which:

a. derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and

b. is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

2. Duties.

2.1 Position. The Executive is employed as the Executive Vice President of the Bank, subject to the direction of the President and Chief Executive Officer (hereinafter “CEO”) or its designee(s) and shall perform and discharge well and faithfully the duties which may be assigned to him from time to time by the Employer in connection with the conduct of its business. The duties and responsibilities of the Executive are set forth on Exhibit A attached hereto.

2.2 Full-Time Status. In addition to the duties and responsibilities specifically assigned to the Executive pursuant to Section 2.1 hereof, the Executive shall:

a. devote substantially all of his time, energy and skill during regular business hours to the performance of the duties of his employment (reasonable vacations and reasonable absences due to illness excepted) and faithfully and industriously perform such duties;

b. diligently follow and implement all reasonable and lawful management policies and decisions communicated to him by the Board of Directors of the Bank or the Company, as applicable; and

c. timely prepare and forward to the CEO or its designees all reports and accountings as may be requested of the Executive.

2.3 Permitted Activities. The Executive shall devote his entire business time, attention and energies to the Business of the Employer and shall not during the Term be engaged (whether or not during normal business hours) in any other business or professional activity, whether or not such activity is pursued

for gain, profit or other pecuniary advantage; but this shall not be construed as preventing the Executive from:

- a. investing his personal assets in businesses which (subject to clause (b) below) are not in competition with the Business of the Employer and which will not require any services on the part of the Executive in their operation or affairs and in which his participation is solely that of an investor;
- b. purchasing securities in any corporation whose securities are regularly traded provided that such purchase shall not result in him collectively owning beneficially at any time five percent (5%) or more of the equity securities of any business in competition with the Business of the Employer; and
- c. participating in civic and professional affairs and organizations and conferences, preparing or publishing papers or books or teaching so long as the Board of Directors of the Bank or the Company, as applicable, approves of such activities prior to the Executive's engaging in them.

3. Term and Termination.

3.1 Term. This Agreement shall remain in effect for the Term. While this Agreement remains in effect, it shall automatically renew each day after the date of this Agreement so that the Term remains a three-year term from day-to-day hereafter unless the Employer or the Executive gives written notice to the other of its intent that the automatic renewals shall cease. In the event such notice of non-renewal is properly given, this Agreement and the Term shall expire on the third anniversary of the thirtieth (30th) day following the date such written notice is received.

3.2 Termination. During the Term, the employment of the Executive under this Agreement may be terminated only as follows:

- a. By the Employer:
 - i. For Cause, upon written notice to the Executive pursuant to Section 1.5 hereof, where the notice has been approved by a resolution passed by two-thirds (2/3) of the directors of the Bank or the Company, as applicable, then in office; or
 - ii. Without Cause at any time, provided that the Employer shall give the Executive thirty (30) days' prior written notice of its intent to terminate, in which event the Employer shall be required to (1) continue to meet its obligations under Section 4.1 for a period equal to the lesser of (i) twelve (12) months following the termination or (ii) the remaining Term of the Agreement, and (2) reimburse the Executive for the cost of premium payments paid by the Executive to continue his then existing health insurance for himself and his covered dependents as provided by the Employer for the lesser of (i) twelve (12) months following the date of termination of employment, or (ii) the health continuation coverage period for which the Executive is eligible as a result of the termination of employment.
- b. By the Executive:
 - i. For Good Reason, provided that the Executive shall give the Employer the prior written notice described in Section 1.12, in which event the Employer shall be required to (1) continue to meet its obligations under Section 4.1 for a period equal to the lesser of (i) twelve (12) months following the termination or (ii) the remaining Term of the Agreement, and (2) reimburse the Executive for the cost of premium payments paid by the Executive to continue his then existing health insurance for himself and his covered dependents as provided by the Employer for the lesser of (i) twelve (12) months following the date of termination of employment, or (ii) the health continuation coverage period for which the Executive is eligible as a result of the termination of employment; or
 - ii. For any reason other than Good Reason, provided that the Executive shall give the Employer thirty (30) days' prior written notice of his intent to terminate.
- c. Upon the Disability of the Executive at any time; provided that the Employer shall provide the Executive with at least thirty (30) days' prior written notice of its intent to terminate the Executive, in which event, the Employer shall be required to continue to meet its obligations under

Section 4.1 for a period of six (6) months following the termination or until the Executive begins receiving payments under the Bank's long-term disability policy, whichever occurs first.

d. At any time upon mutual, written agreement of the parties.

e. Notwithstanding anything in this Agreement to the contrary, the Term shall end automatically upon the Executive's death.

3.3 Change of Control.

a. If, within six (6) months after a Change of Control as defined in Section 1.6, the Executive experiences an involuntary termination without Cause or the Executive terminates his employment with the Employer for Good Reason, the Executive, or in the event of his subsequent death, his designated beneficiaries or his estate, as the case may be, shall receive, as liquidated damages, in lieu of all other claims, (1) a lump sum severance payment equal to one and one-half (1.5) times the sum of the Executive's Base Salary and target Annual Bonus opportunity as was in effect immediately preceding the Change of Control, if any; plus (2) reimbursement for the cost of premium payments paid by the Executive to continue his then existing health insurance for himself and his covered dependents as provided by the Employer for the lesser of (i) twelve (12) months following the date of termination of employment, or (ii) the health continuation coverage period for which the Executive is eligible as a result of the termination of employment, which shall be paid in cash in accordance with the Bank's regular payroll practices, but no less frequently than monthly.

b. In no event shall the payment(s) described in this Section 3.3 exceed the amount permitted by Section 280G of the Internal Revenue Code, as amended (the 'Code'). Therefore, if the aggregate present value (determined as of the date of the Change of Control in accordance with the provisions of Section 280G of the Code) of both the severance payment and all other payments to the Executive in the nature of compensation which are contingent on a change in ownership or effective control of the Bank or the Company or in the ownership of a substantial portion of the assets of the Bank or the Company (the 'Aggregate Severance') would result in a 'parachute payment,' as defined under Section 280G of the Code, then the Aggregate Severance shall not be greater than an amount equal to 2.99 multiplied by the Executive's 'base amount' for the 'base period,' as those terms are defined under Section 280G of the Code. In the event the Aggregate Severance is required to be reduced pursuant to this Section 3.3, the latest payments in time shall be reduced first and if multiple portions of the Aggregate Severance to be reduced are paid at the same time, any non-cash payments will be reduced before any cash payments, and any remaining cash payments will be reduced pro rata.

3.4 Severance.

a. Payment of severance amounts due upon the Executive's termination of employment pursuant to Sections 3.2.1(b); Section 3.2.2(a); Section 3.2.3 or Section 3.3, as applicable, including any reimbursements to which the Executive is entitled pursuant to Section 4.3, shall commence or be made, as applicable, on the first payroll date that is more than sixty (60) days after the Executive experiences a Separation from Service on or after the date the Executive's employment is terminated.

b. Notwithstanding any provision in the Agreement to the contrary, to the extent necessary to avoid the imposition of tax on the Executive under Code Section 409A, any payments that are otherwise payable to the Executive within the first six (6) months following the effective date of the Executive's Separation from Service, shall be suspended and paid as soon as practicable following the end of the six-month period following such effective date if, immediately prior to the Executive's Separation from Service, the Executive is determined to be a "specified employee" (within the meaning of Code Section 409A(a)(2)(B)(i)) of the Employer (or any related "service recipient" within the meaning of Code Section 409A and the regulations thereunder). Any payments suspended by operation of the foregoing sentence shall be paid as a lump sum in the seventh month following such effective date. Payments (or portions thereof) that would be paid latest in time during the six-month period will be suspended first.

3.5 Effect of Termination of Employment.

a. Upon termination of the Executive's employment hereunder, the Employer shall have no further obligations to the Executive or the Executive's estate with respect to this Agreement, except for the payment of salary and bonus amounts, if any, accrued pursuant to Sections 4.1 and 4.2 hereof and unpaid as of the effective date of the termination of employment and payments set forth in Sections 3.2.1(b); Section 3.2.2(a); Section 3.2.3; Section 3.3; and Section 4.3, as applicable. Nothing contained herein shall limit or impinge upon any other rights or remedies of the Employer or the Executive under any other agreement or plan to which the Executive is a party or of which the Executive is a beneficiary.

b. Notwithstanding any other provision of this Agreement to the contrary, as a condition of the Employer's payment of any amount in connection with the Executive's termination of employment pursuant to Sections 3.2.1(b); Section 3.2.2(a); Section 3.2.3; Section 3.3; and Section 4.3, as applicable, the Executive must execute and not timely revoke during any revocation period provided therein, a release in the form provided by the Employer. The Employer shall provide the release to the Executive in sufficient time so that if the Executive timely executes and returns the release, the revocation period will expire no later than sixty (60) days following the effective date of the termination of employment.

4. Compensation. The Executive shall receive the following salary and benefits during the Term, except as otherwise provided below:

4.1 Base Salary. During the Term in effect at the time of this Agreement, the Executive shall be compensated at a base rate of \$285,000 per year (the "Base Salary"). The Executive's Base Salary shall be reviewed by the CEO at least annually, and based on its evaluation of Executive's performance, may recommend to the Board of Directors of the Bank or the Company, as applicable, that the Executive's Base Salary be increased in such amount, if any, as may be determined by the Board of Directors of the Bank or the Company, as applicable. Base Salary shall be payable in accordance with the Employer's normal payroll practices.

4.2 Annual Incentive Compensation. Unless otherwise prohibited by banking regulation, rule or directive, the Executive shall have the opportunity to earn annual bonus compensation in such manner as may be determined by, and based on performance measures and target levels as may be established by, the Board of Directors upon the recommendation of the Compensation Committee of the Board of Directors (the "Committee") consistent with the Bank's strategic planning process, pursuant to any incentive compensation program as may be adopted from time to time by the Board of Directors (an "Annual Bonus"). Any Annual Bonus earned shall be payable in cash or cash equivalents by March 15th of the calendar year following the calendar year in which the bonus is earned in accordance with the Bank's normal practices for the payment of short-term incentives. To be entitled to any payment of bonus compensation from the Bank pursuant to Section 4.2, the Executive must be employed by the Employer on the last day of the applicable performance period and must continue to be employed until the date that such payment is made.

4.3 Business Expenses; Memberships. The Employer specifically agrees to reimburse the Executive for:

a. reasonable and necessary business (including travel) expenses incurred by him in the performance of his duties hereunder, as approved by the CEO; and

b. reasonable dues and business related expenditures, including initiation fees, associated with memberships, as selected by the Executive, including country clubs and professional associations which are commensurate with his position.

provided, however, that the Executive shall, as a condition of reimbursement, submit verification of the nature and amount of such expenses in accordance with reimbursement policies from time to time adopted by the Employer and in sufficient detail to comply with rules and regulations promulgated by the Internal Revenue Service. In no event shall any reimbursement pursuant to this Agreement be paid after the last day of the taxable year following the taxable year in which the expense was incurred. The amount of reimbursable

expenses incurred in one taxable year shall not affect the expenses eligible for reimbursement in any other taxable year. Such right to reimbursement is not subject to liquidation or exchange for another benefit.

4.4 Benefits. In addition to the benefits specifically described in this Agreement, the Executive shall be entitled to such benefits as may be available from time to time to executives of the Employer similarly situated to the Executive. All such benefits shall be awarded and administered in accordance with the Employer's standard policies and practices. Such benefits may include, by way of example only, vacation pay, profit-sharing plans, retirement or investment funds, dental, health, life and disability insurance benefits and such other benefits as the Employer deems appropriate.

4.5 Withholding. The Employer may deduct from each payment of compensation hereunder all amounts required to be deducted and withheld in accordance with applicable federal and state income, FICA and other withholding requirements.

4.6 Reimbursement of Expenses; In-Kind Benefits. All expenses eligible for reimbursement under this Agreement must be incurred by the Executive during the Term of this Agreement to be eligible for reimbursement. All in-kind benefits described in this Agreement must be provided by the Employer during the Term of this Agreement. The amount of reimbursable expenses incurred, and the amount of in-kind benefits provided, in one taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits provided, in any other taxable year. All reimbursements shall be paid as soon as administratively practicable, but in no event shall any reimbursement be paid after the last day of the calendar year following the calendar year in which the expense was incurred. Such right to reimbursement or in-kind benefits are not subject to liquidation or exchange for another benefit.

5. Bank Information.

5.1 Ownership of Bank Information. All Bank Information received or developed by the Executive while employed by the Employer will remain the sole and exclusive property of the Employer.

5.2 Obligations of the Executive. The Executive agrees:

- a. to hold Bank Information in strictest confidence;
- b. not to use, duplicate, reproduce, distribute, disclose or otherwise disseminate Bank Information or any physical embodiments of Bank Information; and
- c. in any event, not to take any action causing or fail to take any action necessary in order to prevent any Bank Information from losing its character or ceasing to qualify as Confidential Information or a Trade Secret.

In the event that the Executive is required by law to disclose any Bank Information, the Executive will not make such disclosure unless (and then only to the extent that) the Executive has been advised by independent legal counsel that such disclosure is required by law and then only after prior written notice is given to the Employer when the Executive becomes aware that such disclosure has been requested and is required by law. This Section 5 shall survive for a period of twelve (12) months following termination of this Agreement for any reason with respect to Confidential Information, and shall survive termination of this Agreement for any reason for so long as is permitted by applicable law, with respect to Trade Secrets.

5.3 Delivery upon Request or Termination. Upon request by the Employer, and in any event upon termination of his employment with the Employer, the Executive will promptly deliver to the Employer all property belonging to the Employer, including, without limitation, all Bank Information then in his possession or control.

6. Non-Competition. The Executive agrees that during his employment by the Employer hereunder and, in the event of his termination:

- by the Employer for Cause pursuant to Section 3.2.1(a),
- by the Executive other than for Good Reason pursuant to Section 3.2.2(b), or
- by the Executive in connection with a Change of Control pursuant to Section 3.3,

for a period of twelve (12) months thereafter, he will not (except on behalf of or with the prior written consent of the Employer), within the Area, either directly or indirectly, on his own behalf or in the service or on behalf of others, as an executive employee or in any other capacity which involves duties and responsibilities similar to those undertaken for the Employer (including as an organizer or proposed executive officer of a new financial institution), engage in any business which is the same as or essentially the same as the Business of the Employer and which is or is foreseeable to be competitive with the Employer. The Executive acknowledges that the degree of Confidential Information made available to him are protectable interests warranting such restriction.

7. Non-Solicitation of Customers. The Executive agrees that during his employment by the Employer hereunder and, in the event of his termination:

- by the Employer for Cause pursuant to Section 3.2.1(a),
- by the Executive other than for Good Reason pursuant to Section 3.2.2(b), or
- by the Executive in connection with a Change of Control pursuant to Section 3.3,

for a period of twelve (12) months thereafter, he will not (except on behalf of or with the prior written consent of the Employer), within the Area, on his own behalf or in the service or on behalf of others, solicit, divert or appropriate or attempt to solicit, divert or appropriate, any business from any of the Employer's customers with whom the Executive has or had Material Contact, for purposes of providing products or services that are competitive with the Business of the Employer.

8. Non-Solicitation of Employees. The Executive agrees that during his employment by the Employer hereunder and, in the event of his termination:

- by the Employer for Cause pursuant to Section 3.2.1(a),
- by the Executive other than for Good Reason pursuant to Section 3.2.2(b), or
- by the Executive in connection with a Change of Control pursuant to Section 3.3,

for a period of twelve (12) months thereafter, he will not, within the Area, on his own behalf or in the service or on behalf of others, solicit, recruit or hire away or attempt to solicit, recruit or hire away, any employee of the Employer with whom the Executive has or had Material Contact to another person or entity providing products or services that are competitive with the Business of the Employer, whether or not:

- such employee is a full-time employee or a temporary employee of the Employer,
- such employment is pursuant to written agreement, and
- such employment is for a determined period or is at will.

9. Remedies. The Executive agrees that the covenants contained in Sections 5 through 8 of this Agreement are of the essence of this Agreement; that each of the covenants is reasonable and necessary to protect the business, interests and properties of the Employer, and that irreparable loss and damage will be suffered by the Employer should he breach any of the covenants. Therefore, the Executive agrees and consents that, in addition to all the remedies provided by law or in equity, the Employer shall be entitled to a temporary restraining order and temporary and permanent injunctions to prevent a breach or contemplated breach of any of the covenants. The Employer and the Executive agree that all remedies available to the Employer or the Executive, as applicable, shall be cumulative.

10. Severability. The parties agree that each of the provisions included in this Agreement is separate, distinct and severable from the other provisions of this Agreement and that the invalidity or unenforceability of any Agreement provision shall not affect the validity or enforceability of any other provision of this Agreement. Further, if any provision of this Agreement is ruled invalid or unenforceable by a court of competent jurisdiction because of a conflict between the provision and any applicable law or public policy, the provision shall be redrawn to make the provision consistent with and valid and enforceable under the law or public policy.

11. No Set-Off by the Executive. The existence of any claim, demand, action or cause of action by the Executive against the Employer whether predicated upon this Agreement or otherwise, shall not constitute a defense to the enforcement by the Employer of any of its rights hereunder.

12. Notice. All notices and other communications required or permitted under this Agreement shall be in writing and, if mailed by prepaid first-class mail or certified mail, return receipt requested, shall be deemed to have been received on the earlier of the date shown on the receipt or three (3) business days after the postmarked date thereof. In addition, notices hereunder may be delivered by hand or overnight courier, in which event the notice shall be deemed effective when delivered. All notices and other communications under this Agreement shall be given to the parties hereto at the following addresses:

	Post Office Box 23900
If to the Employer:	Green Bay, Wisconsin 54305-3900
If to the Executive:	The address most recently on file with the Employer

13. Assignment. Neither party hereto may assign or delegate this Agreement or any of its rights and obligations hereunder without the written consent of the other party to this Agreement; provided, however, that the rights and obligations of the Employer shall apply to its successor(s) and the rights of the Executive shall inure to the benefit of the heirs or the estate of the Executive.

14. Waiver. A waiver by one party to this Agreement of any breach of this Agreement by the other party to this Agreement shall not be effective unless in writing, and no waiver shall operate or be construed as a waiver of the same or another breach on a subsequent occasion.

15. Mediation. Except with respect to Sections 5 through 9 above, and as provided in Section 17 hereof, if any dispute arises out of or relates to this Agreement, or a breach thereof, and if the dispute cannot be settled through direct discussions between the parties, the parties agree to first endeavor to settle the dispute in an amicable manner by mediation under the Commercial Mediation Rules of the American Arbitration Association before resorting to any other process for resolving the dispute.

16. Attorneys' Fees. In the event that the parties have complied with this Agreement with respect to mediation of disputes and litigation ensues between the parties concerning the enforcement of an arbitration award, the party prevailing in such litigation shall be entitled to receive from the other party all reasonable costs and expenses, including without limitation attorneys' fees, incurred by the prevailing party in connection with such litigation, and the other party shall pay such costs and expenses to the prevailing party within sixty (60) days after a final determination (excluding any appeals) is made with respect to the litigation.

17. Applicable Law. This Agreement shall be construed and enforced under and in accordance with the laws of the State of Wisconsin. The parties agree that any appropriate state court located in Brown County, Wisconsin or federal court for the Eastern District of Wisconsin shall have jurisdiction of any case or controversy arising under or in connection with this Agreement shall be a proper forum in which to adjudicate such case or controversy. The parties consent and waive any objection to the jurisdiction or venue of such courts.

18. Interpretation. Words importing any gender include all genders. Words importing the singular form shall include the plural and vice versa. The terms "herein", "hereunder", "hereby", "hereto", "hereof" and any similar terms refer to this Agreement. Any captions, titles or headings preceding the text of any article, section or subsection herein are solely for convenience of reference and shall not constitute part of this Agreement or affect its meaning, construction or effect.

19. Entire Agreement. This Agreement embodies the entire and final agreement of the parties on the subject matter stated in this Agreement. No amendment or modification of this Agreement shall be valid or binding upon the Employer or the Executive unless made in writing and signed by both parties. All prior understandings and agreements relating to the subject matter of this Agreement, including, but not limited to, the Prior Employment Agreement, are hereby expressly terminated without any obligations owing to the Executive on account of the termination of those agreements.

20. Rights of Third Parties. Nothing herein expressed is intended to or shall be construed to confer upon or give to any person, firm or other entity, other than the parties hereto and their permitted assigns, any rights or remedies under or by reason of this Agreement.

21. Survival. The obligations of the Executive pursuant to Sections 5, 6, 7, 8 and 9 shall survive the termination of the employment of the Executive hereunder for the period designated under each of those respective sections.

IN WITNESS WHEREOF, the parties have caused this Employment Agreement to be executed on the day and year first above written.

NICOLET BANKSHARES, INC.:

By: /s/ Robert B. Atwell
Signature

Robert B. Atwell, Chairman, President and Chief Executive Officer
Print Name/Title

NICOLET NATIONAL BANK:

By: /s/ Michael E. Daniels
Signature

Michael E. Daniels, President and Chief Executive Officer
Print Name/Title

EXECUTIVE:

By: /s/ Eric J. Witzak
Eric J. Witzak

Exhibit A

Duties and Responsibilities of the Executive

Under the joint direction of the Employer CEO and the Board of Directors, the Executive is responsible for

Principal Accountabilities:

See Attached Job Description

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT is made as of the 7th day of March, 2019 (the "Agreement"), by and among (i) NICOLET NATIONAL BANK (the "Bank"), a National Bank organized under the laws of the State of Wisconsin, a wholly owned subsidiary of NICOLET BANKSHARES, INC. (the "Company"), a bank holding company organized under the laws of the State of Wisconsin, (ii) the Company (the Bank and the Company collectively referred to as the "Employer"), and (iii) BRAD V. HUTJENS, a resident of the State of Wisconsin (the "Executive").

BACKGROUND:

The Executive and the Employer are parties to that certain Employment Agreement dated April 23, 2013 as amended on December 2, 2014 (the "Prior Employment Agreement").

The Bank and the Executive now desire to amend and restate the Prior Employment Agreement to address certain administrative and substantive changes, and (ii) to update the Prior Employment Agreement in a number of respects.

The Employer and the Executive intend that this Agreement embodies the complete terms and conditions of the Executive's employment with the Employer and supersedes all prior employment and similar agreements between the Executive and the Employer (and/or their affiliates), as set forth more specifically below.

AGREEMENT:

In consideration of the above premises and the mutual agreements hereinafter set forth, effective as of the Effective Date, the parties hereby agree as follows:

1. Definitions. Whenever used in this Agreement, the following terms and their variant forms shall have the meaning set forth below:
 - 1.1 "Agreement" shall mean this Agreement and any exhibits incorporated herein together with any amendments hereto made in the manner described in this Agreement.
 - 1.2 "Area" shall mean the geographic area within a fifty (50) mile radius of the Bank's corporate office and each branch office, it being the express intent of the parties that the Area as defined herein is the area where the Executive performs or performed services on behalf of the Bank under this Agreement as of, or within a reasonable time prior to, the termination of the Executive's employment hereunder.
 - 1.3 "Bank Information" means Confidential Information and Trade Secrets.
 - 1.4 "Business of the Employer" shall mean the business conducted by the Bank, which is the business of commercial and consumer banking and the provision of wealth management products and services.
 - 1.5 "Cause" shall mean:
 - a. a material breach of the terms of this Agreement by the Executive, including, without limitation, failure by the Executive to perform his duties and responsibilities in the manner and to the extent required under this Agreement, which remains uncured after the expiration of thirty (30) days following the delivery of written notice of such breach to the Executive by the Employer. Such notice shall (i) specifically identify the duties that the Board of Directors of the Company or the Bank, as applicable, believes the Executive has failed to perform, (ii) state the facts upon which such Board of Directors made such determination, and (iii) be approved by a resolution passed by two-thirds (2/3) of the applicable directors then in office;

- b. conduct by the Executive that amounts to fraud, dishonesty or willful misconduct in the performance of his duties and responsibilities hereunder;
- c. arrest for, charged in relation to (by criminal information, indictment or otherwise), or conviction of the Executive during the Term of this Agreement of a crime involving breach of trust or moral turpitude;
- d. conduct by the Executive that amounts to gross and willful insubordination or inattention to his duties and responsibilities hereunder; or
- e. conduct by the Executive that results in removal from his position as an officer or executive of the Bank pursuant to a written order by any regulatory agency with authority or jurisdiction over the Bank.

1.6 “Change of Control” means any one of the following events the effective date of which occurs during the Term:

- a. the acquisition by any one person, or more than one person acting as a group (other than any person or more than one person acting as a group who is considered to own more than fifty percent (50%) of the total fair market value or voting power of the Bank or the Company, as applicable, prior to such acquisition) of stock of the Bank or the Company, as applicable, that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or voting power of the stock of the Bank or the Company, as applicable;
- b. the date any one person, or more than one person acting as a group, acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person or group, which date is not prior to the first day of the Term) ownership of stock of the Bank or the Company, as applicable, possessing thirty percent (30%) or more of the total voting power of the stock of the Bank or the Company, as applicable;
- c. the date a majority of members of the Company’s Board of Directors is replaced during any twelve-month period, commencing no earlier than the first day of the Term, by the directors whose appointment is not endorsed by a majority of the members of the Company’s Board of Directors before the date of the appointment or election; or
- d. the date that any one person, or more than one person acting as a group, acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person or group, which date is not prior to the first day of the Term) assets of the Company that have a total gross fair market value of forty percent (40%) or more of the total gross fair market value of all of the assets of the Company immediately before such acquisition or acquisitions; provided, however, that transfers to the following entities or person(s) shall not be deemed to result in a Change of Control under this Subsection (d):
 - i. an entity that is controlled by the shareholders of the Company immediately after the transfer;
 - ii. a shareholder (determined immediately before the asset transfer) of the Company in exchange for or with respect to its stock;
 - iii. an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company;
 - iv. a person, or more than one person acting as a group, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Company; or
 - v. an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a person described in the above Subsection (d)(iv).

For purposes of this Section 1.6, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company or the Bank. Notwithstanding the other provisions of this Section 1.6, no Change of Control shall be deemed to have occurred for purposes of this Agreement by reason of any actions or events in which the Executive participates in a capacity other than in the Executive’s capacity as an employee and, if applicable, the Executive’s capacity as a director or shareholder of the Company or the Bank. Notwithstanding the other provisions of this Section 1.6, in the event of a merger, consolidation, reorganization, share exchange or other transaction as to which the holders of the capital stock of the Company before the transaction continue after the transaction to hold, directly or indirectly through a holding company or otherwise, shares of capital stock of the Company (or other surviving company) representing more than fifty percent (50%) of the value or ordinary voting power to elect directors of the capital stock of the Company (or other surviving company), such transaction shall not constitute a Change of Control. The provisions of this Section 1.6 shall be construed in a manner consistent with the applicable provisions of Section 409A of the Internal Revenue Code and the rules and regulations promulgated thereunder.

1.7 “Company” shall mean Nicolet Bankshares, Inc., a bank holding company incorporated under the laws of the State of Wisconsin.

1.8 “Confidential Information” means data and information relating to the business of the Bank or the Company (which does not rise to the status of a Trade Secret) which is or has been disclosed to the Executive or of which the Executive became aware as a consequence of or through the Executive’s relationship to the Bank or the Company and which has value to the Bank and is not generally known to its competitors. Confidential Information shall not include any data or information that has been voluntarily disclosed to the public by the Bank or the Company (except where such public disclosure has been made by the Executive without authorization) or that has been independently developed and disclosed by others, or that otherwise enters the public domain through lawful means.

1.9 “Disability” shall mean the inability of the Executive to perform each of his material duties under this Agreement for the duration of the short-term disability period under the Bank’s policy then in effect (or, if no such policy is in effect, a period of one-hundred eighty (180) consecutive days) as certified by a physician chosen by the Bank and reasonably acceptable to the Executive.

1.10 “Determination Date” means (1) during the Executive’s employment, the date for which compliance is being determined, and (2) following Executive’s Separation from Service, the date of Executive’s Separation from Service.

1.11 “Effective Date” means March 7, 2019.

1.12 “Good Reason” shall mean any of the following which occurs on or after the Effective Date:

- a. a material diminution to the scope of the Executive’s authority (including supervisory authority), duties or

responsibility;

- b. following a Change of Control, a material diminution of reporting relationship;
- c. following a Change of Control, a material change in the geography where the Executive must perform his service (e.g. a location that is beyond a 50-mile radius from the Executive's office location immediately prior to the Change of Control);
- d. following a Change of Control, any material decrease in base compensation, bonus opportunity or other benefits provided for in Section 4 from the level in effect immediately prior to the Change of Control;
- e. any other material breach in the Agreement;

provided, however, that in each case of the above, the Executive must provide written notice to the Employer of the occurrence of such action or failure within ninety (90) days after the action or failure first occurs, and the Executive shall only have Good Reason to terminate the Executive's employment if the Employer fails to correct such action or failure within thirty (30) days following receipt of such notice. If the Employer does so fail to correct such action or failure, the Executive must resign effective no later than fifteen (15) days following expiration of the thirty (30)-day correction period.

1.13 " Initial Term " shall mean that period of time commencing on the date of this Agreement and running until the close of business on the last business day immediately preceding the third

anniversary of the date of this Agreement or any earlier termination of employment of the Executive under this Agreement as provided for in Section 3.

1.14 “Material Contact” means

1. with respect to Section 7 of this Agreement, the contact between the Executive and each customer: (i) with whom or which the Executive dealt on behalf of the Employer and/or one or more of their affiliates in a business capacity or about whom or which the Executive obtained Confidential Information in the ordinary course of business as a result of such Executive’s association with the Employer and/or one or more of their affiliates; and (ii) who or which received products or services from the Employer and/or one or more of their affiliates within two (2) years prior to the Determination Date; and

2. with respect to Section 8 of this Agreement, the contact between the Executive and each employee over which the Executive has direct supervisory authority or significant influence and each employee with whom the Executive has obtained Confidential Information regarding, without limitation, that employee’s performance and/or compensation giving rise to a competitive advantage by virtue of the Executive’s position with the Employer within two (2) years prior to the Determination Date.

1.15 “Separation from Service” shall mean a termination of the Executive’s employment with the Employer and all affiliated companies that, together with the Employer, constitute the “service recipient” within the meaning of Code Section 409A and the regulations thereunder that constitutes a “separation from service” within the meaning of Code Section 409A and the regulations thereunder.

1.16 “Term” shall mean the last day of the Initial Term or most recent subsequent renewal period.

1.17 “Trade Secrets” means Bank or Company information including, but not limited to, technical or nontechnical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans or lists of actual or potential customers or suppliers which:

- a. derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and
- b. is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

2. Duties.

2.1 Position. The Executive is employed as the Executive Vice President, Chief Credit Officer, Chief Compliance and Risk Manager of the Bank, subject to the direction of the President and Chief Executive Officer (hereinafter “CEO”) or its designee(s) and shall perform and discharge well and faithfully the duties which may be assigned to him from time to time by the Employer in connection with the conduct of its business. The duties and responsibilities of the Executive are set forth on Exhibit A attached hereto.

2.2 Full-Time Status. In addition to the duties and responsibilities specifically assigned to the Executive pursuant to Section 2.1 hereof, the Executive shall:

- a. devote substantially all of his time, energy and skill during regular business hours to the performance of the duties of his employment (reasonable vacations and reasonable absences due to illness excepted) and faithfully and industriously perform such duties;
- b. diligently follow and implement all reasonable and lawful management policies and decisions communicated to him by the Board of Directors of the Bank or the Company, as applicable; and
- c. timely prepare and forward to the CEO or its designees all reports and accountings as may be requested of the Executive.

2.3 Permitted Activities. The Executive shall devote his entire business time, attention and energies to the Business of the Employer and shall not during the Term be engaged (whether or not during normal business hours) in any other business or professional activity, whether or not such activity is pursued

for gain, profit or other pecuniary advantage; but this shall not be construed as preventing the Executive from:

- a. investing his personal assets in businesses which (subject to clause (b) below) are not in competition with the Business of the Employer and which will not require any services on the part of the Executive in their operation or affairs and in which his participation is solely that of an investor;
- b. purchasing securities in any corporation whose securities are regularly traded provided that such purchase shall not result in him collectively owning beneficially at any time five percent (5%) or more of the equity securities of any business in competition with the Business of the Employer; and
- c. participating in civic and professional affairs and organizations and conferences, preparing or publishing papers or books or teaching so long as the Board of Directors of the Bank or the Company, as applicable, approves of such activities prior to the Executive's engaging in them.

3. Term and Termination.

3.1 Term. This Agreement shall remain in effect for the Term. While this Agreement remains in effect, it shall automatically renew each day after the date of this Agreement so that the Term remains a three-year term from day-to-day hereafter unless the Employer or the Executive gives written notice to the other of its intent that the automatic renewals shall cease. In the event such notice of non-renewal is properly given, this Agreement and the Term shall expire on the third anniversary of the thirtieth (30th) day following the date such written notice is received.

3.2 Termination. During the Term, the employment of the Executive under this Agreement may be terminated only as follows:

3.2.1 By the Employer:

a. For Cause, upon written notice to the Executive pursuant to Section 1.5 hereof, where the notice has been approved by a resolution passed by two-thirds (2/3) of the directors of the Bank or the Company, as applicable, then in office; or

b. Without Cause at any time, provided that the Employer shall give the Executive thirty (30) days' prior written notice of its intent to terminate, in which event the Employer shall be required to (1) continue to meet its obligations under Section 4.1 for a period equal to the lesser of (i) twelve (12) months following the termination or (ii) the remaining Term of the Agreement, and (2) reimburse the Executive for the cost of premium payments paid by the Executive to continue his then existing health insurance for himself and his covered dependents as provided by the Employer for the lesser of (i) twelve (12) months following the date of termination of employment, or (ii) the health continuation coverage period for which the Executive is eligible as a result of the termination of employment.

3.2.2 By the Executive:

a. For Good Reason, provided that the Executive shall give the Employer the prior written notice described in Section 1.12, in which event the Employer shall be required to (1) continue to meet its obligations under Section 4.1 for a period equal to the lesser of (i) twelve (12) months following the termination or (ii) the remaining Term of the Agreement, and (2) reimburse the Executive for the cost of premium payments paid by the Executive to continue his then existing health insurance for himself and his covered dependents as provided by the Employer for the lesser of (i) twelve (12) months following the date of termination of employment, or (ii) the health continuation coverage period for which the Executive is eligible as a result of the termination of employment; or

b. For any reason other than Good Reason, provided that the Executive shall give the Employer thirty (30) days' prior written notice of his intent to terminate.

3.2.3 Upon the Disability of the Executive at any time; provided that the Employer shall provide the Executive with at least thirty (30) days' prior written notice of its intent to terminate the Executive, in which event, the Employer shall be required to continue to meet its obligations und

er Section 4.1 for a period of six (6) months following the termination or until the Executive begins receiving payments under the Bank's long-term disability policy, whichever occurs first.

3.2.4 At any time upon mutual, written agreement of the parties.

3.2.5 Notwithstanding anything in this Agreement to the contrary, the Term shall end automatically upon the Executive's death.

3.3 Change of Control.

a. If, within six (6) months after a Change of Control as defined in Section 1.6, the Executive experiences an involuntary termination without Cause or the Executive terminates his employment with the Employer for Good Reason, the Executive, or in the event of his subsequent death, his designated beneficiaries or his estate, as the case may be, shall receive, as liquidated damages, in lieu of all other claims, (1) a lump sum severance payment equal to one and one-half (1.5) times the sum of the Executive's Base Salary and target Annual Bonus opportunity as was in effect immediately preceding the Change of Control, if any; plus (2) reimbursement for the cost of premium payments paid by the Executive to continue his then existing health insurance for himself and his covered dependents as provided by the Employer for the lesser of (i) twelve (12) months following the date of termination of employment, or (ii) the health continuation coverage period for which the Executive is eligible as a result of the termination of employment, which shall be paid in cash in accordance with the Bank's regular payroll practices, but no less frequently than monthly.

b. In no event shall the payment(s) described in this Section 3.3 exceed the amount permitted by Section 280G of the Internal Revenue Code, as amended (the 'Code'). Therefore, if the aggregate present value (determined as of the date of the Change of Control in accordance with the provisions of Section 280G of the Code) of both the severance payment and all other payments to the Executive in the nature of compensation which are contingent on a change in ownership or effective control of the Bank or the Company or in the ownership of a substantial portion of the assets of the Bank or the Company (the 'Aggregate Severance') would result in a 'parachute payment,' as defined under Section 280G of the Code, then the Aggregate Severance shall not be greater than an amount equal to 2.99 multiplied by the Executive's 'base amount' for the 'base period,' as those terms are defined under Section 280G of the Code. In the event the Aggregate Severance is required to be reduced pursuant to this Section 3.3, the latest payments in time shall be reduced first and if multiple portions of the Aggregate Severance to be reduced are paid at the same time, any non-cash payments will be reduced before any cash payments, and any remaining cash payments will be reduced pro rata.

3.4 Severance.

a. Payment of severance amounts due upon the Executive's termination of employment pursuant to Sections 3.2.1(b); Section 3.2.2(a); Section 3.2.3 or Section 3.3, as applicable, including any reimbursements to which the Executive is entitled pursuant to Section 4.3, shall commence or be made, as applicable, on the first payroll date that is more than sixty (60) days after the Executive experiences a Separation from Service on or after the date the Executive's employment is terminated.

b. Notwithstanding any provision in the Agreement to the contrary, to the extent necessary to avoid the imposition of tax on the Executive under Code Section 409A, any payments that are otherwise payable to the Executive within the first six (6) months following the effective date of the Executive's Separation from Service, shall be suspended and paid as soon as practicable following the end of the six-month period following such effective date if, immediately prior to the Executive's Separation from Service, the Executive is determined to be a "specified employee" (within the meaning of Code Section 409A(a)(2)(B)(i)) of the Employer (or any related "service recipient" within the meaning of Code Section 409A and the regulations thereunder). Any payments suspended by operation of the foregoing sentence shall be paid as a lump sum in the seventh month following such effective date. Payments (or portions thereof) that would be paid latest in time during the six-month period will be suspended first.

3.5 Effect of Termination of Employment.

a. Upon termination of the Executive's employment hereunder, the Employer shall have no further obligations to the Executive or the Executive's estate with respect to this Agreement, except for the payment of salary and bonus amounts, if any, accrued pursuant to Sections 4.1 and 4.2 hereof and unpaid as of the effective date of the termination of employment and payments set forth in Sections 3.2.1(b); Section 3.2.2(a); Section 3.2.3; Section 3.3; and Section 4.3, as applicable. Nothing contained herein shall limit or impinge upon any other rights or remedies of the Employer or the Executive under any other agreement or plan to which the Executive is a party or of which the Executive is a beneficiary.

b. Notwithstanding any other provision of this Agreement to the contrary, as a condition of the Employer's payment of any amount in connection with the Executive's termination of employment pursuant to Sections 3.2.1(b); Section 3.2.2(a); Section 3.2.3; Section 3.3; and Section 4.3, as applicable, the Executive must execute and not timely revoke during any revocation period provided therein, a release in the form provided by the Employer. The Employer shall provide the release to the Executive in sufficient time so that if the Executive timely executes and returns the release, the revocation period will expire no later than sixty (60) days following the effective date of the termination of employment.

4. Compensation. The Executive shall receive the following salary and benefits during the Term, except as otherwise provided below:

4.1 Base Salary. During the Term in effect at the time of this Agreement, the Executive shall be compensated at a base rate of \$265,000 per year (the "Base Salary"). The Executive's Base Salary shall be reviewed by the CEO at least annually, and based on its evaluation of Executive's performance, may recommend to the Board of Directors of the Bank or the Company, as applicable, that the Executive's Base Salary be increased in such amount, if any, as may be determined by the Board of Directors of the Bank or the Company, as applicable. Base Salary shall be payable in accordance with the Employer's normal payroll practices.

4.2 Annual Incentive Compensation. Unless otherwise prohibited by banking regulation, rule or directive, the Executive shall have the opportunity to earn annual bonus compensation in such manner as may be determined by, and based on performance measures and target levels as may be established by, the Board of Directors upon the recommendation of the Compensation Committee of the Board of Directors (the "Committee") consistent with the Bank's strategic planning process, pursuant to any incentive compensation program as may be adopted from time to time by the Board of Directors (an "Annual Bonus"). Any Annual Bonus earned shall be payable in cash or cash equivalents by March 15th of the calendar year following the calendar year in which the bonus is earned in accordance with the Bank's normal practices for the payment of short-term incentives. To be entitled to any payment of bonus compensation from the Bank pursuant to Section 4.2, the Executive must be employed by the Employer on the last day of the applicable performance period and must continue to be employed until the date that such payment is made.

4.3 Business Expenses; Memberships. The Employer specifically agrees to reimburse the Executive for:

a. reasonable and necessary business (including travel) expenses incurred by him in the performance of his duties hereunder, as approved by the CEO; and

b. reasonable dues and business related expenditures, including initiation fees, associated with memberships, as selected by the Executive, including country clubs and professional associations which are commensurate with his position.

provided, however, that the Executive shall, as a condition of reimbursement, submit verification of the nature and amount of such expenses in accordance with reimbursement policies from time to time adopted by the Employer and in sufficient detail to comply with rules and regulations promulgated by the Internal Revenue Service. In no event shall any reimbursement pursuant to this Agreement be paid after the last day of the taxable year following the taxable year in which the expense was incurred. The amount of reimbursable

expenses incurred in one taxable year shall not affect the expenses eligible for reimbursement in any other taxable year. Such right to reimbursement is not subject to liquidation or exchange for another benefit.

4.4 Benefits. In addition to the benefits specifically described in this Agreement, the Executive shall be entitled to such benefits as may be available from time to time to executives of the Employer similarly situated to the Executive. All such benefits shall be awarded and administered in accordance with the Employer's standard policies and practices. Such benefits may include, by way of example only, vacation pay, profit-sharing plans, retirement or investment funds, dental, health, life and disability insurance benefits and such other benefits as the Employer deems appropriate.

4.5 Withholding. The Employer may deduct from each payment of compensation hereunder all amounts required to be deducted and withheld in accordance with applicable federal and state income, FICA and other withholding requirements.

4.6 Reimbursement of Expenses; In-Kind Benefits. All expenses eligible for reimbursement under this Agreement must be incurred by the Executive during the Term of this Agreement to be eligible for reimbursement. All in-kind benefits described in this Agreement must be provided by the Employer during the Term of this Agreement. The amount of reimbursable expenses incurred, and the amount of in-kind benefits provided, in one taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits provided, in any other taxable year. All reimbursements shall be paid as soon as administratively practicable, but in no event shall any reimbursement be paid after the last day of the calendar year following the calendar year in which the expense was incurred. Such right to reimbursement or in-kind benefits are not subject to liquidation or exchange for another benefit.

5. Bank Information.

5.1 Ownership of Bank Information. All Bank Information received or developed by the Executive while employed by the Employer will remain the sole and exclusive property of the Employer.

5.2 Obligations of the Executive. The Executive agrees:

- a. to hold Bank Information in strictest confidence;
- b. not to use, duplicate, reproduce, distribute, disclose or otherwise disseminate Bank Information or any physical embodiments of Bank Information; and
- c. in any event, not to take any action causing or fail to take any action necessary in order to prevent any Bank Information from losing its character or ceasing to qualify as Confidential Information or a Trade Secret.

In the event that the Executive is required by law to disclose any Bank Information, the Executive will not make such disclosure unless (and then only to the extent that) the Executive has been advised by independent legal counsel that such disclosure is required by law and then only after prior written notice is given to the Employer when the Executive becomes aware that such disclosure has been requested and is required by law. This Section 5 shall survive for a period of twelve (12) months following termination of this Agreement for any reason with respect to Confidential Information, and shall survive termination of this Agreement for any reason for so long as is permitted by applicable law, with respect to Trade Secrets.

5.3 Delivery upon Request or Termination. Upon request by the Employer, and in any event upon termination of his employment with the Employer, the Executive will promptly deliver to the Employer all property belonging to the Employer, including, without limitation, all Bank Information then in his possession or control.

6. Non-Competition. The Executive agrees that during his employment by the Employer hereunder and, in the event of his termination:

- by the Employer for Cause pursuant to Section 3.2.1(a),
- by the Executive other than for Good Reason pursuant to Section 3.2.2(b), or
- by the Executive in connection with a Change of Control pursuant to Section 3.3,

for a period of twelve (12) months thereafter, he will not (except on behalf of or with the prior written consent of the Employer), within the Area, either directly or indirectly, on his own behalf or in the service or on behalf of others, as an executive employee or in any other capacity which involves duties and responsibilities similar to those undertaken for the Employer (including as an organizer or proposed executive officer of a new financial institution), engage in any business which is the same as or essentially the same as the Business of the Employer and which is or is foreseeable to be competitive with the Employer. The Executive acknowledges that the degree of Confidential Information made available to him are protectable interests warranting such restriction.

7. Non-Solicitation of Customers. The Executive agrees that during his employment by the Employer hereunder and, in the event of his termination:

- by the Employer for Cause pursuant to Section 3.2.1(a),
- by the Executive other than for Good Reason pursuant to Section 3.2.2(b), or
- by the Executive in connection with a Change of Control pursuant to Section 3.3,

for a period of twelve (12) months thereafter, he will not (except on behalf of or with the prior written consent of the Employer), within the Area, on his own behalf or in the service or on behalf of others, solicit, divert or appropriate or attempt to solicit, divert or appropriate, any business from any of the Employer's customers with whom the Executive has or had Material Contact, for purposes of providing products or services that are competitive with the Business of the Employer.

8. Non-Solicitation of Employees. The Executive agrees that during his employment by the Employer hereunder and, in the event of his termination:

- by the Employer for Cause pursuant to Section 3.2.1(a),
- by the Executive other than for Good Reason pursuant to Section 3.2.2(b), or
- by the Executive in connection with a Change of Control pursuant to Section 3.3,

for a period of twelve (12) months thereafter, he will not, within the Area, on his own behalf or in the service or on behalf of others, solicit, recruit or hire away or attempt to solicit, recruit or hire away, any employee of the Employer with whom the Executive has or had Material Contact to another person or entity providing products or services that are competitive with the Business of the Employer, whether or not:

- such employee is a full-time employee or a temporary employee of the Employer,
- such employment is pursuant to written agreement, and
- such employment is for a determined period or is at will.

9. Remedies. The Executive agrees that the covenants contained in Sections 5 through 8 of this Agreement are of the essence of this Agreement; that each of the covenants is reasonable and necessary to protect the business, interests and properties of the Employer, and that irreparable loss and damage will be suffered by the Employer should he breach any of the covenants. Therefore, the Executive agrees and consents that, in addition to all the remedies provided by law or in equity, the Employer shall be entitled to a temporary restraining order and temporary and permanent injunctions to prevent a breach or contemplated breach of any of the covenants. The Employer and the Executive agree that all remedies available to the Employer or the Executive, as applicable, shall be cumulative.

10. Severability. The parties agree that each of the provisions included in this Agreement is separate, distinct and severable from the other provisions of this Agreement and that the invalidity or unenforceability of any Agreement provision shall not affect the validity or enforceability of any other provision of this Agreement. Further, if any provision of this Agreement is ruled invalid or unenforceable by a court of competent jurisdiction because of a conflict between the provision and any applicable law or public policy, the provision shall be redrawn to make the provision consistent with and valid and enforceable under the law or public policy.

11. No Set-Off by the Executive. The existence of any claim, demand, action or cause of action by the Executive against the Employer whether predicated upon this Agreement or otherwise, shall not constitute a defense to the enforcement by the Employer of any of its rights hereunder.

12. Notice. All notices and other communications required or permitted under this Agreement shall be in writing and, if mailed by prepaid first-class mail or certified mail, return receipt requested, shall be deemed to have been received on the earlier of the date shown on the receipt or three (3) business days after the postmarked date thereof. In addition, notices hereunder may be delivered by hand or overnight courier, in which event the notice shall be deemed effective when delivered. All notices and other communications under this Agreement shall be given to the parties hereto at the following addresses:

	Post Office Box 23900
If to the Employer:	Green Bay, Wisconsin 54305-3900
If to the Executive:	The address most recently on file with the Employer

13. Assignment. Neither party hereto may assign or delegate this Agreement or any of its rights and obligations hereunder without the written consent of the other party to this Agreement; provided, however, that the rights and obligations of the Employer shall apply to its successor(s) and the rights of the Executive shall inure to the benefit of the heirs or the estate of the Executive.

14. Waiver. A waiver by one party to this Agreement of any breach of this Agreement by the other party to this Agreement shall not be effective unless in writing, and no waiver shall operate or be construed as a waiver of the same or another breach on a subsequent occasion.

15. Mediation. Except with respect to Sections 5 through 9 above, and as provided in Section 17 hereof, if any dispute arises out of or relates to this Agreement, or a breach thereof, and if the dispute cannot be settled through direct discussions between the parties, the parties agree to first endeavor to settle the dispute in an amicable manner by mediation under the Commercial Mediation Rules of the American Arbitration Association before resorting to any other process for resolving the dispute.

16. Attorneys' Fees. In the event that the parties have complied with this Agreement with respect to mediation of disputes and litigation ensues between the parties concerning the enforcement of an arbitration award, the party prevailing in such litigation shall be entitled to receive from the other party all reasonable costs and expenses, including without limitation attorneys' fees, incurred by the prevailing party in connection with such litigation, and the other party shall pay such costs and expenses to the prevailing party within sixty (60) days after a final determination (excluding any appeals) is made with respect to the litigation.

17. Applicable Law. This Agreement shall be construed and enforced under and in accordance with the laws of the State of Wisconsin. The parties agree that any appropriate state court located in Brown County, Wisconsin or federal court for the Eastern District of Wisconsin shall have jurisdiction of any case or controversy arising under or in connection with this Agreement shall be a proper forum in which to adjudicate such case or controversy. The parties consent and waive any objection to the jurisdiction or venue of such courts.

18. Interpretation. Words importing any gender include all genders. Words importing the singular form shall include the plural and vice versa. The terms "herein", "hereunder", "hereby", "hereto", "hereof" and any similar terms refer to this Agreement. Any captions, titles or headings preceding the text of any article, section or subsection herein are solely for convenience of reference and shall not constitute part of this Agreement or affect its meaning, construction or effect.

19. Entire Agreement. This Agreement embodies the entire and final agreement of the parties on the subject matter stated in this Agreement. No amendment or modification of this Agreement shall be valid or binding upon the Employer or the Executive unless made in writing and signed by both parties. All prior understandings and agreements relating to the subject matter of this Agreement, including, but not limited to, the Prior Employment Agreement, are hereby expressly terminated without any obligations owing to the Executive on account of the termination of those agreements.

20. Rights of Third Parties. Nothing herein expressed is intended to or shall be construed to confer upon or give to any person, firm or other entity, other than the parties hereto and their permitted assigns, any rights or remedies under or by reason of this Agreement.

21. Survival. The obligations of the Executive pursuant to Sections 5, 6, 7, 8 and 9 shall survive the termination of the employment of the Executive hereunder for the period designated under each of those respective sections.

IN WITNESS WHEREOF, the parties have caused this Employment Agreement to be executed on the day and year first above written.

NICOLET BANKSHARES, INC.:

By: /s/ Robert B. Atwell
Signature

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

Print Name/Title

NICOLET NATIONAL BANK:

By: /s/ Michael E. Daniels
Signature

Michael E. Daniels, President and Chief Executive Officer

Print Name/Title

EXECUTIVE:

By: /s/ Brad V. Hutjens
Brad V. Hutjens

Exhibit A

Duties and Responsibilities of the Executive

Under the joint direction of the Employer CEO and the Board of Directors, the Executive is responsible for

Principal Accountabilities:

See Attached Job Description

Subsidiaries of Nicolet Bankshares, Inc.:

Name and jurisdiction of incorporation/organization	Equity Interest Held by Registrant
Nicolet National Bank, organized under the laws of the United States of America	100%
Brookfield Investment Partners, LLC, a Wisconsin limited liability company	100%
Nicolet Advisory Services, LLC, a Wisconsin limited liability company	100%
Nicolet Joint Ventures, LLC, a Wisconsin limited liability company	50%

In addition to the subsidiaries listed above, the Registrant owns all of the common stock of a) Nicolet Bankshares Statutory Trust I, b) Mid-Wisconsin Statutory Trust I, c) Baylake Capital Trust II, d) First Menasha Bancshares Statutory Trust I, and e) First Menasha Bancshares Statutory Trust II, which represents an approximate 3% equity interest in each trust, with preferred shareholders holding the remaining equity interest in each of the trusts.

Subsidiaries of Nicolet National Bank:

Name and jurisdiction of incorporation/organization	Equity Interest Held by Nicolet National Bank
Nicolet Investments, Inc., a Nevada corporation	100%
Nicolet Financial Group, LLC, a Wisconsin limited liability company	100%
NNB Properties, LLC, a Wisconsin limited liability company	100%
United Financial Services, Inc., a Wisconsin corporation	99.2%

Subsidiary of United Financial Services, Inc. ("UFS, Inc.") :

Name and jurisdiction of incorporation/organization	Equity Interest Held by UFS, Inc.
United Financial Services, LLC, a Wisconsin limited liability company	50.2%

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements (File No. 333-188853, File No. 333-188856, File No. 333-188857, File No. 333-188858, File No. 333-208192, File No. 333-213734 and File No. 333-225180) on Forms S-8 and Registration Statement (File No. 333-224168) on Form S-3 of Nicolet Bankshares, Inc. of our report dated March 8, 2019, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting of Nicolet Bankshares, Inc., appearing in this Annual Report on Form 10-K of Nicolet Bankshares, Inc. for the year ended December 31, 2018.

/s/ PORTER KEADLE MOORE, LLC

Atlanta, Georgia
March 8, 2019

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

I, Robert B. Atwell, certify that:

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

March 8, 2019

/s/ Robert B. Atwell

Robert B. Atwell

Chairman, President and Chief Executive Officer

(Principal Executive Officer)

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

I, Ann K. Lawson, certify that:

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

March 8, 2019

/s/ Ann K. Lawson

Ann K. Lawson

Chief Financial Officer

(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this Annual Report of Nicolet Bankshares, Inc., (the “Company”) on Form 10-K as filed with the Securities and Exchange Commission on or about the date hereof (the “Report”), I, Robert B. Atwell, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C s.1350, as adopted pursuant to s.906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

March 8, 2019

/s/ Robert B. Atwell

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

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this Annual Report of Nicolet Bankshares, Inc., (the “Company”) on Form 10-K as filed with the Securities and Exchange Commission on or about the date hereof (the “Report”), I, Ann K. Lawson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C s.1350, as adopted pursuant to s.906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

March 8, 2019

/s/ Ann K. Lawson

Ann K. Lawson

Chief Financial Officer

(Principal Financial and Accounting Officer)