

BRIDGEWATER
BANCSHARES, INC.

2019 ANNUAL REPORT

BRIDGEWATER BANCSHARES, INC.

WE SEE BANKING DIFFERENTLY.

IN EVERYTHING WE DO, WE AIM TO CHALLENGE THE **STATUS QUO**. WE ARE A TEAM OF NIMBLE BANKING PROFESSIONALS WHO WANT TO REDEFINE WHAT IT MEANS TO WORK IN THIS INDUSTRY.

WHY? WE BELIEVE THAT BANKING SHOULD BE **UNCONVENTIONAL**. OUR **DEDICATED** TEAM PROVIDES AN UNPARALLELED EXPERIENCE AND OUR **CLIENTS NOTICE A DIFFERENCE**. LIKE TRUE ENTREPRENEURS, WE VALUE **RESPONSIVENESS** AND QUICK ACTION. **ACCURACY** IS THE FOUNDATION OF OUR BUSINESS, AND TOGETHER WE LEARN FROM EACH EXPERIENCE.

OUR JOURNEY BEGAN IN 2005, BUT OUR STORY OF **GROWTH** IS JUST GETTING STARTED. THAT'S THE REFRESHING ATTITUDE OF THE FINEST **ENTREPRENEURIAL BANK IN THE TWIN CITIES.**

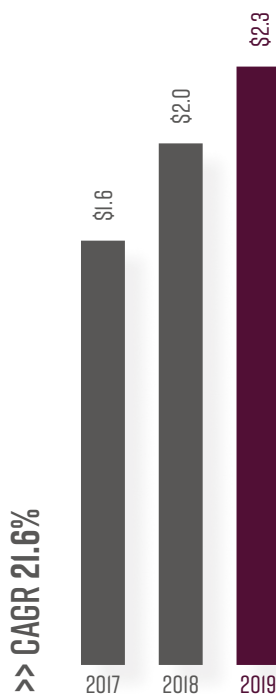


BRIDGEWATER
BANCSHARES, INC.

GROWTH: IT'S MORE THAN JUST A CORE VALUE

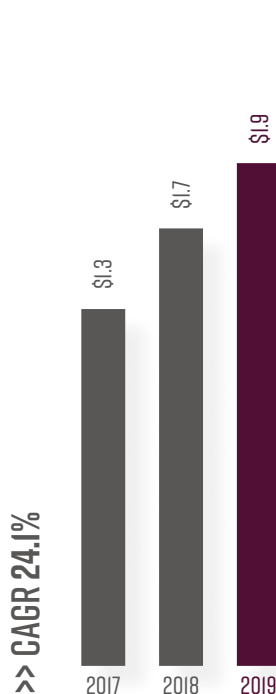
TOTAL ASSETS

In Billions



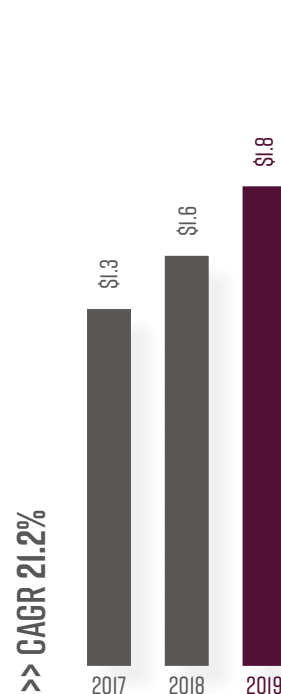
TOTAL LOANS

In Billions



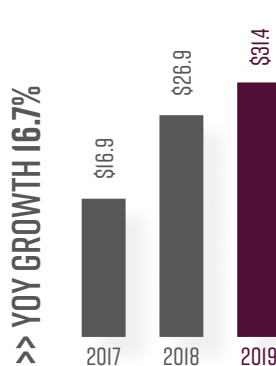
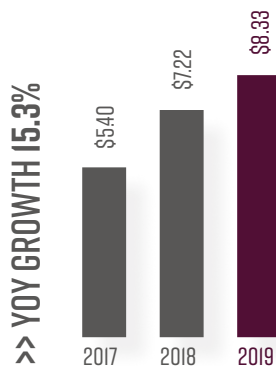
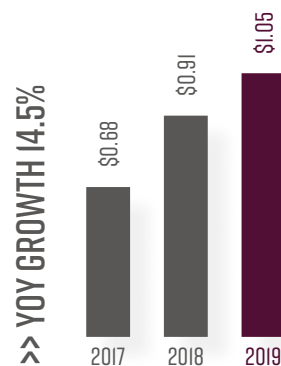
TOTAL DEPOSITS

In Billions



NET INCOME

In Millions

TANGIBLE BOOK
VALUE PER SHAREDILUTED EARNINGS
PER SHARE

CAGR = Compound Annual Growth Rate

FELLOW SHAREHOLDERS,

It is a pleasure to provide Bridgewater Bancshares, Inc.'s annual report for 2019, a document that reinforces our story of continued financial prosperity. There are undoubtedly many high-performing banks across the nation that boast impressive year-over-year earnings. However, we believe few operate at the level of growth, profitability and efficiency that is achieved by Bridgewater. Since inception in 2005, we have witnessed exceptional success, and we intend for this trend to continue.

Looking back on another defining year, Bridgewater posted healthy financial returns in 2019 as we completed our 14th straight year of profitability. Loans and deposits experienced strong, double-digit growth, which propelled Bridgewater to \$2.27 billion in assets at year-end. We held our position as one of the top five largest banks headquartered in Minnesota by asset size and continue to operate as the premier real estate lender in the Twin Cities. This past year also marked our first full fiscal year as a publicly-traded company on the Nasdaq Stock Market, a milestone that has provided the capital needed to fuel our continued growth aspirations.

We continue to employ a focused business model that contributes to our efficiency: simple product offerings, a strategic branch model and a nimble, experienced team. This model has helped us build a local presence, a unique brand and strong, enduring network of local clients. We also reap the benefits of operating in an attractive market – one that has a healthy mix of both entrepreneurial and established companies, and one that headquarters over 15 Fortune 500 companies. The appeal of this market continues to heighten M&A activity. Throughout this disruption, we are proud to emerge as one of the largest, locally-led and locally-founded banks in Minnesota.

While we celebrate the success of the past year, we are also planning for the future. We remain committed to maximizing shareholder value, and we intend to achieve this by delivering the same extraordinary service. We will do this by continuing to add talent and resources that help us achieve our mission. We plan to increase our market niche among seasoned real estate entrepreneurs and build out other products and services to meet the demands of our predominately commercial client base. There are several exciting strategies underway in which we plan to invest in the Bridgewater experience, including enhanced digital technologies, expanded product offerings and exciting facility developments.

Building your bank continues to be an incredibly rewarding journey. While numbers show Bridgewater's financial position, our success goes beyond that. As always, I remain appreciative of the efforts of our network. Every success from 2019 is a reflection of your trust in us. **To our shareholders**, thank you for your continued trust in Bridgewater. It is a privilege to be building your bank. **To our clients**, we recognize that you have many banking options, and we appreciate you for selecting us as your bank of choice. **To our team members**, your dedication makes our success a reality. Thank you for sharing your talents, expertise and commitment to our responsive service model.

As we look ahead to the next year, our efficient practices, commitment to remain responsive and unconventional take on banking will remain the same. Thank you for your continued patronage of the Finest Entrepreneurial Bank in the Twin Cities.



Jerry Baack
Chairman of the Board

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2019.

OR

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

For the transition period from _____ to _____

Commission file number 001-38412

BRIDGEWATER BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Minnesota

(State or Other Jurisdiction of Incorporation or Organization)

26-0113412

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

3800 American Boulevard West, Suite 100

Bloomington, Minnesota

(Address of Principal Executive Offices)

55431

(Zip Code)

Registrant's telephone number, including area code **(952) 893-6868**

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

Title of each class:	Trading Symbol	Name of each exchange on which registered:
Common Stock, \$0.01 Par Value	BWB	The Nasdaq Stock Market LLC

Securities registered under 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 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 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 ☒

The aggregate market value of the Common Stock held by non-affiliates of the Registrant on June 28, 2019, based on the closing price of such shares on that date, was \$273,108,652.

The number of shares of the Common Stock issued and outstanding as of February 24, 2020 was 28,973,572.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III is incorporated by reference to portions of the definitive proxy statement to be filed within 120 days after December 31, 2019, pursuant to Regulation 14A under the Securities Exchange Act of 1934 in connection with the annual meeting of stockholders to be held on April 28, 2020.

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Forward-Looking Statements

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, statements concerning plans, estimates, calculations, forecasts and projections with respect to the anticipated future performance of the Company. These statements are often, but not always, identified by words such as “may”, “might”, “should”, “could”, “predict”, “potential”, “believe”, “expect”, “continue”, “will”, “anticipate”, “seek”, “estimate”, “intend”, “plan”, “projection”, “would”, “annualized”, “target” and “outlook”, or the negative version of those words or other comparable words of a future or forward-looking nature. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. The actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

- loan concentrations in the loan portfolio;
- the overall health of the local and national real estate market;
- the ability to successfully manage credit risk;
- business and economic conditions generally and in the financial services industry, nationally and within our market area;
- the ability to maintain an adequate level of allowance for loan losses;
- new or revised accounting standards, including as a result of the implementation of the new Current Expected Credit Loss standard;
- the high concentration of large loans to certain borrowers;
- the ability to successfully manage liquidity risk;
- the dependence on non-core funding sources and our cost of funds;
- the high concentration of large depositors;
- the ability to raise additional capital to implement our business plan;
- the ability to implement the Company’s growth strategy and manage costs effectively;
- the composition of senior leadership team and the ability to attract and retain key personnel;
- the occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents;
- interruptions involving our information technology and telecommunications systems or third-party servicers;
- competition in the financial services industry;
- severe weather, natural disasters, wide spread disease or pandemics, acts of war or terrorism or other adverse external events;
- the effectiveness of the risk management framework;
- the commencement and outcome of litigation and other legal proceedings and regulatory actions against the Company;
- the impact of recent and future legislative and regulatory changes;
- interest rate risk;
- fluctuations in the values of the securities held in the securities portfolio; and
- changes in federal tax law or policy.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this report. In addition, past results of operations are not necessarily indicative of future results. Any forward-looking statement speaks only as of the date on which it is made, and the Company does not undertake any obligation to publicly update or review any forward-looking statements, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

PART I

ITEM 1. BUSINESS

Company Overview and History

Bridgewater Bancshares, Inc. (the “Company”) is a Minnesota corporation and financial holding company with two wholly-owned subsidiaries, Bridgewater Bank (the “Bank”) and Bridgewater Risk Management, Inc., a captive insurance entity. The Bank has formed two wholly owned subsidiaries: BWB Holdings, LLC, which was formed for the purpose of holding repossessed property; and Bridgewater Investment Management, Inc., which was formed for the purposes of holding certain municipal securities and engaging in municipal lending activities. The Bank has seven full-service offices located in Bloomington, Greenwood, Minneapolis (2), St. Louis Park, Orono, and St. Paul, Minnesota.

The Company is headquartered in Bloomington, Minnesota, a suburb located approximately 10 miles south of downtown Minneapolis and in close proximity to the Minneapolis-St. Paul International Airport. The Company and Bank were established in 2005 as a *de novo* bank by a group of industry veterans and local business leaders committed to serving the diverse needs of commercial real estate investors, small business entrepreneurs, and high net worth individuals.

Since inception, the Company has grown significantly and profitably, with a focus on organic growth, driven primarily by commercial real estate lending. Assets have grown at a compounded annual growth rate of 34.7%, since 2005, surpassing total asset milestones of \$500 million in 2013, \$1.0 billion in 2016 and \$2.0 billion in 2019. While this growth has been almost entirely organic, in 2016, the Company acquired First National Bank of the Lakes in a complementary small bank acquisition, which added approximately \$76.1 million in assets, \$66.7 million in seasoned core deposits and two branch locations within its market area.

As of December 31, 2019, total assets were \$2.27 billion, total gross loans were \$1.91 billion, total deposits were \$1.82 billion, and total shareholders’ equity was \$244.8 million.

The principal sources of funds for loans and investments are transaction, savings, time, and other deposits, and short-term and long-term borrowings. The Company’s principal sources of income are interest and fees collected on loans, interest and dividends earned on investment securities and service charges. The Company’s principal expenses are interest paid on deposit accounts and borrowings, employee compensation and other overhead expenses. The Company’s simple, efficient business model of providing responsive support and unconventional experiences to clients continues to be the underlying principle that drives the Company’s profitable growth.

Market Area and Competition

The Company operates in the Twin Cities MSA, which had total deposits of \$189.3 billion as of June 30, 2019, and ranks as the 15th largest metropolitan statistical area in the United States in total deposits, and the third largest metropolitan statistical area in the Midwest in total deposits, based on Federal Deposit Insurance Corporation, or FDIC, data. This area is commonly known as the “Twin Cities” after its two largest cities, Minneapolis, the city with the largest population in the state, and St. Paul, which is the state capital.

The Twin Cities MSA is defined by attractive market demographics, including strong household incomes, dense populations, low unemployment and the presence of a diverse group of large and small businesses. As of

December 31, 2019, the Company's market ranked third in median household income in the Midwest and sixth in the nation, when compared to the top 20 metropolitan statistical areas by population size in each area, based on data available on S&P Global Market Intelligence. According to the U.S. Bureau of Labor Statistics, the population in the Twin Cities MSA was approximately 3.7 million as of December 31, 2019, making it the third largest metropolitan statistical area in the Midwest and 16th largest metropolitan statistical area in the United States. The low unemployment rate of 3.0%, as of December 31, 2019, and the significant presence of national and international businesses make the Twin Cities MSA one of the most economically vibrant and diverse markets in the country.

The Company operates in a competitive market area and competes with other, often much larger, retail and commercial banks and financial institutions. Two large, national banking chains, Wells Fargo and US Bank, together controlled 73.0% of the deposit market share in the Twin Cities MSA as of June 30, 2019, based on FDIC data and as displayed in the table below. By comparison, as of the same date, the Company had a deposit market share of approximately 0.9%, which ranked the Company tenth in the Twin Cities MSA overall and fifth in the Twin Cities MSA among banks headquartered in Minnesota.

Rank	Institution	State Headquarters	Branch Count	Total Deposits (\$000)	Market Share (%)
1	U.S. Bancorp	MN	99	73,464,421	38.81
2	Wells Fargo & Co	CA	95	64,630,788	34.14
3	TCF Financial Corp.	MN	85	6,678,784	3.53
4	Bremer Financial Corp.	MN	21	4,717,182	2.49
5	Bank of Montreal	N/A	30	4,098,778	2.17
6	Bank of America Corp.	NC	11	3,133,900	1.66
7	Old National Bancorp	IN	31	2,994,173	1.58
8	Ameriprise Financial, Inc.	MN	2	2,205,519	1.17
9	Associated Banc-Corp	WI	21	1,971,146	1.04
10	Bridgewater Bancshares, Inc.	MN	9	1,728,890	0.91
Top 10 Institutions			404	165,623,581	87.50
Total Bank Deposits			770	189,293,807	

The market has also experienced disruption in recent years due to acquisitions of local institutions by larger regional banks headquartered outside of the market. The Company seeks to attract customers by offering a higher level of responsiveness and by providing a more tailored array of products and services than larger competitors.

Products and Services

The Company offers a full array of simple, quality loan and deposit products primarily for commercial clients. While the Company provides products and services that compete with those offered by our large, national and regional competitors, the Company additionally offers responsive support and personalized solutions tailored for each client. The Company emphasizes customer service over price, and believes in providing distinguishing levels of client service through the experience of employees, the responsiveness and certainty of the credit process and the efficiency with which business is conducted. The Company believes that clients notice a difference in service compared to the much larger institutions in our market. The Company has built a strong referral network that continually provides opportunities with new client relationships. At this time, the Company does not operate any non-depository business lines such as mortgage, wealth management or trust.

Lending. The Bank focuses primarily on commercial lending, consisting of loans secured by nonfarm, nonresidential properties, loans secured by multifamily residential properties, non-owner occupied single family residential properties, construction loans, land development loans and commercial and industrial loans. The Bank has a particular niche in multifamily financing which has historically represented approximately 20-30% of the loan portfolio. This asset class has performed extremely well and has lower historical loss rates when compared to other loan types. Commercial real estate loans (excluding multifamily and construction) consist of owner and nonowner occupied

properties. This portfolio segment is well diversified with loans secured by office buildings, retail strip centers, industrial properties, senior housing and hospitality properties and mixed-use properties. In addition to loans secured by improved commercial real estate properties, the Bank engages in construction lending, which includes single family residential construction loans, land development, finished lots and raw land loans, and commercial and multifamily construction.

In recent years, the Bank has increased its focus on commercial and industrial lending. This portfolio includes a mix of term equipment loans, revolving lines of credit and lease transactions to support the needs of local businesses. Additionally, the Bank has a niche within the tax credit investment market whereby it bridges equity capital receivables on various tax credit projects.

The Bank focuses on lending to borrowers located or investing in the Twin Cities MSA across a diverse range of industries and property types. The Bank does not generally lend outside of its market, however, as a relationship lender, it will, from time to time, finance properties located outside of Minnesota for its existing local clients in select situations.

Growth over the last several years has been partially attributable to the Bank's ability to cultivate relationships with certain individuals and businesses that have resulted in a concentration of large loans to a small number of borrowers. The Bank has established an informal, internal limit on a single loan to finance one transaction, but may, under certain circumstances, consider going above this internal limit in situations where management's understanding of the industry, the borrower's financial condition, overall credit quality and property fundamentals are commensurate with the increased size of the relationship.

Deposits. The Bank has developed a suite of deposit products targeted at commercial clients, including a variety of remote deposit and cash management products, along with commercial transaction accounts. The Bank also offers consumers traditional retail deposit products through the branch network, along with online, mobile and direct banking channels. Many of the deposits do not require a branch visit, creating efficiencies across the Bank's branch network.

The Bank has developed relationships with certain individuals and businesses that have resulted in a concentration of large deposits from a small number of clients. As of December 31, 2019, the 10 largest depositor relationships accounted for approximately 22.2% of total deposits. This high concentration of depositors presents a risk to liquidity if one or more of them decides to change its relationship with the Bank and to withdraw all or a significant portion of their accounts.

While the Bank is committed to growing core deposits, brokered deposits are used as a strategic component of the funding strategy and interest rate risk management. The Bank's Asset Liability Management, or ALM, Committee monitors the size of this portfolio. As core deposits have grown, brokered deposits have remained a consistent part of the portfolio.

Competitive Strengths

As the Company seeks to continue to grow the business, the following strengths are believed to provide a competitive advantage over other financial institutions operating in its market area:

Commercial Banking Expertise. Management believes we have earned the reputation as one of the prominent commercial real estate lenders in the Twin Cities MSA due in large part to the strength of the lending team. The Company has an experienced, professional team of 19 commercial lenders, and believes the ability to drive quality, commercial loan growth is a result of being able to provide each client with access to a knowledgeable, experienced, responsive and dedicated banker. Due to their market knowledge and understanding of clients' businesses, the lenders are well positioned to provide timely and relevant feedback to clients. Management believes the responsive credit culture separates us from competitors.

Multifamily Lending Niche. The Company specializes in multifamily lending, which typically represents between 20% to 30% of the total loan portfolio. We believe this lending niche lowers the risk profile of the overall loan portfolio due to its lower historical loss rates when compared to other loan types.

Engaged and Experienced Board of Directors and Management Team. The Company's board of directors consists of highly accomplished individuals with strong industry and business experience in the market area. The combined expertise of the board of directors and the significant banking and regulatory experience of the strategic leadership team help execute the Company's growth strategy.

The Company's seven-person strategic leadership team has a strong balance of extensive banking and regulatory experience, drive and talent. The team has over 125 years of combined banking and financial services experience and more than 20 years of regulatory experience. Three members of the team have been leading the Bank since its formation, and with an average age of 47, this group can drive growth and strategy for years to come.

In addition to the strategic leadership team, the Company has demonstrated an ability to grow through the recruitment of high performing individuals. The Company seeks to hire people with significant in-market experience who fit the Company's hard-working, driven culture. Through targeted hiring and internal development efforts, the Company has established a deep bench of talent to continue to grow and manage business. The Company has structured its team to prepare for long-term growth and stability by combining the experienced strategic leadership and commercial lending teams with its next generation of leaders.

Efficiency. The Company operates as an efficient organization based on a simple business model. By focusing on commercial real estate lending, employee overhead is low due to the increased loan portfolio sizes of lenders compared to smaller loan portfolio sizes typically related to other types of commercial lending. In addition, the Company serves its clients through a strategically positioned branch model, as well as through online, mobile and direct banking channels, and is not dependent on a traditional branch network with a large number of locations.

Hard-Working and Entrepreneurial Culture. The Company has developed a hard-working and entrepreneurial culture, which is a critical component for attracting and retaining experienced and talented bankers, as well as clients. The Company has established a set of core values, based on characteristics that describe and inspire the culture—unconventional, responsive, dedicated, focused on growth and accurate. To maintain the culture, all potential and current personnel evaluations include an assessment of these attributes. Clients notice the unconventional environment with dedicated employees who feel like they are part of building a high performing community bank.

Solid Asset Quality Metrics. A risk-management focused business model has contributed to solid asset quality during a period of strong loan growth. The Company diligently monitors and routinely stress tests the loan portfolio. The strong credit metrics are the result of prudent underwriting standards, experienced lenders and close ties to and knowledge of clients, as well as the currently strong economic environment in the market.

Proactive Enterprise Risk Management. The Company's enterprise risk management practices provide an enhanced level of oversight allowing management to be proactive rather than reactive. The Bank-level risk committee, comprised of senior representatives from all departments, meets bi-monthly to review the Bank's overall enterprise risk position and to discuss how the Bank's strategic initiatives may impact the Bank's risk profile. Enterprise risk management reports are provided to the full Bank board on a quarterly basis. In 2016, Bridgewater Risk Management, Inc. was formed as a captive insurance subsidiary to provide supplemental insurance coverage to the Company and its subsidiaries for risk management purposes.

The Company also has a comprehensive Commercial Real Estate Portfolio Risk Management Policy which implements formal processes and procedures designed to manage and mitigate risk within the commercial real estate portfolio. This policy addresses regulatory guidelines for institutions, such as the Bank, that exhibit higher levels of commercial real estate concentrations. These processes and procedures include board and management oversight, commercial real estate exposure limits, portfolio monitoring tools, management information systems, market reports, underwriting standards, a credit risk review function and periodic stress testing to evaluate potential credit risk and the subsequent impact on capital and earnings.

Strategies for Growth

To generate future growth, the Company intends to continue to execute the strategies that it has used over the past fourteen years to achieve some of the strongest performance results in the community banking industry. These strategies include the following:

Focus on Organic Growth in the Market Area. The Company intends to continue to grow its business organically in a focused and strategic manner by leveraging its competitive strengths, including commercial banking expertise, an experienced management team, an efficient business model and strong branding, to capitalize on the opportunities in the Company's market area. As a publicly traded but locally-headquartered community bank, the Company can go beyond what small banks can provide by offering similar sophisticated products and services to those offered by the much larger, out-of-state banks, but in a manner that is tailored to the needs of local clients in a more efficient, responsive and flexible way. Although the Company may in the future identify new markets to enter, the long-term growth potential of the current market is substantial and provides the ability to continue to grow organically in the market.

The Company plans to increase core deposits and build market share by expanding existing client relationships and by developing new deposit-focused clients. The Company plans to continue to expand its footprint through marketing and networking efforts focused on generating deposits. Although the Company is committed to growing core deposits, growth will continue to be supplemented, when necessary, with non-core, wholesale funding sources. On the lending side, the Company intends to rely on the commercial real estate lending expertise of the lenders, and believes the Company is well-positioned to continue to organically grow commercial loans based on the favorable market demographics in the Twin Cities MSA.

Leverage Entrepreneurial Culture and Talent. The Company has built a team of bankers that is hard-working, passionate and energized by the opportunities to continue to grow the Company's business and develop its brand in the Twin Cities MSA. With an experienced strategic leadership team and a strong layer of talented middle managers, the Company is well positioned for future growth. The Company aggressively recruits qualified personnel and develops talent internally and believes the culture, which empowers employees to be entrepreneurs for the business, will allow the Company to attract and develop the talent needed to drive growth.

Consider Opportunistic Acquisitions. In addition to organic growth, from time to time, the Company may consider additional acquisition opportunities that fit with the organization. Specifically, the Company will evaluate acquisitions that would be complementary to its existing business. The Company will continue to seek acquisitions that will bolster its balance sheet in areas where the Company would like to grow or diversify, without compromising the Company's risk profile or culture. While pursuing acquisitions that fit, the Company intends to be disciplined in its approach to pricing and will not generally look to acquire new business lines or sellers located in new markets. In the future, the Company may evaluate and act upon acquisition opportunities that would produce attractive returns for shareholders. Management believes that there will be further bank consolidation in the Twin Cities MSA and that the Company is well positioned to be a preferred partner for smaller institutions looking to exit through a sale to an in-market buyer.

Supervision and Regulation

General

FDIC-insured institutions, their holding companies and their affiliates are extensively regulated under federal and state law. As a result, the Company's growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the Minnesota Department of Commerce, Financial Institutions Division, or MFID, the Federal Reserve, the FDIC and the Consumer Financial Protection Bureau, or CFPB. Furthermore, taxation laws administered by the Internal Revenue Service, or IRS, and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board, or FASB, securities laws administered by the Securities and Exchange Commission, or SEC, and state securities authorities, and anti-money laundering laws enforced

by the U.S. Department of the Treasury, or Treasury, have an impact on the Company's business. The effect of these statutes, regulations, regulatory policies and accounting rules are significant to the Company's operations and results.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of FDIC-insured institutions, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than shareholders. These laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of the Company's business, the kinds and amounts of investments the Company and the Bank may make, reserve requirements, required capital levels relative to assets, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with the Company's and the Bank's insiders and affiliates and the Company's payment of dividends. In reaction to the global financial crisis and particularly following the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, the Company experienced heightened regulatory requirements and scrutiny. Although the reforms primarily targeted systemically important financial service providers, their influence filtered down in varying degrees to community banks over time and caused the Company's compliance and risk management processes, and the costs thereof, to increase. After the 2016 federal elections, momentum to decrease the regulatory burden on community banks gathered strength. In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act, or Regulatory Relief Act, was enacted by Congress in part to provide regulatory relief for community banks and their holding companies. To that end, the law eliminated questions about the applicability of certain Dodd-Frank Act reforms to community bank systems, including relieving the Company of any requirement to engage in mandatory stress tests, maintain a risk committee or comply with the Volcker Rule's complicated prohibitions on proprietary trading and ownership of private funds. The Company believes these reforms are favorable to its operations.

The supervisory framework for U.S. banking organizations subjects banks and bank holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that are not publicly available and that can impact the conduct and growth of their business. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality, management ability and performance, earnings, liquidity, and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and the Bank, beginning with a discussion of the continuing regulatory emphasis on the Company's capital levels. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory and regulatory provision.

The Role of Capital

Regulatory capital represents the net assets of a banking organization available to absorb losses. Because of the risks attendant to their business, FDIC-insured institutions are generally required to hold more capital than other businesses, which directly affects the Company's earnings capabilities. While capital has historically been one of the key measures of the financial health of both bank holding companies and banks, its role became fundamentally more important in the wake of the global financial crisis, as the banking regulators recognized that the amount and quality of capital held by banks prior to the crisis was insufficient to absorb losses during periods of severe stress. Certain provisions of the Dodd-Frank Act and Basel III, discussed below, establish capital standards that are meaningfully more stringent than those in place previously.

Minimum Required Capital Levels. Banks have been required to hold minimum levels of capital based on guidelines established by the bank regulatory agencies since 1983. The minimums have been expressed in terms of ratios of "capital" divided by "total assets." As discussed below, bank capital measures have become more sophisticated over the years and have focused more on the quality of capital and the risk of assets. Bank holding companies have historically had to comply with less stringent capital standards than their bank subsidiaries and have been able to raise capital with hybrid instruments such as trust preferred securities. The Dodd-Frank Act mandated the Federal Reserve to establish minimum capital levels for holding companies on a consolidated basis as stringent as those required for FDIC-insured institutions.

The Basel International Capital Accords. The risk-based capital guidelines for U.S. banks since 1989 were based upon the 1988 capital accord known as “Basel I” adopted by the international Basel Committee on Banking Supervision, a committee of central banks and bank supervisors that acts as the primary global standard-setter for prudential regulation, as implemented by the U.S. bank regulatory agencies on an interagency basis. The accord recognized that bank assets for the purpose of the capital ratio calculations needed to be assigned risk weights (the theory being that riskier assets should require more capital) and that off-balance sheet exposures needed to be factored in the calculations. Basel I had a very simple formula for assigning risk weights to bank assets from 0% to 100% based on four categories. In 2008, the banking agencies collaboratively began to phase-in capital standards based on a second capital accord, referred to as “Basel II,” for large or “core” international banks (generally defined for U.S. purposes as having total assets of \$250 billion or more, or consolidated foreign exposures of \$10 billion or more) known as “advanced approaches” banks. The primary focus of Basel II was on the calculation of risk weights based on complex models developed by each advanced approaches bank. Because most banks were not subject to Basel II, the U.S. bank regulators worked to improve the risk sensitivity of Basel I standards without imposing the complexities of Basel II. This “standardized approach” increased the number of risk-weight categories and recognized risks well above the original 100% risk weight. It is institutionalized by the Dodd-Frank Act for all banking organizations, even for the advanced approaches banks, as a floor.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on a strengthened set of capital requirements for banking organizations around the world, known as Basel III, to address deficiencies recognized in connection with the global financial crisis.

The Basel III Rule. In July 2013, the U.S. federal banking agencies approved the implementation of the Basel III regulatory capital reforms in pertinent part, and, at the same time, promulgated rules effecting certain changes required by the Dodd-Frank Act, or the Basel III Rule. In contrast to capital requirements historically, which were in the form of guidelines, Basel III was released in the form of enforceable regulations by each of the regulatory agencies. The Basel III Rule is applicable to all banking organizations that are subject to minimum capital requirements, including federal and state banks and savings and loan associations, as well as to bank and savings and loan holding companies, other than “small bank holding companies” who are relieved from compliance with the Basel III Rule (see “Supervision and Regulation of the Company—Capital Requirements”) and certain qualifying community banking organizations that may elect a simplified framework.

The Basel III Rule increased the required quantity and quality of capital and, for nearly every class of assets, it requires a more complex, detailed and calibrated assessment of risk and calculation of risk-weight amounts.

Not only did the Basel III Rule increase most of the required minimum capital ratios in effect prior to January 1, 2015, but it introduced the concept of Common Equity Tier 1 Capital, which consists primarily of common stock, related surplus (net of Treasury stock), retained earnings, and Common Equity Tier 1 minority interests subject to certain regulatory adjustments. The Basel III Rule also changed the definition of capital by establishing more stringent criteria that instruments must meet to be considered Additional Tier 1 Capital (primarily non-cumulative perpetual preferred stock that meets certain requirements) and Tier 2 Capital (primarily other types of preferred stock and subordinated debt, subject to limitations). A number of instruments that qualified as Tier 1 Capital under Basel I do not qualify, or their qualifications changed. For example, noncumulative perpetual preferred stock, which qualified as simple Tier 1 Capital under Basel I, does not qualify as Common Equity Tier 1 Capital, but qualifies as Additional Tier 1 Capital. The Basel III Rule also constrained the inclusion of minority interests, mortgage-servicing assets, and deferred tax assets in capital and requires deductions from Common Equity Tier 1 Capital in the event that such assets exceed a certain percentage of a banking institution’s Common Equity Tier 1 Capital.

The Basel III Rule requires **minimum** capital ratios as follows:

- A ratio of minimum Common Equity Tier 1 Capital equal to 4.5% of risk-weighted assets;
- An increase in the minimum required amount of Tier 1 Capital from 4% to 6% of risk-weighted assets;
- A continuation of the minimum required amount of Total Capital (Tier 1 plus Tier 2) at 8% of risk-weighted assets; and

- A minimum leverage ratio of Tier 1 Capital to total quarterly average assets equal to 4% in all circumstances.

In addition, institutions that seek the freedom to make capital distributions (including for dividends and repurchases of stock) and pay discretionary bonuses to executive officers without restriction must also maintain 2.5% in Common Equity Tier 1 Capital attributable to a capital conservation buffer. The purpose of the conservation buffer is to ensure that banking institutions maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. Factoring in the conservation buffer increases the minimum ratios depicted above to 7% for Common Equity Tier 1 Capital, 8.5% for Tier 1 Capital and 10.5% for Total Capital.

Well-Capitalized Requirements. The ratios described above are minimum standards in order for banking organizations to be considered “adequately capitalized.” Bank regulatory agencies uniformly encourage banks to hold more capital and be “well-capitalized” and, to that end, federal law and regulations provide various incentives for banking organizations to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a banking organization that is well-capitalized may: (i) qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities; (ii) qualify for expedited processing of other required notices or applications; and (iii) accept, roll-over or renew brokered deposits. Higher capital levels could also be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve’s capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (*i.e.*, Tier 1 Capital less all intangible assets), well above the minimum levels.

Under the capital regulations of the FDIC and Federal Reserve, in order to be well-capitalized, a banking organization must maintain:

- A Common Equity Tier 1 Capital ratio to risk-weighted assets of 6.5% or more;
- A ratio of Tier 1 Capital to total risk-weighted assets of 8% or more (6% under Basel I);
- A ratio of Total Capital to total risk-weighted assets of 10% or more (the same as Basel I); and
- A leverage ratio of Tier 1 Capital to total adjusted average quarterly assets of 5% or greater.

It is possible under the Basel III Rule to be well-capitalized while remaining out of compliance with the capital conservation buffer discussed above.

As of December 31, 2019: (i) the Bank was not subject to a directive from MFID or FDIC to increase its capital; and (ii) the Bank was well-capitalized, as defined by FDIC regulations. As of December 31, 2019, the Company had regulatory capital in excess of the Federal Reserve’s requirements and met the Basel III Rule requirements to be well-capitalized. The Company was also in compliance with the capital conservation buffer as of December 31, 2019.

Prompt Corrective Action. The concept of an institution being “well-capitalized” is part of a regulatory enforcement regime that provides the federal banking regulators with broad power to take “prompt corrective action” to resolve the problems of institutions based on the capital level of each particular institution. The extent of the regulators’ powers depends on whether the institution in question is “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized,” in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators’ corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution’s asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to sell itself; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate that the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

Community Bank Capital Simplification. Community banks have long raised concerns with bank regulators about the regulatory burden, complexity, and costs associated with certain provisions of the Basel III Rule. In response,

Congress provided an “off-ramp” for institutions, like the Company, with total consolidated assets of less than \$10 billion. Section 201 of the Regulatory Relief Act instructed the federal banking regulators to establish a single “Community Bank Leverage Ratio”, or CBLR, of between 8 and 10%. Under the final rule, a community banking organization is eligible to elect the new framework if it has less than \$10 billion in total consolidated assets, limited amounts of certain assets and off-balance sheet exposures, and a CBLR greater than 9%. The Company may elect the CBLR framework at any time but has not currently determined to do so.

Supervision and Regulation of the Company

General. The Company, as the sole shareholder of the Bank, is a bank holding company. As a bank holding company, the Company is registered with, and is subject to regulation supervision and enforcement by, the Federal Reserve under the Bank Holding Company Act, or BHCA. The Company is legally obligated to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where the Company might not otherwise do so. Under the BHCA, the Company is subject to periodic examination by the Federal Reserve. The Company is required to file with the Federal Reserve periodic reports of the Company’s operations and such additional information regarding the Company and its subsidiaries as the Federal Reserve may require.

Acquisitions, Activities and Financial Holding Company Election. The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company of another bank or bank holding company. Subject to certain conditions (including deposit concentration limits established by the BHCA), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its FDIC-insured institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company. Furthermore, in accordance with the Dodd-Frank Act, bank holding companies must be well-capitalized and well-managed in order to effect interstate mergers or acquisitions. For a discussion of the capital requirements, see “—The Role of Capital” above.

The BHCA generally prohibits the Company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve prior to November 11, 1999 to be “so closely related to banking ... as to be a proper incident thereto.” This authority permits the Company to engage in a variety of banking-related businesses, including the ownership and operation of a savings association, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development) and mortgage banking and brokerage services. The BHCA does not place territorial restrictions on the domestic activities of nonbank subsidiaries of bank holding companies.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature or incidental to any such financial activity or that the Federal Reserve determines by order to be complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of FDIC-insured institutions or the financial system generally. The Company has elected to operate as a financial holding company. In order to maintain its status as a financial holding company, the Company and the Bank must be well-capitalized, well-managed, and the Bank must have a least a satisfactory Community Reinvestment Act, or CRA, rating. If the Federal Reserve determines that a financial holding company is not well-capitalized or well-managed, that company has a period of time in which to achieve compliance, but during the period of noncompliance, the Federal Reserve may place any limitations on the company it believes to be appropriate. Furthermore, if the Federal Reserve determines that a financial holding company’s subsidiary bank has not received a satisfactory CRA rating, that company will not be able to commence any new financial activities or acquire a company that engages in such activities.

Change in Control. Federal law also prohibits any person or company from acquiring “control” of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. “Control” is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 10% and 24.99% ownership.

Capital Requirements. Under the Federal Reserve’s Small Bank Holding Company Policy Statement, holding companies with less than \$3 billion in total assets are exempt from the Basel III consolidated capital requirements, as long as their pro forma consolidated assets remain under \$3 billion and as long as they do not engage in significant nonbanking activities conduct significant off-balance sheet activities or have a material amount of debt or equity securities registered with the SEC. Although our common stock is registered with the SEC, as of the date of this filing, the Federal Reserve has not requested that we report consolidated regulatory capital ratios, however we elect to do so.

Dividend Payments. The Company’s ability to pay dividends to its shareholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. As a Minnesota corporation, the Company is subject to the Minnesota Business Corporation Act, as amended, which prohibits the Company from paying a dividend if, after giving effect to the dividend the Company would not be able to pay its debts as the debts become due in the ordinary course of business, or the Company’s total assets would be less than the sum of its total liabilities plus, the amount that would be needed, if the Company were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution.

As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should eliminate, defer or significantly reduce dividends to shareholders if: (i) the company’s net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the prospective rate of earnings retention is inconsistent with the company’s capital needs and overall current and prospective financial condition; or (iii) the company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. The Federal Reserve also possesses enforcement powers over bank holding companies and their nonbank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends have to maintain 2.5% in Common Equity Tier 1 Capital attributable to the capital conservation buffer. See “—The Role of Capital” above.

Monetary Policy. The monetary policy of the Federal Reserve has a significant effect on the operating results of financial or bank holding companies and their subsidiaries. Among the tools available to the Federal Reserve to affect the money supply are open market transactions in U.S. government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

Federal Securities Regulation. The Company’s common stock is registered with the SEC under the Exchange Act. Consequently, the Company is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

Corporate Governance. The Dodd-Frank Act addressed many investor protection, corporate governance and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act increased shareholder influence over boards of directors by requiring companies to give shareholders a nonbinding vote on executive compensation and so-called “golden parachute” payments, and authorizing the SEC to promulgate rules that would allow shareholders to nominate and solicit voters for their own candidates using a company’s proxy materials. The legislation also directed the Federal Reserve to promulgate rules prohibiting excessive compensation paid to executives of bank holding companies, regardless of whether such companies are publicly traded.

Supervision and Regulation of the Bank

General. The Bank is a Minnesota-chartered bank. The deposit accounts of the Bank are insured by the FDIC’s Deposit Insurance Fund, or DIF, to the maximum extent provided under federal law and FDIC regulations, currently \$250,000 per insured depositor category. As a Minnesota-chartered FDIC-insured bank, the Bank is subject to the examination, supervision, reporting and enforcement requirements of the MFID, the chartering authority for Minnesota

banks, and the FDIC, designated by federal law as the primary federal regulator of insured state banks that, like the Bank, are not members of the Federal Reserve.

Deposit Insurance. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured institutions pay insurance premiums at rates based on their risk classification. For institutions like the Bank that are not considered large and highly complex banking organizations, assessments are now based on examination ratings and financial ratios. The total base assessment rates currently range from 1.5 basis points to 30 basis points. At least semi-annually, the FDIC updates its loss and income projections for the DIF and, if needed, increases or decreases the assessment rates, following notice and comment on proposed rulemaking. The assessment base against which an FDIC-insured institution's deposit insurance premiums paid to the DIF has been calculated since effectiveness of the Dodd-Frank Act based on its average consolidated total assets less its average tangible equity. This method shifted the burden of deposit insurance premiums toward those large depository institutions that rely on funding sources other than U.S. deposits.

The reserve ratio is the FDIC insurance fund balance divided by estimated insured deposits. The Dodd-Frank Act altered the minimum reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to FDIC-insured institutions when the reserve ratio exceeds certain thresholds. The reserve ratio reached 1.36% as of September 30, 2018, exceeding the statutory required minimum reserve ratio of 1.35%. As a result, the FDIC is providing assessment credits to insured depository institutions, like the Bank, with total consolidated assets of less than \$10 billion for the portion of their regular assessments that contributed to growth in the reserve ratio between 1.15% and 1.35%. The share of the aggregate small bank credits allocated to each insured institution is proportional to its credit base, defined as the average of its regular assessment base during the credit calculation period. The FDIC is currently applying the credits for quarterly assessment periods beginning July 1, 2019, and, as long as the reserve ratio is at least 1.35%, the FDIC will remit the full nominal value of any remaining credits in a lump-sum payment.

Supervisory Assessments. All Minnesota-chartered banks are required to pay supervisory assessments to the MFID to fund the operations of that agency. The amount of the assessment is calculated on the basis of the Bank's total assets. During the year ended December 31, 2019, the Bank paid supervisory assessments to the MFID totaling approximately \$105,377.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. For a discussion of capital requirements, see "—The Role of Capital" above.

Liquidity Requirements. Liquidity is a measure of the ability and ease with which bank assets may be converted to cash. Liquid assets are those that can be converted to cash quickly if needed to meet financial obligations. To remain viable, FDIC-insured institutions must have enough liquid assets to meet their near-term obligations, such as withdrawals by depositors. Because the global financial crisis was in part a liquidity crisis, Basel III also includes a liquidity framework that requires FDIC-insured institutions to measure their liquidity against specific liquidity tests. One test, referred to as the liquidity coverage ratio, or LCR, is designed to ensure that the banking entity has an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets into cash to meet liquidity needs for a 30-calendar day liquidity stress scenario. The other test, known as the net stable funding ratios, or NSFR, is designed to promote more medium- and long-term funding of the assets and activities of FDIC-insured institutions over a one-year horizon. These tests provide an incentive for banks and holding companies to increase their holdings in Treasury securities and other sovereign debt as a component of assets, increase the use of long-term debt as a funding source and rely on stable funding like core deposits (in lieu of brokered deposits).

In addition to liquidity guidelines already in place, the federal bank regulatory agencies implemented the Basel III LCR in September 2014, which requires large financial firms to hold levels of liquid assets sufficient to protect against constraints on their funding during times of financial turmoil, and in 2016 proposed implementation of the NSFR. While these rules do not, and will not, apply to the Bank, it continues to review its liquidity risk management policies in light of these developments.

Dividend Payments. The primary source of funds for the Company is dividends from the Bank. Under Minnesota law, the Bank cannot declare or pay a cash dividend or dividend in kind unless it will have a surplus amounting to not less than 20% of its capital after payment of the dividend. Once this surplus amount reaches 50% of the Bank's capital, the Bank may pay dividends out of net profits if the dividends will not reduce the Bank's capital,

undivided profits and reserves below requirements established by the MFID. Further, the Bank may not declare or pay a dividend until cumulative dividends on preferred stock, if any, are paid in full.

The payment of dividends by any FDIC-insured institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a FDIC-insured institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its capital requirements under applicable guidelines as of December 31, 2019. Notwithstanding the availability of funds for dividends, however, the FDIC and the MFID may prohibit the payment of dividends by the Bank if either or both determine such payment would constitute an unsafe or unsound practice. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends have to maintain 2.5% in Common Equity Tier 1 Capital attributable to the capital conservation buffer. See “—The Role of Capital” above.

State Bank Investments and Activities. The Bank is permitted to make investments and engage in activities directly or through subsidiaries as authorized by Minnesota law. However, under federal law and FDIC regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law and FDIC regulations also prohibit FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines that the activity would not pose a significant risk to the DIF. These restrictions have not had, and are not currently expected to have, a material impact on the operations of the Bank.

Insider Transactions. The Bank is subject to certain restrictions imposed by federal law on “covered transactions” between the Bank and its “affiliates.” The Company is an affiliate of the Bank for purposes of these restrictions, and covered transactions subject to the restrictions include extensions of credit to the Company, investments in the stock or other securities of the Company and the acceptance of the stock or other securities of the Company as collateral for loans made by the Bank. The Dodd-Frank Act enhanced the requirements for certain transactions with affiliates, including an expansion of the definition of “covered transactions” and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained.

Certain limitations and reporting requirements are also placed on extensions of credit by the Bank to its directors and officers, to directors and officers of the Company and its subsidiaries, to principal shareholders of the Company and to “related interests” of such directors, officers and principal shareholders. In addition, federal law and regulations may affect the terms upon which any person who is a director or officer of the Company or the Bank, or a principal shareholder of the Company, may obtain credit from banks with which the Bank maintains a correspondent relationship.

Safety and Soundness Standards/Risk Management. The federal banking agencies have adopted operational and managerial standards to promote the safety and soundness of FDIC-insured institutions. The standards apply to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the safety and soundness standards prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. While regulatory standards do not have the force of law, if an institution operates in an unsafe and unsound manner, the FDIC-insured institution’s primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an FDIC-insured institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator’s order is cured, the regulator may restrict the FDIC-insured institution’s rate of growth, require the FDIC-insured institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with safety and soundness may also constitute grounds for other enforcement action by the federal bank regulatory agencies, including cease and desist orders and civil money penalty assessments.

During the past decade, the bank regulatory agencies have increasingly emphasized the importance of sound risk management processes and strong internal controls when evaluating the activities of the FDIC-insured institutions they supervise. Properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation, and the size and speed of financial

transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal and reputational risk. Key risk themes identified for 2020 are: (i) elevated operational risk as banks adapt to an evolving technology environment and persistent cybersecurity risks; (ii) the need for banks to prepare for a cyclical change in credit risk while credit performance is strong; (iii) elevated interest rate risk due to lower rates continuing to compress net interest margins; and (iv) strategic risks from non-depository financial institutions, use of innovative and evolving technology, and progressive data analysis capabilities. The Bank is expected to have active board and senior management oversight; adequate policies, procedures and limits; adequate risk measurement, monitoring and management information systems; and comprehensive internal controls.

Privacy and Cybersecurity. The Bank is subject to many U.S. federal and state laws and regulations governing requirements for maintaining policies and procedures to protect non-public confidential information of their customers. These laws require the Bank to periodically disclose its privacy policies and practices relating to sharing such information and permit consumers to opt out of their ability to share information with unaffiliated third parties under certain circumstances. They also impact the Bank's ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes, or to contact customers with marketing offers. In addition, as a part of its operational risk mitigation, the Bank is required to implement a comprehensive information security program that includes administrative, technical, and physical safeguards to ensure the security and confidentiality of customer records and information and to require the same of its service providers. These security and privacy policies and procedures, for the protection of personal and confidential information, are in effect across all business lines and geographic locations.

Branching Authority. Minnesota banks, such as the Bank, have the authority under Minnesota law to establish branches anywhere in the State of Minnesota, subject to receipt of all required regulatory approvals. The Dodd-Frank Act permits well-capitalized and well-managed banks to establish new interstate branches or acquire individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) without impediments. Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger.

Transaction Account Reserves. Federal Reserve regulations require FDIC-insured institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2020, the first \$16.9 million of otherwise reservable balances are exempt from reserves and have a zero percent reserve requirement; for transaction accounts aggregating between \$16.9 million to \$127.5 million, the reserve requirement is 3% of those transaction account balances; and for net transaction accounts in excess of \$127.5 million, the reserve requirement is 10% of the aggregate amount of total transaction account balances in excess of \$127.5 million. These reserve requirements are subject to annual adjustment by the Federal Reserve.

Community Reinvestment Act Requirements. The CRA requires the Bank to have a continuing and affirmative obligation in a safe and sound manner to help meet the credit needs of the entire community, including low- and moderate-income neighborhoods. Federal regulators regularly assess the Bank's record of meeting the credit needs of its communities. Applications for additional acquisitions would be affected by the evaluation of the Bank's effectiveness in meeting its CRA requirements.

Anti-Money Laundering. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA Patriot Act, is designed to deny terrorists and criminals the ability to obtain access to the U.S. financial system and has significant implications for FDIC-insured institutions, brokers, dealers and other businesses involved in the transfer of money. The USA Patriot Act mandates financial services companies to have policies and procedures with respect to measures designed to address any or all of the following matters: (i) customer identification programs; (ii) money laundering; (iii) terrorist financing; (iv) identifying and reporting suspicious activities and currency transactions; (v) currency crimes; and (vi) cooperation between FDIC-insured institutions and law enforcement authorities.

Concentrations in Commercial Real Estate. Concentration risk exists when FDIC-insured institutions deploy too many assets to any one industry or segment. A concentration in commercial real estate, or CRE, is one example of regulatory concern. The interagency Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices guidance, or CRE Guidance, provides supervisory criteria, including the following numerical indicators, to assist bank examiners in identifying banks with potentially significant commercial real estate loan concentrations that

may warrant greater supervisory scrutiny: (i) commercial real estate loans exceeding 300% of capital and increasing 50% or more in the preceding three years; or (ii) construction and land development loans exceeding 100% of capital. The CRE Guidance does not limit banks' levels of commercial real estate lending activities, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. On December 18, 2015, the federal banking agencies issued a statement to reinforce prudent risk-management practices related to CRE lending, having observed substantial growth in many CRE asset and lending markets, increased competitive pressures, rising CRE concentrations in banks, and an easing of CRE underwriting standards. The federal bank agencies reminded FDIC-insured institutions to maintain underwriting discipline and exercise prudent risk-management practices to identify, measure, monitor, and manage the risks arising from CRE lending. In addition, FDIC-insured institutions must maintain capital commensurate with the level and nature of their CRE concentration risk.

As of December 31, 2019, the Bank's total loans secured by multifamily and nonfarm residential properties plus total construction and land development loans represented 516.6% of its total capital. Thus, the Bank is deemed to have a concentration in commercial real estate lending. Accordingly, pursuant to the CRE Guidance, the Bank is required to have heightened risk management practices in place to account for the heightened degree of risk associated with its commercial real estate concentrations.

Consumer Financial Services. The historical structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011, when the CFPB commenced operations to supervise and enforce consumer protection laws. The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including the Bank, as well as the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over providers with more than \$10 billion in assets. FDIC-insured institutions with \$10 billion or less in assets, like the Bank, continue to be examined by their applicable bank regulators.

Because abuses in connection with residential mortgages were a significant factor contributing to the financial crisis, many new rules issued by the CFPB and required by the Dodd-Frank Act addressed mortgage and mortgage-related products, their underwriting, origination, servicing and sales. The Dodd-Frank Act significantly expanded underwriting requirements applicable to loans secured by 1-4 family residential real property and augmented federal law combating predatory lending practices. In addition to numerous disclosure requirements, the Dodd-Frank Act imposed new standards for mortgage loan originations on all lenders, including banks and savings associations, in an effort to strongly encourage lenders to verify a borrower's ability to repay, while also establishing a presumption of compliance for certain "qualified mortgages." The Regulatory Relief Act provided relief in connection with mortgages for banks with assets of less than \$10 billion, and, as a result, mortgages the Bank makes are now considered to be qualified mortgages if they are held in portfolio for the life of the loan.

The CFPB's rules have not had a significant impact on the Bank's operations, except for higher compliance costs.

Employees

As of December 31, 2019, the Company had 160 full-time equivalent employees. None of the Company's employees is a party to a collective bargaining agreement. The Company considers the relationships with its employees to be good and has not experienced interruptions of operations due to labor disagreements.

Corporate Information

The Company's principal executive office is located at 3800 American Boulevard West, Suite 100, Bloomington, Minnesota 55431, and the telephone number at that address is (952) 893-6868. The Company plans to relocate its principal executive office in 2020 to a site it owns in St. Louis Park, Minnesota. The website address is www.investors.bridgewaterbankmn.com. The information contained on the website is not a part of, nor incorporated by reference into, this report.

All filings made by the Company with the SEC may be copied or read at the SEC's Public Reference Room at 100 F Street NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained

by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, as the Company does. The website is www.sec.gov. The Company provides access to its Securities and Exchange Commission (“SEC”) filings through its website at www.investors.bridgewaterbankmn.com. After accessing the website, the filings are available upon selecting “Investor Relations/SEC Filings/Documents.” Reports available include the Company’s proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after the documents and reports are electronically filed with or furnished to the SEC.

Item 1.A. RISK FACTORS

Investing in the Company’s common stock involves various risks, many of which are specific to the Company’s business. Before making an investment decision, you should carefully read and consider the risk factors described below as well as the other information included in this report and other documents we file with the SEC. The discussion below addresses the material risks and uncertainties, of which the Company is currently aware, that could have a material adverse effect on the Company’s business, results of operations, financial condition, and growth prospects. Other risks that the Company does not know about now, or that the Company does not currently believe are significant, could negatively impact the Company’s business or the trading price of the Company’s securities.

Risks Related to Our Business

Credit Risks

Our loan portfolio has a large concentration of commercial real estate loans, which involve risks specific to real estate values and the health of the real estate market generally.

As of December 31, 2019, we had \$1.30 billion of commercial real estate loans, consisting of \$592.5 million of loans secured by nonfarm nonresidential properties, \$515.0 million of loans secured by multifamily residential properties and \$196.8 million of construction and land development loans. Additionally, we had \$83.3 million in loans whose purpose was to finance commercial real estate projects, but were secured by other types of collateral. Commercial real estate secured loans represented 68.2% of our total gross loan portfolio and 516.6% of the Bank’s total risk-based capital at December 31, 2019. The market value of real estate securing our commercial real estate loans can fluctuate significantly in a short period of time as a result of market conditions. Adverse developments affecting real estate values in our market area could increase the credit risk associated with our loan portfolio. Additionally, the repayment of commercial real estate loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties. If the loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, then we may not be able to realize the full value of the collateral that we anticipated at the time of originating the loan, which could force us to take charge-offs or require us to increase our provision for loan losses, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Because a significant portion of our loan portfolio is comprised of real estate loans, negative changes in the economy affecting real estate values and liquidity, as well as environmental factors, could impair the value of collateral securing our real estate loans and result in loan and other losses.

At December 31, 2019, approximately 85.3% of our total gross loan portfolio was comprised of loans with real estate as a primary component of collateral. As a result, adverse developments affecting real estate values in our market area could increase the credit risk associated with our real estate loan portfolio. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the area in which the real estate is located. Adverse changes affecting real estate values and the liquidity of real estate in one or more of our markets could increase the credit risk associated with our loan portfolio, significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses, which could

result in losses that would adversely affect our profitability. Such declines and losses would have a material adverse effect on our business, financial condition, results of operations and growth prospects.

In addition, if hazardous or toxic substances are found on properties pledged as collateral, the value of the real estate could be impaired. If we foreclose on and take title to such properties, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

A decline in the business and economic conditions in our market could have a material adverse effect on our business, financial position, results of operations and growth prospects.

Unlike larger banks that are more geographically diversified, we conduct our operations almost exclusively in the Twin Cities MSA. Because of the geographic concentration of our operations in the Twin Cities MSA, if the local economy weakens, our growth and profitability could be constrained. Weak economic conditions are characterized by, among other indicators, deflation, elevated levels of unemployment, fluctuations in debt and equity capital markets and lower home sales and commercial activity. These factors could negatively affect the volume of loan originations, increase the level of nonperforming assets, increase the rate of foreclosures and reduce the value of the properties securing our loans. Any regional or local economic downturn that affects the Twin Cities MSA may affect us and our profitability more significantly and more adversely than those of our competitors whose operations are less geographically focused.

Our business depends on our ability to manage credit risk.

As a bank, our business requires us to manage credit risk. As a lender, we are exposed to the risk that our borrowers will be unable to repay their loans according to their terms, and that the collateral securing repayment of their loans, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers, including the risk that a borrower may not provide information to us about its business in a timely manner, or may present inaccurate or incomplete information to us, as well as risks relating to the value of collateral. To manage our credit risk, we must, among other actions, maintain disciplined and prudent underwriting standards and ensure that our bankers follow those standards. The weakening of these standards for any reason, such as an attempt to attract higher yielding loans, a lack of discipline or diligence by our employees in underwriting and monitoring loans or our inability to adequately adapt policies and procedures to changes in economic or any other conditions affecting borrowers and the quality of our loan portfolio, may result in loan defaults, foreclosures and charge-offs and may necessitate that we significantly increase our allowance for loan losses, each of which could adversely affect our net income. As a result, our inability to successfully manage credit risk could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Our allowance for loan losses may prove to be insufficient to absorb potential losses in our loan portfolio.

We establish and maintain our allowance for loan losses at a level that management considers adequate to absorb probable loan losses based on an analysis of our loan portfolio and current market environment. The allowance for loan losses represents our estimate of probable losses in the portfolio at each balance sheet date and is based upon relevant information available to us at such time. The allowance contains provisions for probable losses that have been identified relating to specific borrowing relationships, as well as probable losses inherent in the loan portfolio that are not specifically identified. Additions to the allowance for loan losses, which are charged to earnings through the provision for loan losses, are determined based on a variety of factors, including an analysis of the loan portfolio, historical loss experience and an evaluation of current economic conditions in our market area. The actual amount of

loan losses is affected by, among other things, changes in economic, operating and other conditions within our market, which may be beyond our control, and such losses may exceed current estimates.

As of December 31, 2019, our allowance for loan losses as a percentage of total gross loans was 1.18% and as a percentage of total nonperforming loans was 4,886.3%. Although management believes that the allowance for loan losses was adequate on such date to absorb probable losses on existing loans that may become uncollectible, losses in excess of the existing allowance will reduce our net income and could have a material adverse effect on our business, financial condition, results of operations and growth prospects. We may also be required to take additional provisions for loan losses in the future to further supplement the allowance for loan losses, either due to management's assessment that the allowance is inadequate or as required by our banking regulators. Our banking regulators periodically review our allowance for loan losses and the value attributed to nonaccrual loans or to real estate acquired through foreclosure and may require us to adjust our determination of the value for these items. These adjustments may have a material adverse effect on our business, financial condition, results of operations and growth prospects.

A new accounting standard could require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

In June 2016, the FASB issued a new accounting standard that will replace the current approach under accounting principles generally accepted in the United States, or GAAP, for establishing the allowance for loan losses which generally considers only past events and current conditions, with a forward-looking methodology that reflects the expected credit losses over the lives of financial assets, starting when such assets are first originated or acquired. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans and recognize the expected credit losses as allowances for loan losses. Under the revised methodology, credit losses will be measured based on past events, current conditions and reasonable and supportable forecasts of future conditions that affect the collectability of financial assets. The new standard is expected to generally result in increases to allowance levels and will require the application of the revised methodology to existing financial assets through a one-time adjustment to retained earnings upon initial effectiveness. The change will also likely greatly increase the types of data we will need to collect and analyze to determine the appropriate level of the allowance for loan losses. Any increase in our allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses will result in a decrease in net income and capital and may have a material adverse effect on our financial condition and results of operations. Moreover, the CECL model may create more volatility in our level of allowance for loan losses and could result in the need for additional capital.

As an emerging growth company, this standard is expected to become applicable to us on January 1, 2023, after the FASB recently elected to delay implementation for private companies. In connection with our initial public offering, we elected to use the extended transition period available to emerging growth companies, which means that we are not subject to all new or revised accounting standards generally applicable to public companies until those standards apply to private companies.

Many of our loans are to commercial borrowers, which have a higher degree of risk than other types of loans.

Commercial and industrial loans represented 14.5% of our total gross loan portfolio at December 31, 2019. Because payments on such loans are often dependent on the successful operation of the business involved, repayment of such loans is often more sensitive than other types of loans to the general business climate and economy. Accordingly, a challenging business and economic environment may increase our risk related to commercial loans. Unlike residential mortgage loans, which generally are made on the basis of the borrowers' ability to make repayment from their employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial loans typically are made on the basis of the borrowers' ability to make repayment from the cash flow of the commercial venture. Our commercial and industrial loans are primarily made based on the identified cash flow of the borrower and secondarily on the collateral underlying the loans. Most often, this collateral consists of accounts receivable, inventory and equipment. Inventory and equipment may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. If the cash flow from business operations is reduced, the borrower's ability to repay the loan may be impaired. Due to the larger average size of each commercial loan as compared with other loans such as residential loans, as well as collateral that is generally less readily-marketable, losses

incurred on a small number of commercial loans could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Construction and land development loans are based upon estimates of costs and values associated with the complete project. These estimates may be inaccurate, and we may be exposed to significant losses on loans for these projects.

Construction and land development loans comprised approximately 10.3% of our total loan portfolio as of December 31, 2019. Such lending involves additional risks because funds are advanced upon the security of the project, which is of uncertain value prior to its completion, and costs may exceed realizable values in declining real estate markets. Because of the uncertainties inherent in estimating construction costs and the realizable market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, construction and land development loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated or market values or rental rates decline, we may have inadequate security for the repayment of the loan upon completion of construction of the project. If we are forced to foreclose on a project prior to or at completion due to a default, we may not be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs. In addition, we may be required to fund additional amounts to complete the project and may have to hold the property for an unspecified period of time while we attempt to dispose of it.

Our high concentration of large loans to certain borrowers may increase our credit risk.

Our growth over the last several years has been partially attributable to our ability to cultivate relationships with certain individuals and businesses that have resulted in a concentration of large loans to a small number of borrowers. As of December 31, 2019, our 10 largest borrowing relationships accounted for approximately 16.5% of our total gross loan portfolio. We have established an informal, internal limit on a single loan to finance one transaction, but we may, under certain circumstances, consider going above this internal limit in situations where management's understanding of the industry, the borrower's financial condition, overall credit quality and property fundamentals are commensurate with the increased size of the loan. Along with other risks inherent in these loans, such as the deterioration of the underlying businesses or property securing these loans, this high concentration of borrowers presents a risk to our lending operations. If any one of these borrowers becomes unable to repay its loan obligations as a result of business, economic or market conditions, or personal circumstances, such as divorce or death, our nonaccruing loans and our provision for loan losses could increase significantly, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

The small to midsized businesses that we lend to may have fewer resources to weather adverse business developments, which may impair their ability to repay their loans.

We lend to small to midsized businesses, which generally have fewer financial resources in terms of capital or borrowing capacity than larger entities, frequently have smaller market share than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair their ability to repay their loans. In addition, the success of a small and midsized business often depends on the management talents and efforts of one or two people or a small group of people, and the death, disability or resignation of one or more of these people could have a material adverse impact on the business and its ability to repay its loan. If general economic conditions negatively impact the markets in which we operate and small to midsized businesses are adversely affected or our borrowers are otherwise affected by adverse business developments, our business, financial condition, results of operations and growth prospects may be materially adversely affected.

Our lending limit may restrict our growth and prevent us from effectively implementing our growth strategy.

We are limited in the total amount we can loan to a single borrower or related borrowers/guarantors by the amount of our capital. The Bank is a Minnesota chartered bank and therefore all branches, regardless of location, fall

under the legal lending limits of the laws, rules and regulations applicable to banks chartered in the state of Minnesota. Minnesota's legal lending limit is a safety and soundness measure intended to prevent one person or a relatively small and economically related group of persons from borrowing an unduly large amount of a bank's funds. It is also intended to safeguard a bank's depositors by diversifying the risk of loan losses among a relatively large number of creditworthy borrowers engaged in various types of businesses. Under Minnesota law, total loans and extensions of credit to a borrower may not generally exceed 20% of the Bank's capital stock and surplus, subject to certain exceptions. Based upon our current capital levels, the amount we may lend to one borrower is significantly less than that of many of our larger competitors, which may discourage potential borrowers who have credit needs in excess of our lending limit from doing business with us. While we seek to accommodate larger loans by selling participations in those loans to other financial institutions, this strategy may not always be available. If we are unable to compete for loans from our target clients, we may not be able to effectively implement our business strategy, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Greater seasoning of our loan portfolio could increase risk of credit defaults in the future.

As a result of our rapid growth, a significant portion of our loan portfolio at any given time is of relatively recent origin. Typically, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time (which varies by loan duration and loan type), a process referred to as "seasoning." As a result, a portfolio of more seasoned loans may more predictably follow a bank's historical default or credit deterioration patterns than a newer portfolio. Because 75.6% of the dollar amount of our portfolio has been originated in the past three years, the current level of delinquencies and defaults may not represent the level that may prevail as the portfolio becomes more seasoned. If delinquencies and defaults increase, we may be required to increase our provision for loan losses, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Nonperforming assets take significant time to resolve and adversely affect our net interest income.

As of December 31, 2019, our nonperforming loans (which consist of nonaccrual loans and loans past due 90 days or more) totaled \$461,000, or 0.02% of our total gross loan portfolio, and our nonperforming assets totaled \$461,000, or 0.02% of total assets. In addition, we had \$403,000 in accruing loans that were 30-89 days delinquent as of December 31, 2019.

Our nonperforming assets adversely affect our net interest income in various ways. We do not record interest income on nonaccrual loans or foreclosed assets, thereby adversely affecting our net income and returns on assets and equity. When we take collateral in foreclosure and similar proceedings, we are required to mark the collateral to its then-fair market value, which may result in a loss. These nonperforming loans and foreclosed assets also increase our risk profile and the level of capital our regulators believe is appropriate for us to maintain in light of such risks. The resolution of nonperforming assets requires significant time commitments from management, which increases our loan administration costs and adversely affects our efficiency ratio, and can be detrimental to the performance of their other responsibilities. If we experience increases in nonperforming loans and nonperforming assets, our net interest income may be negatively impacted and our loan administration costs could increase, each of which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Liquidity and Funding Risks

Liquidity risks could affect our operations and jeopardize our business, financial condition, results of operations and growth prospects.

Liquidity is essential to our business. Liquidity risk is the risk that we will not be able to meet our obligations, including financial commitments, as they come due and is inherent in our operations. An inability to raise funds through deposits, borrowings, the sale of loans or investment securities and from other sources could have a substantial negative effect on our liquidity. Our most important source of funds consists of our client deposits, which can decrease for a variety of reasons, including when clients perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff. If clients move money out of bank deposits and into other investments, we could lose a

relatively low cost source of funds, which would require us to seek other funding alternatives, including increasing our dependence on wholesale funding sources, in order to continue to grow, thereby potentially increasing our funding costs and reducing our net interest income and net income.

Additionally, we access collateralized public funds, which are bank deposits of state and local municipalities. These deposits are required to be secured by certain investment grade securities or other sources permitted by law to ensure repayment. If we are unable to pledge sufficient collateral to secure public funding, we may lose access to this source of liquidity that we have historically utilized. In addition, the availability of and fluctuations in these funds depends on the individual municipality's fiscal policies and cash flow needs.

Other primary sources of funds consist of cash from operations, investment security maturities and sales and proceeds from the issuance and sale of our equity and debt securities to investors. Additional liquidity is provided by brokered deposits, repurchase agreements and the ability to borrow from the Federal Reserve and the Federal Home Loan Bank of Des Moines, or FHLB. We may also borrow from third-party lenders from time to time. Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. Economic conditions and a loss of confidence in financial institutions may increase our cost of funding and limit access to certain customary sources of capital, including inter-bank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve.

Any decline in available funding could adversely impact our ability to continue to implement our strategic plan, including originating loans and investing in securities, or to fulfill obligations such as paying our expenses, repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We depend on non-core funding sources, which causes our cost of funds to be higher when compared to other financial institutions.

We use certain non-core, wholesale funding sources, including brokered deposits, federal funds purchased, and FHLB advances. As of December 31, 2019, we had approximately \$234.4 million of brokered deposits, which represented approximately 12.9% of our total deposits, \$136.5 million of FHLB advances and no federal funds purchased. Unlike traditional deposits from our local clients, there is a higher likelihood that the funds wholesale deposits provide will not remain with us after maturity. For example, depositors who have deposited funds with us through brokers are a less stable source of funding than typical relationship deposit clients. Although we are increasing our efforts to reduce our reliance on non-core funding sources, we may not be able to increase our market share of core-deposit funding in our highly competitive market area. If we are unable to do so, we may be forced to increase the amounts of wholesale funding sources. The cost of these funds can be volatile and may exceed the cost of core deposits in our market area, which could have a material adverse effect on our net interest income. In addition, our maximum borrowing capacity from the FHLB is based on the amount of mortgage and commercial loans we can pledge. As of December 31, 2019, our advances from the FHLB were collateralized by \$690.6 million of real estate and commercial loans. If we are unable to pledge sufficient collateral to secure funding from the FHLB, we may lose access to this source of liquidity that we have historically relied upon. If we are unable to access any of these types of funding sources or if our costs related to them increases, our liquidity and ability to support demand for loans could be materially adversely affected.

Our high concentration of large depositors may increase our liquidity risk, and the loss of any large depositor may negatively impact our net interest margin.

We have developed relationships with certain individuals and businesses that have resulted in a concentration of large deposits from a small number of clients. As of December 31, 2019, our 10 largest depositor relationships accounted for approximately 22.2% of our total deposits, and our largest depositor relationship accounted for approximately 5.5% of our total deposits. This high concentration of depositors presents a risk to our liquidity if one or more of them decides to change its relationship with us and to withdraw all or a significant portion of their deposits. If such an event occurs,

we may need to seek out alternative sources of funding that may not be on the same terms as the deposits being replaced, which could negatively impact our net interest margin if the alternative source of funding is at a higher rate and have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Our liquidity is dependent on dividends from the Bank.

The Company is a legal entity separate and distinct from the Bank. Various federal and state laws and regulations limit the amount of dividends that the Bank may pay to the Company. For example, Minnesota law only permits banks to pay dividends if a bank has established a surplus fund equal to or more than 20% of the bank's capital stock and if the dividends will not reduce the bank's capital, undivided profits and reserves below specific requirements. As of December 31, 2019, the Bank had the capacity to pay the Company a dividend of up to \$14.0 million without the need to obtain prior regulatory approval. Also, the Company's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event the Bank is unable to pay dividends to us, we may not be able to service any debt we may incur, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We may need to raise additional capital in the future, and if we fail to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, our business, as well as our ability to maintain regulatory compliance, would be adversely affected.

We face significant capital and other regulatory requirements as a financial institution. We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, which could include the possibility of financing acquisitions. In addition, the Company, on a consolidated basis, and the Bank, on a stand-alone basis, must meet certain regulatory capital requirements and maintain sufficient liquidity. Importantly, regulatory capital requirements could increase from current levels, which could require us to raise additional capital or contract our operations. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on our financial condition and performance. Accordingly, we cannot assure you that we will be able to raise additional capital if needed or on terms acceptable to us. If we fail to maintain capital to meet regulatory requirements, our business, financial condition, results of operations and growth prospects would be materially and adversely affected.

We may be adversely affected by changes in the actual or perceived soundness or condition of other financial institutions.

Financial services institutions that deal with each other are interconnected as a result of trading, investment, liquidity management, clearing, counterparty and other relationships. Concerns about, or a default by, one institution could lead to significant liquidity problems and losses or defaults by other institutions, as the commercial and financial soundness of many financial institutions is closely related as a result of these credit, trading, clearing and other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by various institutions. This systemic risk may adversely affect financial intermediaries with which we interact on a daily basis or key funding providers such as the FHLB, which could have a material adverse effect on our access to liquidity. In addition, our credit risk may increase when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to us. Any such losses could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Operational, Strategic and Reputational Risks

We may not be able to implement our growth strategy or manage costs effectively, resulting in lower earnings or profitability.

Our strategy focuses on organic growth, supplemented by opportunistic acquisitions, but we may not be able to continue to grow and increase our earnings in the future. Our growth requires that we increase our loans and deposits

while managing risks by following prudent loan underwriting standards without increasing interest rate risk or compressing our net interest margin, hiring and retaining qualified employees and successfully implementing strategic projects and initiatives. Even if we are able to increase our interest income, our earnings may nonetheless be reduced by increased expenses, such as additional employee compensation or other general and administrative expenses and increased interest expense on any liabilities incurred or deposits solicited to fund increases in assets.

In addition, we are in the process of constructing a new real estate development that we expect to be the location of our new corporate headquarters. Due to the inherent difficulty in estimating costs associated with projects of this scale and nature, the costs associated with this project, which are likely to be material, may be higher than we have estimated. In addition, the process of moving our corporate headquarters is inherently complex and not part of our day-to-day operations. As a result, that process could cause significant disruption to our operations and cause the temporary diversion of management resources, all of which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Additionally, if our competitors extend credit on terms we find to pose excessive risks, or at interest rates which we believe do not warrant the credit exposure, we may not be able to maintain our lending volume and could experience deteriorating financial performance. Our inability to manage our growth successfully could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We are highly dependent on our strategic leadership team, and the loss of any of our senior executive officers or other key employees, or our inability to attract and retain qualified personnel, could harm our ability to implement our strategic plan and impair our relationships with clients.

Our success is dependent, to a large degree, upon the continued service and skills of our strategic leadership team, which consists of Jerry Baack, our Chairman of the Board, Chief Executive Officer and President, Jeff Shellberg, our Executive Vice President and Chief Credit Officer, Mary Jayne Crocker, our Executive Vice President and Chief Operating Officer, Joe Chybowski, our Chief Financial Officer, Nick Place, our Chief Lending Officer, Lisa Salazar, our Chief Deposit Officer, and Mark Hokanson, our Chief Technology Officer. Our business and growth strategies are built primarily upon our ability to retain employees with experience and business relationships within our market area. The loss of any of the members of our strategic leadership team or any of our other key personnel could have an adverse impact on our business and growth because of their skills, years of industry experience, knowledge of our market area, the difficulty of finding qualified replacement personnel and any difficulties associated with transitioning of responsibilities to any new members of the strategic leadership team. As such, we need to continue to attract and retain key personnel and to recruit qualified individuals who fit our culture to succeed existing key personnel to ensure the continued growth and successful operation of our business. Leadership changes may occur from time to time, and we cannot predict whether significant retirements or resignations will occur or whether we will be able to recruit additional qualified personnel.

Competition for senior executives and skilled personnel in the financial services and banking industry is intense, which means the cost of hiring, incentivizing and retaining skilled personnel may continue to increase. In addition, our ability to effectively compete for senior executives and other qualified personnel by offering competitive compensation and benefit arrangements may be restricted by applicable banking laws and regulations. The loss of the services of any senior executive or other key personnel, the inability to recruit and retain qualified personnel in the future or the failure to develop and implement a viable succession plan could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Our ability to maintain our reputation is critical to the success of our business, and the failure to do so may materially adversely affect our business and the value of our stock.

We rely, in part, on our reputation to attract clients and retain our client relationships. Damage to our reputation could undermine the confidence of our current and potential clients in our ability to provide high-quality financial services. Such damage could also impair the confidence of our counterparties and vendors and ultimately affect our ability to effect transactions. Maintenance of our reputation depends not only on our success in maintaining our service-focused culture and controlling and mitigating the various risks described in this report, but also on our success

in identifying and appropriately addressing issues that may arise in areas such as potential conflicts of interest, anti-money laundering, client personal information and privacy issues, client and other third party fraud, record-keeping, regulatory investigations and any litigation that may arise from the failure or perceived failure of us to comply with legal and regulatory requirements. Maintaining our reputation also depends on our ability to successfully prevent third parties from infringing on the “Bridgewater Bank” brand and associated trademarks and our other intellectual property. Defense of our reputation, trademarks and other intellectual property, including through litigation, could result in costs that could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

The occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

As a bank, we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us 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 client information, misappropriation of assets, privacy breaches against our clients, litigation or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to systems used by us or our clients, denial or degradation of service attacks and malware or other cyber-attacks.

There continues to be a rise in electronic fraudulent activity, security breaches and cyber-attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts. Moreover, in recent periods, several large corporations, including financial institutions and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity. Some of our clients may have been affected by these breaches, which could increase their risks of identity theft and other fraudulent activity that could involve their accounts with us.

Information pertaining to us and our clients is maintained, and transactions are executed, on networks and systems maintained by us and certain third party partners, such as our online banking, mobile banking or accounting systems. The secure maintenance and transmission of confidential information, as well as execution of transactions over these systems, are essential to protect us and our clients against fraud and security breaches and to maintain the confidence of our clients. Breaches of information security also may occur through intentional or unintentional acts by those having access to our systems or the confidential information of our clients, including employees. In addition, increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our clients and underlying transactions, as well as the technology used by our clients to access our systems. Our third party partners’ inability to anticipate, or failure to adequately mitigate, breaches of security could result in a number of negative events, including losses to us or our clients, loss of business or clients, damage to our reputation, the incurrence of additional expenses, disruption to our business, additional regulatory scrutiny or penalties or our exposure to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We depend on information technology and telecommunications systems of third parties, and any systems failures, interruptions or data breaches involving these systems could adversely affect our operations and financial condition.

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems, third party servicers, accounting systems, mobile and online banking platforms and financial intermediaries. We outsource to third parties many of our major systems, such as data processing and mobile and online banking. The failure of these systems, or the termination of a third party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third party systems, we could experience service denials if demand for such services exceeds capacity or such third party systems fail or experience interruptions. A system

failure or service denial could result in a deterioration of our ability to process loans or gather deposits and provide customer service, compromise our ability to operate effectively, result in potential noncompliance with applicable laws or regulations, damage our reputation, result in a loss of customer business or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on business, financial condition, results of operations and growth prospects. In addition, failures of third parties to comply with applicable laws and regulations, or fraud or misconduct on the part of employees of any of these third parties, could disrupt our operations or adversely affect our reputation.

It may be difficult for us to replace some of our third party vendors, particularly vendors providing our core banking and information services, in a timely manner if they are unwilling or unable to provide us with these services in the future for any reason and even if we are able to replace them, it may be at higher cost or result in the loss of clients. Any such events could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Our operations rely heavily on the secure processing, storage and transmission of information and the monitoring of a large number of transactions on a minute-by-minute basis, and even a short interruption in service could have significant consequences. We also interact with and rely on retailers, for whom we process transactions, as well as financial counterparties and regulators. Each of these third parties may be targets of the same types of fraudulent activity, computer break-ins and other cybersecurity breaches described above, and the cybersecurity measures that they maintain to mitigate the risk of such activity may be different than our own and may be inadequate.

As a result of financial entities and technology systems becoming more interdependent and complex, a cyber incident, information breach or loss, or technology failure that compromises the systems or data of one or more financial entities could have a material impact on counterparties or other market participants, including ourselves. As a result of the foregoing, our ability to conduct business may be adversely affected by any significant disruptions to us or to third parties with whom we interact.

Our use of third party vendors and our other ongoing third party business relationships is subject to increasing regulatory requirements and attention.

Our use of third party vendors for certain information systems is subject to increasingly demanding regulatory requirements and attention by our federal bank regulators. Regulations require us to enhance our due diligence, ongoing monitoring and control over our third party vendors and other ongoing third party business relationships. In certain cases we may be required to renegotiate our agreements with these vendors to meet these enhanced requirements, which could increase our costs. We expect that our regulators will hold us responsible for deficiencies in our oversight and control of our third party relationships and in the performance of the parties with which we have these relationships. As a result, if our regulators conclude that we have not exercised adequate oversight and control over our third party vendors or other ongoing third party business relationships or that such third parties have not performed appropriately, we could be subject to enforcement actions, including civil money penalties or other administrative or judicial penalties or fines, as well as requirements for customer remediation, any of which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We have a continuing need for technological change, and we may not have the resources to effectively implement new technology or we may experience operational challenges when implementing new technology.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving clients, 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 clients by using technology to provide products and services that will satisfy client demands for convenience as well as to create additional efficiencies in our operations as we continue to grow. We may experience operational challenges as we implement these new technology enhancements, which could result in us not fully realizing the anticipated benefits from such new technology or require us to incur significant costs to remedy any such challenges in a timely manner.

Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. Accordingly, a risk exists that we will not be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our clients.

In addition, the implementation of technological changes and upgrades to maintain current systems and integrate new ones may also cause service interruptions, transaction processing errors and system conversion delays and may cause us to fail to comply with applicable laws. We expect that new technologies and business processes applicable to the banking industry will continue to emerge, and these new technologies and business processes may be better than those we currently use. Because the pace of technological change is high and our industry is intensely competitive, we may not be able to sustain our investment in new technology as critical systems and applications become obsolete or as better ones become available. A failure to successfully keep pace with technological change affecting the financial services industry and failure to avoid interruptions, errors and delays could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We depend on the accuracy and completeness of information about clients and counterparties.

In deciding whether to extend credit or enter into other transactions, and in evaluating and monitoring our loan and deposit portfolios on an ongoing basis, we may rely on information furnished by or on behalf of clients and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those clients or counterparties or of other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate, incomplete, fraudulent or misleading financial statements, credit reports or other financial or business information, or the failure to receive such information on a timely basis, could result in loan losses, reputational damage or other effects that could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

If we pursue additional acquisitions, it may expose us to financial, execution and operational risks.

We plan to grow our business organically but remain open to considering potential bank or other acquisition opportunities that fit within our overall strategy and that we believe make financial and strategic sense. Although we do not have any current plans, arrangements or understandings to make any acquisitions, in the event that we pursue additional acquisitions, we may have difficulty completing them and may not realize the anticipated benefits of any transaction we complete. For example, we may not be successful in realizing anticipated cost savings, and we may not be successful in preventing disruptions in service to existing client relationships of the acquired institution. Our potential acquisition activities could require us to use a substantial amount of cash, other liquid assets or incur additional debt. In addition, if goodwill recorded in connection with our potential future acquisitions were determined to be impaired, then we would be required to recognize a charge against our earnings, which could materially and adversely affect our results of operations during the period in which the impairment was recognized.

In addition to the foregoing, we may face additional risks in acquisitions to the extent we acquire new lines of business or new products, or enter new geographic areas, in which we have little or no current experience, especially if we lose key employees of the acquired operations. We may not be successful in overcoming these risks or any other problems encountered in connection with acquisitions. Our inability to overcome risks associated with acquisitions could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

New lines of business, products, product enhancements or services may subject us to additional risks.

From time to time, we may implement new lines of business or offer new products and product enhancements as well as new services within our existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances in which the markets are not fully developed. In implementing, developing or marketing new lines of business, products, product enhancements or services, we may invest significant time and resources, although we may not assign the appropriate level of resources or expertise necessary to make these new lines of business, products, product enhancements or services successful or to realize their expected benefits. Further, initial timetables for the introduction and development of new lines of business, products, product enhancements or services

may not be achieved, and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also affect the ultimate implementation of a new line of business or offerings of new products, product enhancements or services. Furthermore, any new line of business, product, product enhancement or service or system conversion could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or offerings of new products, product enhancements or services could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We operate in a highly competitive and changing industry and market area and compete with both banks and non-banks.

We operate in the highly competitive financial services industry and face significant competition for clients from financial institutions located both within and beyond our market area. We compete with national commercial banks, regional banks, private banks, savings banks, credit unions, non-bank financial services companies and other financial institutions operating within or near the areas we serve, many of whom target the same clients we do in the Twin Cities MSA. As client preferences and expectations continue to evolve, technology has lowered barriers to entry and made it possible for banks to expand their geographic reach by providing services over the internet and for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. The banking industry is experiencing rapid changes in technology, and, as a result, our future success will depend in part on our ability to address our clients' needs by using technology. Client loyalty can be influenced by a competitor's new products, especially offerings that could provide cost savings or a higher return to the client. Increased lending activity of competing banks has also led to increased competitive pressures on loan rates and terms for high-quality credits. We may not be able to compete successfully with other financial institutions in our markets, particularly with larger financial institutions that have significantly greater resources than us, and we may have to pay higher interest rates to attract deposits, accept lower yields to attract loans and pay higher wages for new employees, resulting in lower net interest margins and reduced profitability. Many of our non-bank competitors are not subject to the same extensive regulations that govern our activities and may have greater flexibility in competing for business. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. In addition, some of our current commercial banking clients may seek alternative banking sources as they develop needs for credit larger than we may be able to accommodate or more expansive product mixes offered by larger institutions.

Severe weather, natural disasters, widespread disease or pandemics (including the recent coronavirus outbreak), acts of war or terrorism or other adverse external events could significantly impact our business.

Severe weather, natural disasters, widespread disease or pandemics (including the recent coronavirus outbreak), acts of war or terrorism or other adverse external events could have a significant impact on our ability to conduct business. In addition, such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue or cause us to incur additional expenses. The occurrence of any of these events in the future could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

A transition away from the London Inter-Bank Offered Rate, or LIBOR, as a reference rate for financial contracts could negatively affect our income and expenses and the value of various financial contracts.

LIBOR is used extensively in the United States and globally as a benchmark for various commercial and financial contracts, including adjustable rate mortgages, corporate debt and interest rate swaps. LIBOR is set based on interest rate information reported by certain banks, which may stop reporting such information after 2021. It is not certain at this time whether LIBOR will change or cease to exist or the extent to which those entering into commercial or financial contracts will transition to any particular new benchmark. Other benchmarks may perform differently than LIBOR or alternative benchmarks have performed in the past or have other consequences that cannot currently be anticipated. It is also uncertain what will happen with instruments that rely on LIBOR for future interest rate adjustments and which remain outstanding if LIBOR ceases to exist.

While there is no consensus on what rate or rates may become accepted alternatives to LIBOR, the Alternative Reference Rates Committee, a steering committee comprised of U.S. financial market participants, selected by the Federal Reserve Bank of New York, started in May 2018 to publish the Secured Overnight Financing Rate, or SOFR, as an alternative to LIBOR. SOFR is a broad measure of the cost of overnight borrowings collateralized by Treasury securities that was selected by the Alternative Reference Rate Committee due to the depth and robustness of the Treasury repurchase market. At this time, it is impossible to predict whether SOFR will become an accepted alternative to LIBOR.

We have loans, available for sale securities, derivative contracts, notes payable and subordinated debentures with terms that are either directly or indirectly dependent on LIBOR. The transition to LIBOR to alternative rates such as SOFR, could create considerable costs and additional risk. Any such transition could: (i) adversely affect the interest rates paid or received on, the revenue and expenses associated with, and the value of our floating-rate obligations, loans, deposits, derivatives, and other financial instruments tied to LIBOR rates, or other securities or financial arrangements given LIBOR's role in determining market interest rates globally; (ii) prompt inquiries or other actions from regulators in respect of our preparation and readiness for the replacement of LIBOR with an alternative reference rate; (iii) result in disputes, litigation or other actions with counterparties regarding the interpretation and enforceability of certain fallback language in LIBOR-based securities; and (iv) require the transition to or development of appropriate systems and analytics to effectively transition our risk management processes from LIBOR-based products to those based on the applicable alternative pricing benchmark, such as SOFR. Since proposed alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR. The transition will change our market risk profile, requiring changes to risk and pricing models, valuation tools, product design and hedging strategies. Further, a failure to adequately manage this transition process with our customers could adversely affect our reputation. Although we are currently unable to assess the ultimate impact of the transition from LIBOR, a failure to adequately manage the transition could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Legal, Accounting and Compliance Risks

We are subject to commercial real estate lending guidance issued by the federal banking regulators that impacts our operations and capital requirements.

The federal banking regulators have issued guidance regarding concentrations in commercial real estate lending directed at institutions that have particularly high concentrations of commercial real estate loans within their lending portfolios. This guidance suggests that institutions whose commercial real estate loans exceed certain percentages of capital should implement heightened risk management practices appropriate to their concentration risk and may be required to maintain higher capital ratios than institutions with lower concentrations in commercial real estate lending. As of December 31, 2019, our commercial real estate secured loans represented 516.6% of the Bank's total risk-based capital. As a result, we are deemed to have a concentration in commercial real estate lending under applicable regulatory guidelines. Accordingly, pursuant to guidance issued by the federal bank regulatory agencies, we are required to have heightened risk management practices in place to account for the heightened degree of risk associated with commercial real estate lending and may be required to maintain capital in excess of regulatory minimums. We cannot guarantee that the risk management practices we have implemented will be effective to prevent losses relating to our commercial real estate portfolio. In addition, increased capital requirements could limit our ability to leverage our capital, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Our risk management framework may not be effective in mitigating risks or losses to us.

Our risk management framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which we are subject, including, among others, operational, credit, market, liquidity, interest rate and compliance. Our framework also includes financial or other modeling methodologies that involve management assumptions and judgment. Our risk management framework may not be effective under all circumstances and it may not adequately mitigate any risk or loss to us. If our framework is not effective, we could suffer unexpected losses and our business, financial condition, results of operations and growth prospects could be materially and adversely affected. We may also be subject to potentially adverse regulatory consequences.

Our accounting estimates and risk management processes and controls rely on analytical and forecasting techniques and models and assumptions, which may not accurately predict future events.

Our accounting policies and methods are fundamental to the manner in which we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with GAAP and reflect management's judgment of the most appropriate manner to report our financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet which may result in our reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting our financial condition and results of operations. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies include policies related to the allowance for loan losses, investment securities impairment and deferred tax assets. See Note 1 of the Company's Consolidated Financial Statements included as part of this Annual Report on Form 10-K for further information. Because of the uncertainty of estimates involved in these matters, we may be required to do one or more of the following: significantly increase the allowance for loan losses or sustain loan losses that are significantly higher than the reserve provided, experience additional impairment in our securities portfolio or record a valuation allowance against our deferred tax assets. Any of these could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Our risk management processes, internal controls, disclosure controls and corporate governance policies and procedures are based in part on certain assumptions and can provide only reasonable (not absolute) assurances that the objectives of the system are met. Any failure or circumvention of our controls, processes and procedures or failure to comply with regulations related to controls, processes and procedures could necessitate changes in those controls, processes and procedures, which may increase our compliance costs, divert management attention from our business or subject us to regulatory actions and increased regulatory scrutiny. Any of these could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Changes in accounting policies or standards could materially impact our financial statements.

From time to time, the FASB or the SEC, may change the financial accounting and reporting standards that govern the preparation of our financial statements. Such changes may result in us being subject to new or changing accounting and reporting standards. In addition, the bodies that interpret the accounting standards (such as banking regulators or outside auditors) may change their interpretations or positions on how these standards should be applied. These changes may be beyond our control, can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, or apply an existing standard differently, in each case resulting in our needing to revise or restate prior period financial statements.

The obligations associated with being a public company require significant resources and management attention, which may divert time and attention from our business operations.

As a public company, we are required to file periodic reports containing our consolidated financial statements with the SEC within a specified time following the completion of quarterly and annual periods. As a public company, we also incur significant legal, accounting, insurance, and other expenses. Compliance with these reporting requirements and other rules of the SEC could increase our legal and financial compliance costs and make some activities more time consuming and costly, which could negatively affect our efficiency ratio. Furthermore, the need to establish and maintain the corporate infrastructure demanded of a public company may divert management's attention from implementing our strategic plan, which could prevent us from successfully implementing our growth initiatives and improving our business, financial condition and results of operations.

As an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012, or JOBS Act, we are taking advantage of certain temporary exemptions from various reporting requirements, including reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and an exemption from the requirement to obtain an attestation from our auditors on management's assessment of our internal control over financial reporting. When these exemptions cease to apply, we expect to incur additional expenses and devote increased management effort toward ensuring compliance with them.

Litigation and regulatory actions, including possible enforcement actions, could subject us to significant fines, penalties, judgments or other requirements resulting in increased expenses or restrictions on our business activities.

Our business is subject to increased litigation and regulatory risks as a result of a number of factors, including the highly regulated nature of the financial services industry and the focus of state and federal prosecutors on banks and the financial services industry generally. This focus has only intensified since the financial crisis, with regulators and prosecutors focusing on a variety of financial institution practices and requirements, including foreclosure practices, compliance with applicable consumer protection laws, classification of "held for sale" assets and compliance with anti-money laundering statutes, the Bank Secrecy Act and sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury.

In the normal course of business, from time to time, we have in the past and may in the future be named as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with our current or prior business activities. Legal actions could include claims for substantial compensatory or punitive damages or claims for indeterminate amounts of damages. We may also, from time to time, be the subject of subpoenas, requests for information, reviews, investigations and proceedings (both formal and informal) by governmental agencies regarding our current or prior business activities. Any such legal or regulatory actions may subject us to substantial compensatory or punitive damages, significant fines, penalties, obligations to change our business practices or other requirements resulting in increased expenses, diminished income and damage to our reputation. Our involvement in any such matters, whether tangential or otherwise and even if the matters are ultimately determined in our favor, could also cause significant harm to our reputation and divert management attention from the operation of our business. Further, any settlement, consent order or adverse judgment in connection with any formal or informal proceeding or investigation by government agencies may result in litigation, investigations or proceedings as other litigants and government agencies begin independent reviews of the same activities. As a result, the outcome of legal and regulatory actions could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We are subject to extensive regulation, and the regulatory framework that applies to us, together with any future legislative or regulatory changes, may significantly affect our operations.

The banking industry is extensively regulated and supervised under both federal and state laws and regulations that are intended primarily for the protection of depositors, clients, federal deposit insurance funds and the banking system as a whole, not for the protection of our shareholders. The Company is subject to regulation and supervision by the Federal Reserve, and the Bank is subject to regulation and supervision by the FDIC and the Minnesota Department of Commerce. The laws and regulations applicable to us govern a variety of matters, including permissible types, amounts and terms of loans and investments we may make, the maximum interest rate that may be charged, the amount of reserves we must hold against deposits we take, the types of deposits we may accept, maintenance of adequate capital and liquidity, changes in the control of us and our bank, restrictions on dividends and establishment of new offices. We must obtain approval from our regulators before engaging in certain activities, and there is the risk that such approvals may not be obtained, either in a timely manner or at all. Our regulators also have the ability to compel us to take certain actions, or restrict us from taking certain actions entirely, such as actions that our regulators deem to constitute an unsafe or unsound banking practice. Our failure to comply with any applicable laws or regulations, or regulatory policies and interpretations of such laws and regulations, could result in sanctions by regulatory agencies, civil money penalties or damage to our reputation, all of which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Since the financial crisis, federal and state banking laws and regulations, as well as interpretations and implementations of these laws and regulations, have undergone substantial review and change. In particular, the

Dodd-Frank Act drastically revised the laws and regulations under which we operate. As an institution with less than \$10 billion in assets, certain elements of the Dodd-Frank Act have not been applied to us and provisions of the Regulatory Relief Act are intended to result in meaningful regulatory relief for community banks and their holding companies. While we endeavor to maintain safe banking practices and controls beyond the regulatory requirements applicable to us, our internal controls may not match those of larger banking institutions that are subject to increased regulatory oversight.

Financial institutions generally have also been subjected to increased scrutiny from regulatory authorities. This increased regulatory burden has resulted and may continue to result in increased costs of doing business and may in the future result in decreased revenues and net income, reduce our ability to compete effectively to attract and retain clients, or make it less attractive for us to continue providing certain products and services. Any future changes in federal and state laws and regulations, as well as the interpretation and implementation of such laws and regulations, could affect us in substantial and unpredictable ways, including those listed above or other ways that could have a material adverse effect on our business, financial condition, results of operations and growth prospects. In addition, political developments, including a possible change in presidential administration in the United States in 2020, an election year, add uncertainty to the implementation, scope and timing of regulatory reforms.

Changes in tax laws and regulations, or changes in the interpretation of existing tax laws and regulations, may have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We operate in an environment that imposes income taxes on our operations at both the federal and state levels to varying degrees. We engage in certain strategies to minimize the impact of these taxes. Consequently, any change in tax laws or regulations, or new interpretation of an existing law or regulation, could significantly alter the effectiveness of these strategies.

The net deferred tax asset reported on our balance sheet generally represents the tax benefit of future deductions from taxable income for items that have already been recognized for financial reporting purposes. The bulk of these deferred tax assets consist of deferred loan loss deductions and deferred compensation deductions. The net deferred tax asset is measured by applying currently-enacted income tax rates to the accounting period during which the tax benefit is expected to be realized. As of December 31, 2019, our net deferred tax asset was \$5.9 million.

We also face risk based on actions of the U.S. Treasury and the IRS. In November 2016, these agencies issued a notice making captive insurance company activities “transactions of interest” due to the potential for tax avoidance or evasion. We have a captive insurance company, which is a wholly-owned subsidiary of the Company that provides insurance coverage to the Company and its subsidiaries for risk management purposes or where commercial insurance may not be available or economically feasible. It is not certain at this point how the notice may impact us or the continued operation of the captive insurance company as a risk management tool, but if the activity is deemed by the IRS to be an abusive tax structure, we may become subject to significant penalties and interest.

In addition, in February of 2018, we formed Bridgewater Investment Management, Inc., a Minnesota corporation and a subsidiary of the Bank, to hold certain municipal securities and to engage in municipal lending activities. Based on current tax regulations and guidance, we believe that municipal securities held by a non-bank subsidiary of a financial institution are eligible to receive favorable federal income tax treatment. Like our captive insurance company, there is a risk that the IRS may investigate these types of arrangements and issue new guidance eliminating the tax benefit to such a structure.

There is uncertainty surrounding potential legal, regulatory and policy changes by new presidential administrations in the United States that may directly affect financial institutions and the global economy.

2020 is a presidential election year. Changes in federal policy and at regulatory agencies occur over time through policy and personnel changes following elections, which lead to changes involving the level of oversight and focus on the financial services industry. The nature, timing and economic and political effects of potential changes to the current legal and regulatory framework affecting financial institutions remain highly uncertain. Uncertainty surrounding

future changes may adversely affect our operating environment and therefore our business, financial condition, results of operations and growth prospects.

We are subject to more stringent capital requirements.

Banking institutions are required to hold more capital as a percentage of assets than most industries. In the wake of the global financial crisis, our capital requirements increased, both in the amount of capital we must hold and in the quality of the capital to absorb losses. Holding high amounts of capital compresses our earnings and constrains growth. In addition, the failure to meet applicable regulatory capital requirements could result in one or more of our regulators placing limitations or conditions on our activities, including our growth initiatives, or restricting the commencement of new activities, and could affect client and investor confidence, our costs of funds and FDIC insurance costs and our ability to make acquisitions and ultimately result in a material adverse effect on our business, financial condition, results of operations and growth prospects.

Federal and state regulators periodically examine our business, and we may be required to remediate adverse examination findings.

The Federal Reserve, the FDIC and the Minnesota Department of Commerce periodically examine us, including our operations and our compliance with laws and regulations. If, as a result of an examination, a banking agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, they may take a number of different remedial actions as they deem appropriate. These actions include the power to enjoin “unsafe or unsound” practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil money penalties, to fine or remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory action against us could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The CRA requires the Bank, consistent with safe and sound operations, to ascertain and meet the credit needs of its entire community, including low and moderate income areas. Our failure to comply with the CRA could, among other things, result in the denial or delay of certain corporate applications filed by us, including applications for branch openings or relocations and applications to acquire, merge or consolidate with another banking institution or holding company. In addition, the CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations prohibit discriminatory lending practices by financial institutions. The U.S. Department of Justice, bank regulatory agencies and other federal agencies are responsible for enforcing these laws and regulations. A challenge to an institution’s compliance with fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion and restrictions on entering new business lines. Private parties may also challenge an institution’s performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Noncompliance with the Bank Secrecy Act and other anti-money laundering statutes and regulations could result in fines or sanctions against us.

The Bank Secrecy Act, the USA Patriot Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and to file reports such as suspicious activity reports and currency transaction reports. We are required to comply with these and other anti-money laundering requirements. The bank regulatory agencies and Financial Crimes Enforcement Network are authorized to impose significant civil money penalties for violations of those requirements and have recently engaged in coordinated enforcement efforts against banks and other financial services providers with the U.S. Department of Justice, Drug

Enforcement Administration and IRS. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans.

Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Regulations relating to privacy, information security and data protection could increase our costs, affect or limit how we collect and use personal information and adversely affect our business opportunities.

We are subject to various privacy, information security and data protection laws, including requirements concerning security breach notification, and we could be negatively affected by these laws. For example, our business is subject to the Gramm-Leach-Bliley Act which, among other things (i) imposes certain limitations on our ability to share nonpublic personal information about our clients with nonaffiliated third parties, (ii) requires that we provide certain disclosures to clients about our information collection, sharing and security practices and afford clients the right to “opt out” of any information sharing by us with nonaffiliated third parties (with certain exceptions) and (iii) requires that we develop, implement and maintain a written comprehensive information security program containing appropriate safeguards based on our size and complexity, the nature and scope of our activities and the sensitivity of client information we process, as well as plans for responding to data security breaches. Various state and federal banking regulators and states have also enacted data security breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notification in certain circumstances in the event of a security breach. Moreover, legislators and regulators in the United States are increasingly adopting or revising privacy, information security and data protection laws that potentially could have a significant impact on our current and planned privacy, data protection and information security-related practices, our collection, use, sharing, retention and safeguarding of consumer or employee information and some of our current or planned business activities. This could also increase our costs of compliance and business operations and could reduce income from certain business initiatives. This includes increased privacy-related enforcement activity at the federal level, by the Federal Trade Commission and the CFPB, as well as at the state level, such as with regard to mobile applications.

Compliance with current or future privacy, data protection and information security laws (including those regarding security breach notification) affecting client or employee data to which we are subject could result in higher compliance and technology costs and could restrict our ability to provide certain products and services, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Our failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory or governmental investigations or actions, litigation, fines, sanctions and damage to our reputation, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

The Federal Reserve may require us to commit capital resources to support the Bank.

As a matter of policy, the Federal Reserve expects a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. The Dodd-Frank Act codified the Federal Reserve’s policy on serving as a source of financial strength. Under the “source of strength” doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore may be required to borrow the funds or raise capital. Any loans by a holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company’s bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution’s general unsecured creditors, including the holders of its note obligations. Thus, any

borrowing that must be done by the Company to make a required capital injection becomes more difficult and expensive and could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We are an emerging growth company within the meaning of the Securities Act and because we have decided to take advantage of certain exemptions from various reporting and other requirements applicable to emerging growth companies, our common stock could be less attractive to investors.

For as long as we remain an emerging growth company, as defined in the JOBS Act, we will have the option to take advantage of certain exemptions from various reporting and other requirements that are applicable to other public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, being permitted to have an extended transition period for adopting any new or revised accounting standards that may be issued by the FASB or the SEC, reduced disclosure obligations regarding executive compensation and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We have elected to, and expect to continue to, take advantage of certain of these and other exemptions until we are no longer an emerging growth company. Further, the JOBS Act allows us to present only two years of audited financial statements and only two years of related management's discussion and analysis of financial condition and results of operations and provide less than five years of selected financial data.

We will remain an emerging growth company until the earliest of (i) the end of the fiscal year during which we have total annual gross revenues of \$1.07 billion or more, (ii) the end of the fiscal year following the fifth anniversary of the completion of our initial public offering, (iii) the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt and (iv) the end of the first fiscal year in which (A) the market value of our equity securities that are held by non-affiliates exceeds \$700 million as of June 30 of that year, (B) we have been a public reporting company under the Exchange Act for at least twelve calendar months and (C) we have filed at least one annual report on Form 10-K.

Because we have elected to use the extended transition period for complying with new or revised accounting standards for an emerging growth company, our financial statements may not be comparable to companies that comply with these accounting standards as of the public company effective dates.

We have elected to use the extended transition period for complying with new or revised accounting standards under Section 7(a)(2)(B) of the Securities Act. This election allows us to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies. As a result of this election, our financial statements may not be comparable to companies that comply with these accounting standards as of the public company effective dates. Because our financial statements may not be comparable to companies that comply with public company effective dates, investors may have difficulty evaluating or comparing our business, financial results or prospects in comparison to other public companies, which may have a negative impact on the value and liquidity of our common stock. We cannot predict if investors will find our common stock less attractive because we plan to rely on this exemption. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

The financial reporting resources we have put in place may not be sufficient to ensure the accuracy of the additional information we are required to disclose as a publicly listed company.

As a result of being a publicly listed company, we are subject to the heightened financial reporting standards under GAAP and SEC rules, including more extensive levels of disclosure. Complying with these standards required enhancements to the design and operation of our internal control over financial reporting as well as additional financial reporting and accounting staff with appropriate training and experience in GAAP and SEC rules and regulations.

If we are unable to meet the demands that are placed upon us as a public company, including the requirements of Sarbanes-Oxley, we may be unable to report our financial results accurately, or report them within the timeframes required by law or stock exchange regulations. Failure to comply with Sarbanes-Oxley, when and as applicable, could also potentially subject us to sanctions or investigations by the SEC or other regulatory authorities. If material

weaknesses or other deficiencies occur, our ability to report our financial results accurately and timely could be impaired, which could result in late filings of our annual and quarterly reports under the Exchange Act, restatements of our consolidated financial statements, a decline in our stock price, suspension or delisting of our common stock from the Nasdaq Stock Market, and could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Even if we are able to report our financial statements accurately and in a timely manner, any failure in our efforts to implement the improvements or disclosure of material weaknesses in our future filings with the SEC could cause our reputation to be harmed and our stock price to decline significantly.

We did not engage our independent registered public accounting firm to perform an audit of our internal control over financial reporting, as contemplated by Section 404 of Sarbanes-Oxley, under the standards of the PCAOB as of any balance sheet date reported in our financial statements as of December 31, 2019. If we had, our independent registered public accounting firm perform an audit of our internal control over financial reporting under the standards of the PCAOB, material weaknesses may have been identified. In addition, the JOBS Act provides that, so long as we qualify as an emerging growth company, we will be exempt from the provisions of Section 404(b) of Sarbanes-Oxley, which would require that our independent registered public accounting firm provide an attestation report on the effectiveness of our internal control over financial reporting under the standards of the PCAOB. We may take advantage of this exemption so long as we qualify as an emerging growth company.

Certain banking laws and certain provisions of our second amended and restated articles of incorporation may have an anti-takeover effect.

Provisions of federal banking laws, including regulatory approval requirements, could make it difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. Acquisition of 10% or more of any class of voting stock of a bank holding company or depository institution, including shares of our common stock, generally creates a rebuttable presumption that the acquirer “controls” the bank holding company or depository institution. Also, a bank holding company must obtain the prior approval of the Federal Reserve before, among other things, acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, including the Bank.

There are also provisions in our second amended and restated articles of incorporation and amended and restated bylaws, such as the classification of our board of directors and limitations on the ability to call a special meeting of our shareholders, that may be used to delay or block a takeover attempt. In addition, our board of directors is authorized under our second amended and restated articles of incorporation to issue shares of preferred stock, and determine the rights, terms conditions and privileges of such preferred stock, without shareholder approval. These provisions may effectively inhibit a non-negotiated merger or other business combination, which, in turn, could have a material adverse effect on the market price of our common stock.

Our amended and restated bylaws have an exclusive forum provision, which could limit a shareholder’s ability to obtain a favorable judicial forum for disputes with us or our directors, officers or other employees.

Our amended and restated bylaws have an exclusive forum provision providing that, unless we consent in writing to an alternative forum, the state or federal courts in Hennepin County, Minnesota shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Company, (ii) any action asserting a claim for breach of a fiduciary duty owed by any director, officer, employee, or agent of the Company to the Company or the Company’s shareholders, (iii) any action asserting a claim arising pursuant to any provision of the Minnesota Business Corporation Act, the articles or the bylaws of the Company, or (iv) any action asserting a claim governed by the internal affairs doctrine, in each case subject to said courts having personal jurisdiction over the indispensable parties named as defendants therein. Any person purchasing or otherwise acquiring any interest in any shares of our capital stock shall be deemed to have notice of and to have consented to this provision of our bylaws. The exclusive forum provision may limit a shareholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits. Alternatively, if a court were to find the exclusive forum provision to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Market and Interest Rate Risks

Our business is subject to interest rate risk, and fluctuations in interest rates may adversely affect our earnings.

Fluctuations in interest rates may negatively affect our business and may weaken demand for some of our products. Our earnings and cash flows are largely dependent on our net interest income, which is the difference between the interest income that we earn on interest earning assets, such as loans and investment securities, and the interest expense that we pay on interest bearing liabilities, such as deposits and borrowings. Additionally, changes in interest rates also affect our ability to fund our operations with client deposits and the fair value of securities in our investment portfolio. Therefore, any change in general market interest rates, including changes in federal fiscal and monetary policies, can have a significant effect on our net interest income and results of operations.

Our interest earning assets and interest bearing liabilities may react in different degrees to changes in market interest rates. Interest rates on some types of assets and liabilities may fluctuate prior to changes in broader market interest rates, while rates on other types of assets and liabilities may lag behind. The result of these changes to rates may cause differing spreads on interest earning assets and interest bearing liabilities. We cannot control or accurately predict changes in market rates of interest.

Interest rates are volatile and highly sensitive to many factors that are beyond our control, such as economic conditions and policies of various governmental and regulatory agencies, and, in particular U.S. monetary policy. For example, we face uncertainty regarding the interest rate risk, and resulting effect on our portfolio, that could result when the Federal Reserve reduces the amount of securities it holds on its balance sheet. In recent years, it has been the policy of the Federal Reserve to maintain interest rates at historically low levels through a targeted federal funds rate and the purchase of U.S. Treasury and mortgage-backed securities. As a result, yields on securities we have purchased, and market rates on the loans we have originated, have generally been at levels lower than were available prior to the financial crisis. Consequently, the average yield on the Bank's interest-earning assets has generally decreased during the current low interest rate environment. If a low interest rate environment persists, we may be unable to increase our net interest income.

As of December 31, 2019, we had \$447.5 million of noninterest bearing deposit accounts and \$1.38 billion of interest bearing deposit accounts. We do not know what future market rates will be. If we need to offer higher interest rates on these accounts to maintain current clients or attract new clients, our interest expense will increase, perhaps materially. Furthermore, if we fail to offer interest in a sufficient amount to keep these demand deposits, our core deposits may be reduced, which would require us to obtain funding in other ways or risk slowing our future asset growth.

We could recognize losses on securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.

As of December 31, 2019, the fair value of our securities portfolio was approximately \$289.9 million, or 12.8% of our total assets. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. For example, fixed-rate securities acquired by us are generally subject to decreases in market value when interest rates rise. Additional factors include, but are not limited to, rating agency downgrades of the securities or our own analysis of the value of the security, defaults by the issuer or individual mortgagors with respect to the underlying securities and instability in the credit markets. Any of the foregoing factors could cause an other than temporary impairment in future periods and result in realized losses. The process for determining whether impairment is other than temporary usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, we may recognize realized or unrealized losses in future periods, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Monetary policies and regulations of the Federal Reserve could adversely affect our operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market purchases and sales of U.S. government securities, adjustments of the discount rate and changes in banks' reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition, results of operations and growth prospects cannot be predicted.

Our stock is relatively thinly traded.

Although our common stock is traded on the Nasdaq Stock Market, the average daily trading volume of our common stock is relatively low compared to many public companies. The desired market characteristics of depth, liquidity, and orderliness require the substantial presence of willing buyers and sellers in the marketplace at any given time. In our case, this presence depends on the individual decisions of a relatively small number of investors and general economic and market conditions over which we have no control. Due to the relatively low trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause the stock price to fall more than would be justified by the inherent worth of the Company. Conversely, attempts to purchase a significant amount of our stock could cause the market price to rise above the reasonable inherent worth of the Company.

The price of our common stock could be volatile and other factors could cause our stock price to decline.

Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. The market price of our common stock may be volatile and could be subject to wide fluctuations in price in response to various factors, some of which are beyond our control. These factors include, among other things:

- actual or anticipated variations in our quarterly results of operations;
- recommendations or research reports about us or the financial services industry in general published by securities analysts;
- the failure of securities analysts to cover, or continue to cover;
- operating and stock price performance of other companies that investors or analysts deem comparable to us;
- news reports relating to trends, concerns and other issues in the financial services industry;
- perceptions in the marketplace regarding us, our competitors or other financial institutions;
- future sales of our common stock;
- departure of members of our strategic leadership team or other key personnel;
- 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;

- changes or proposed changes in laws or regulations, or differing interpretations of existing laws and regulations, affecting our business, or enforcement of these laws and regulations;
- litigation and governmental investigations; and
- geopolitical conditions such as acts or threats of terrorism or military conflicts.

In addition, if the market for stocks in our industry, or the stock market in general, experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition, results of operations or growth prospects. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

An investment in our common stock is not an insured deposit.

An investment in our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this report, and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you could lose some or all of your investment.

Our ability to pay dividends may be limited, and we do not intend to pay cash dividends on our common stock in the foreseeable future. Consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

Holders of our common stock are entitled to receive only such dividends as our board of directors may declare out of funds legally available for such payments. We expect that we will retain all earnings, if any, for operating capital, and we do not expect our board of directors to declare any dividends on our common stock in the foreseeable future. Even if we have earnings in an amount sufficient to pay cash dividends, our board of directors may decide to retain earnings for the purpose of funding growth. We cannot assure you that cash dividends on our common stock will ever be paid. You should not purchase shares of common stock offered hereby if you need or desire dividend income from this investment.

In addition, we are a financial holding company, and our ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends. It is the policy of the Federal Reserve that bank and financial holding companies should generally pay dividends on capital stock only out of earnings, and only if prospective earnings retention is consistent with the organization's expected future needs, asset quality and financial condition.

Further, if we are unable to satisfy the capital requirements applicable to us for any reason, we may not be able to make, or may have to reduce or eliminate, the payment of dividends on our common stock in the event we decide to declare dividends. Any change in the level of our dividends or the suspension of the payment thereof could have a material adverse effect on the market price of our common stock.

Future issuances of common stock could result in dilution, which could cause our common stock price to decline.

We are generally not restricted from issuing additional shares of our common stock, up to the 75,000,000 shares of common stock in our second amended and restated articles of incorporation, which could be increased by a vote of the holders of a majority of our shares of common stock. We may issue additional shares of our common stock in the future pursuant to current or future equity compensation plans, upon conversions of preferred stock or debt, or in connection with future acquisitions or financings. If we choose to raise capital by selling shares of our common stock for any reason, the issuance would have a dilutive effect on the holders of our common stock and could have a material negative effect on the market price of our common stock.

The holders of our debt obligations and preferred stock, if any, will have priority over our common stock with respect to payment in the event of liquidation, dissolution or winding up and with respect to the payment of interest and dividends.

In any liquidation, dissolution or winding up of the Company, our common stock would rank below all claims of debt holders against us and claims of all of our outstanding shares of preferred stock. As of December 31, 2019, we had \$13.0 million of senior indebtedness and \$25.0 million of subordinated debentures outstanding. We do not currently have any shares of preferred stock outstanding. As a result, holders of our common stock will not be entitled to receive any payment or other distribution of assets upon the liquidation, dissolution or winding up of the Company until after all of our obligations to our debt holders have been satisfied and holders of senior equity securities, including preferred shares, if any, have received any payment or distribution due to them.

We cannot guarantee that our stock repurchase program will be fully implemented or that it will enhance long-term shareholder value.

In January 2019, the Company's board of directors approved a stock repurchase program, which authorized the Company to repurchase up to \$15.0 million of its common stock, subject to certain limitations and conditions. The repurchase program was effective immediately and will continue for a period of 24 months. The repurchase program does not obligate the Company to repurchase any shares of its common stock, and other than repurchases that have been completed to date, there is no assurance that the Company will do so or that the Company will repurchase shares at favorable prices. The repurchase program may be suspended or terminated at any time and, even if fully implemented, the program may not enhance long-term shareholder value. On July 23, 2019, the Company's board of directors approved a \$10.0 million increase to the stock repurchase program, increasing the authorization to repurchase common stock under the program from a total of \$15.0 million to a total of \$25.0 million. The stock repurchase program continues through January 22, 2021.

ITEM 1.B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters is located at 3800 American Boulevard West, Suite 100, Bloomington, Minnesota 55431. We plan to relocate our current headquarters in 2020 to a site we own in St. Louis Park, Minnesota and relocate our St. Louis Park branch to that location. We operate seven branch offices located in the Twin Cities MSA. We own three of our branch offices located in Orono, St. Louis Park and Minneapolis (Hennepin Avenue), and we lease our headquarters space, and the remainder of our retail branch offices. Additional information regarding our locations is set forth below.

Address	Owned/Leased
Headquarters:	
3800 American Boulevard West, Various Suites, Bloomington, Minnesota 55431	Leased
Branch Locations:	
21500 Highway 7, Greenwood, Minnesota 55331	Leased
Northstar Center West, 625 Marquette Avenue, Suite #W0100, Minneapolis, Minnesota 55402	Leased
4400 Excelsior Boulevard, St. Louis Park, Minnesota 55416	Owned
2445 Shadywood Road, Orono, Minnesota 55331	Owned
3100 Hennepin Avenue, Minneapolis, Minnesota 55408 ⁽¹⁾	Owned
370 Wabasha Street N., St. Paul, Minnesota 55102	Leased
7831 East Bush Lake Road, Suite 300, Bloomington, Minnesota 55439	Leased
Land and Building in Process for New Headquarters:	
4450 Excelsior Boulevard, St. Louis Park, Minnesota 55416	Owned

⁽¹⁾ Does not include the leased drive-up property located adjacent to the branch.

ITEM 3. LEGAL PROCEEDINGS

Neither the Company nor any of its subsidiaries is a party, and no property of these entities is subject, to any material pending legal proceedings, other than ordinary routine litigation incidental to the Bank's business. The Company does not know of any proceeding contemplated by a governmental authority against the Company or any of its subsidiaries.

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

Market Information

Our common stock trades on the Nasdaq Stock Market ("Nasdaq") under the symbol "BWB." As of March 3, 2020, the Company had 125 holders of record of the Company's common stock and an estimated 1,957 additional beneficial holders of the Company's common stock whose stock was held in street name by brokerages or fiduciaries.

Issuer Purchases of Equity Securities

On January 22, 2019, the Company's board of directors approved a stock repurchase program (the "Program") which authorizes the Company to repurchase up to \$15.0 million of its common stock, subject to certain limitations and conditions. The Program was effective immediately and will continue for a period of 24 months. The Program does not obligate the Company to repurchase any shares of its common stock, and other than repurchases that have been completed to date, there is no assurance that the Company will do so. Under the Program, the Company may repurchase shares of common stock from time to time in open market or privately negotiated transactions. The extent to which the Company repurchases its shares, and the timing of such repurchases, will depend upon a variety of factors, including general market and economic conditions, regulatory requirements, availability of funds, and other relevant considerations, as determined by the Company. The Company may, in its discretion, begin, suspend or terminate repurchases at any time prior to the Program's expiration, without any prior notice.

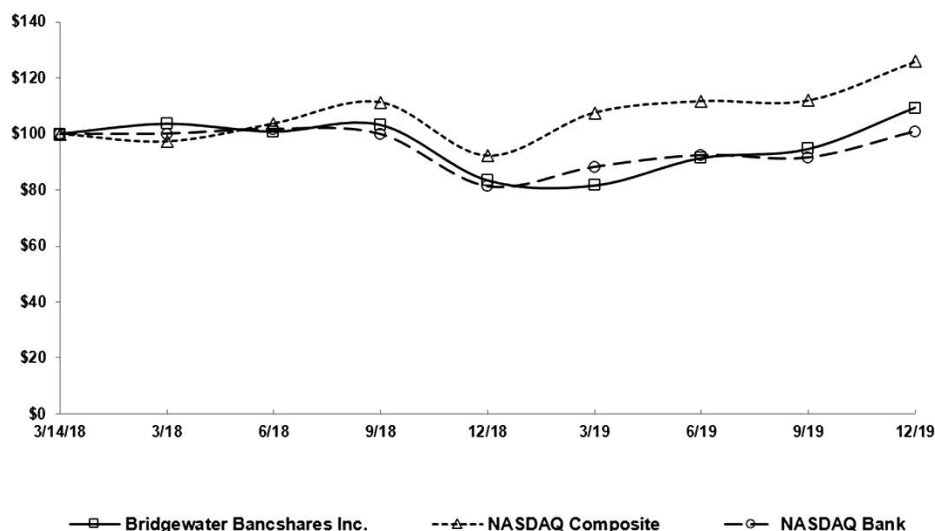
On July 23, 2019, the Company's board of directors approved a \$10.0 million increase to the Program, increasing the authorization to repurchase common stock under the Program from a total of \$15.0 million to a total of \$25.0 million. The Program continues through January 22, 2021.

The Company made no repurchases of its outstanding common stock during the fourth quarter of 2019.

Performance Graph

COMPARISON OF 21 MONTH CUMULATIVE TOTAL RETURN*

Among Bridgewater Bancshares Inc., the NASDAQ Composite Index
and the NASDAQ Bank Index



*\$100 invested on 3/14/18 in stock or 2/28/18 in index, including reinvestment of dividends.
Fiscal year ending December 31.

Dividend Policy

The Company has not historically declared or paid dividends on its common stock and does not intend to declare or pay dividends on its common stock in the foreseeable future. Instead, the Company anticipates that future earnings will be retained to support its operations and to finance the growth and development of its business. Any future determination relating to the Company's dividend policy will be made by the board of directors and will depend on a number of factors, including historic and projected financial condition, liquidity and results of operations, capital levels and needs, tax considerations, any acquisitions or potential acquisitions that may be pursued, statutory and regulatory prohibitions and other limitations, the terms of any credit agreements or other borrowing arrangements that restrict the ability to pay cash dividends, general economic conditions and other factors deemed relevant by the board of directors. The Company is not obligated to pay dividends on its common stock and is subject to restrictions on paying dividends on its common stock.

Dividend Restrictions

As a Minnesota corporation, the Company is subject to certain restrictions on dividends under the Minnesota Business Corporation Act, as amended. Generally, a Minnesota corporation is prohibited from paying a dividend if, after giving effect to the dividend the corporation would not be able to pay its debts as the debts become due in the usual course of business, or the corporation's total assets would be less than the sum of its total liabilities, plus the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution.

In addition, the Company is subject to certain restrictions on the payment of cash dividends as a result of banking laws, regulations and policies. See "Supervision and Regulation—Supervision and Regulation of the Company—Dividend Payments." Because the Company is a financial holding company and does not engage directly in business activities of a material nature, the ability to pay dividends to shareholders depends, in large part, upon receipt of

dividends from the Bank, which is also subject to numerous limitations on the payment of dividends under federal and state banking laws, regulations and policies. See "Supervision and Regulation—Supervision and Regulation of the Bank—Dividend Payments."

Under the terms of a loan agreement with a third party correspondent lender which the Company entered into in February of 2016, the Company cannot declare or pay any cash dividend or make any other distribution in respect to capital stock without the prior written consent of the lender. In addition, under the terms of the subordinated notes issued in July of 2017, and the related subordinated note purchase agreements, the Company is not permitted to declare or pay any dividends on capital stock if an event of default occurs under the terms of the subordinated notes, excluding any dividends or distributions in shares of, or options, warrants or rights to subscribe for or purchase shares of, any class of our common stock and any declaration of a non-cash dividend in connection with the implementation of a shareholders' rights plan.

ITEM 6. SELECTED FINANCIAL DATA

The following consolidated selected financial data is derived from the Company's audited consolidated financial statements as of and for the five years ended December 31, 2019. This information should be read in connection with our audited consolidated financial statements, related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this report.

	As of and for the year ended December 31,				
	2019	2018	2017	2016	2015
Per Common Share Data ⁽¹⁾					
Basic Earnings Per Share	\$ 1.07	\$ 0.93	\$ 0.69	\$ 0.59	\$ 0.65
Diluted Earnings Per Share	1.05	0.91	0.68	0.58	0.64
Book Value Per Share	8.45	7.34	5.56	4.69	4.05
Tangible Book Value Per Share ⁽²⁾	8.33	7.22	5.40	4.53	4.05
Basic Weighted Average Shares Outstanding	29,358,644	29,001,393	24,604,464	22,294,837	17,269,448
Diluted Weighted Average Shares Outstanding	29,996,776	29,436,214	25,017,690	22,631,741	17,606,253
Shares Outstanding at Period End	28,973,572	30,097,274	24,679,861	24,589,861	19,819,349
Selected Performance Ratios					
Return on Average Assets (ROA)	1.49 %	1.51 %	1.16 % ⁽⁶⁾	1.20 %	1.39 %
Return on Average Common Equity (ROE)	13.50	13.87	13.18 ⁽⁶⁾	12.88	17.50
Return on Average Tangible Common Equity ⁽²⁾	13.72	14.15	13.60	13.23	17.50
Yield on Interest Earning Assets	5.01	4.88	4.76	4.78	4.99
Yield on Total Loans, Gross	5.31	5.23	5.10	5.20	5.37
Cost of Interest Bearing Liabilities	2.03	1.65	1.19	1.09	1.08
Cost of Total Deposits	1.42	1.12	0.80	0.76	0.77
Net Interest Margin ⁽³⁾	3.59	3.72	3.92	4.00	4.18
Efficiency Ratio ⁽²⁾	47.4	46.5	44.4	45.8	43.6
Adjusted Efficiency Ratio ⁽⁵⁾	43.3	41.7	41.1	N/A	N/A
Noninterest Expense to Average Assets	1.75	1.78	1.76	1.84	1.84
Adjusted Noninterest Expense to Average Assets ⁽⁵⁾	1.59	1.59	1.62	N/A	N/A
Loan to Deposit Ratio	104.9	106.7	100.6	97.8	104.9
Core Deposits to Total Deposits	80.7	74.2	76.7	77.2	79.4
Tangible Common Equity to Tangible Assets ⁽²⁾	10.65	11.03	8.26	8.86	8.63
Selected Asset Quality Data					
Loans 30-89 Days Past Due	\$ 403	\$ 311	\$ 664	\$ 677	\$ 1,087
Loans 30-89 Days Past Due to Total Loans	0.02 %	0.02 %	0.05 %	0.07 %	0.14 %
Nonperforming Loans	\$ 461	\$ 581	\$ 1,139	\$ 2,323	\$ 2,338
Nonperforming Loans to Total Loans	0.02 %	0.03 %	0.08 %	0.23 %	0.29 %
Foreclosed Assets	\$ —	\$ —	\$ 581	\$ 4,183	\$ 726
Nonaccrual Loans to Total Loans	0.02 %	0.03 %	0.08 %	0.23 %	0.29 %
Nonaccrual Loans and Loans Past Due 90 Days and Still Accruing to Total Loans	0.02	0.03	0.08	0.23	0.29
Nonperforming Assets ⁽⁴⁾	\$ 461	\$ 581	\$ 1,720	\$ 6,506	\$ 3,064
Nonperforming Assets to Total Assets ⁽⁴⁾	0.02 %	0.03 %	0.11 %	0.52 %	0.33 %
Allowance for Loan Losses to Total Loans	1.18	1.20	1.22	1.23	1.26
Allowance for Loans Losses to Nonperforming Loans	4,886.33	3,447.68	1,448.81	530.91	429.94
Net Loan Charge-Offs (Recoveries) to Average Loans	0.01	0.00	0.00	0.11	0.14
Capital Ratios (Bank Only)					
Tier 1 Leverage Ratio	11.01 %	10.82 %	9.83 %	9.24 %	9.49 %
Tier 1 Risk-based Capital Ratio	11.72	11.63	11.15	11.38	11.06
Total Risk-based Capital Ratio	12.16	12.76	12.37	12.63	12.31
Capital Ratios (Consolidated)					
Tier 1 Leverage Ratio	10.69 %	11.23 %	8.38 %	9.44 %	8.89 %
Tier 1 Risk-based Capital Ratio	11.39	12.07	9.49	11.49	10.34
Total Risk-based Capital Ratio	12.98	14.55	12.46	12.74	11.59
Growth Ratios					
Percentage Change in Total Assets	15.0 %	22.1 %	28.3 %	35.7 %	32.3 %
Percentage Change in Total Loans, Gross	14.8	23.6	34.6	25.2	33.6
Percentage Change in Total Deposits	16.8	16.5	30.9	34.3	26.7
Percentage Change in Shareholders' Equity	10.8	61.1	18.9	43.9	49.2
Percentage Change in Net Income	16.7	59.4	27.8	18.0	12.8
Percentage Change in Diluted Earnings Per Share	14.5	35.5	15.6	(8.2)	5.7
Percentage Change in Tangible Book Value Per Share ⁽²⁾	15.3	33.7	19.3	11.9	20.3

- (1) Includes shares of common stock and non-voting common stock. On October 25, 2018, the Company exchanged shares of common stock for all of the outstanding shares of non-voting common stock. Following the exchange, no shares of non-voting common stock were outstanding.
- (2) Represents a non-GAAP financial measure. See "GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures" for further details.

- (3) Amounts calculated on a tax-equivalent basis using the statutory federal tax rate of 21% beginning in 2018 and 35% for 2017, 2016 and 2015.
- (4) Nonperforming assets are defined as nonaccrual loans plus loans 90 days past due plus foreclosed assets.
- (5) Ratio excludes the amortization of tax credit investments and represents a non-GAAP financial measure. See "GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures" for further details.
- (6) ROA and ROE, excluding a one-time additional expense of \$2.0 million related to the revaluation of the deferred tax asset, would have been 1.30% and 14.75%, respectively for the year ended December 31, 2017.

(dollars in thousands)	As of and for the year ended December 31,				
	2019	2018	2017	2016	2015
Selected Balance Sheet Data					
Total Assets	\$ 2,268,830	\$ 1,973,741	\$ 1,616,612	\$ 1,260,394	\$ 928,686
Total Loans, Gross	1,912,038	1,664,931	1,347,113	1,000,739	799,497
Allowance for Loan Losses	22,526	20,031	16,502	12,333	10,052
Securities Available for Sale	289,877	253,378	229,491	217,083	100,769
Goodwill and Other Intangibles	3,487	3,678	3,869	4,060	—
Deposits	1,823,310	1,560,934	1,339,350	1,023,508	761,882
Federal Funds Purchased	—	18,000	23,000	44,000	13,000
FHLB Advances and Notes Payable	149,500	139,000	85,000	72,000	69,042
Subordinated Debentures, Net of Issuance Costs	24,733	24,630	24,527	—	1,500
Tangible Common Equity ⁽¹⁾	241,307	217,320	133,293	111,306	80,178
Total Shareholders' Equity	244,794	220,998	137,162	115,366	80,178
Average Total Assets	2,114,211	1,777,592	1,451,732	1,098,654	806,625
Average Common Equity	232,539	194,083	128,123	102,588	63,981

- (1) Represents a non-GAAP financial measure. See "GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures" for further details.

(dollars in thousands)	For the year ended December 31,				
	2019	2018	2017	2016	2015
Selected Income Statement Data					
Interest Income	\$ 103,778	\$ 85,226	66,346	\$ 50,632	\$ 39,193
Interest Expense	29,646	20,488	12,173	8,514	6,498
Net Interest Income	74,132	64,738	54,173	42,118	32,695
Provision for Loan Losses	2,700	3,575	4,175	3,250	1,500
Net Interest Income after Provision for Loan Losses	71,432	61,163	49,998	38,868	31,195
Noninterest Income	3,826	2,543	2,536	2,567	1,872
Noninterest Expense	36,932	31,562	25,496	20,168	14,817
Income Before Income Taxes	38,326	32,144	27,038	21,267	18,250
Provision for Income Taxes	6,923	5,224	10,149	8,052	7,055
Net Income	\$ 31,403	\$ 26,920	\$ 16,889	\$ 13,215	\$ 11,195

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

General

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with the "Selected Financial Data" and our consolidated financial statements and related notes included elsewhere in this report. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Certain risks, uncertainties and other factors, including but not limited to those set forth under "Forward-Looking Statements," "Risk Factors" and elsewhere in this report, may cause actual results to differ materially from those projected in the forward looking statements. We assume no obligation to update any of these forward-looking statements. Readers of our Annual Report on Form 10-K should consider these risks and uncertainties in evaluating forward-looking statements and should not place undue reliance on forward-looking statements.

Overview

The Company is a financial holding company headquartered in Bloomington, Minnesota, which is currently celebrating fourteen years of successful operations. The principal sources of funds for loans and investments are transaction, savings, time, and other deposits, and short-term and long-term borrowings. The Company's principal sources of income are interest and fees collected on loans, interest and dividends earned on investment securities and service charges. The Company's principal expenses are interest paid on deposit accounts and borrowings, employee compensation and other overhead expenses. The Company's simple, efficient business model of providing responsive support and unconventional experiences to clients continues to be the underlying principle that drives the Company's profitable growth.

Critical Accounting Policies and Estimates

The consolidated financial statements of the Company are prepared based on the application of certain accounting policies, the most significant of which are described in Note 1 of the notes to the consolidated financial statements included as a part of this report. Certain policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or subject to variation and may significantly affect the reported results and financial position for the current period or in future periods. The use of estimates, assumptions, and judgments are necessary when financial assets and liabilities are required to be recorded or adjusted to reflect fair value. Assets carried at fair value inherently result in more financial statement volatility. Fair values and information used to record valuation adjustments for certain assets and liabilities are based on either quoted market prices or are provided by other independent third-party sources, when available. When such information is not available, management estimates valuation adjustments. Changes in underlying factors, assumptions or estimates in any of these areas could have a material impact on the future financial condition and results of operations. Management has discussed each critical accounting policy and the methodology for the identification and determination of critical accounting policies with the Company's Audit Committee.

The JOBS Act permits the Company an extended transition period for complying with new or revised accounting standards affecting public companies. The Company has elected to take advantage of this extended transition period, which means that the financial statements included in this report, as well as any financial statements filed in the future, will not be subject to all new or revised accounting standards generally applicable to public companies for the transition period for so long as the Company remains an emerging growth company or until the Company affirmatively and irrevocably opts out of the extended transition period under the JOBS Act.

The following is a discussion of the critical accounting policies and significant estimates that require the Company to make complex and subjective judgements.

Allowance for Loan Losses

The allowance for loan losses, sometimes referred to as the "allowance," is established through a provision for loan losses which is charged to expense. Loan losses are charged against the allowance when management determines all or a portion of the loan balance to be uncollectible. Subsequent recoveries, if any, are credited to the allowance for cash received on previously charged-off amounts. If the allowance is considered inadequate to absorb future loan losses on existing loans for any reason, including but not limited to, increases in the size of the loan portfolio, increases in charge-offs or changes in the risk characteristics of the loan portfolio, then the provision for loan losses is increased.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the original contractual terms of the loan agreement. The collection of all amounts due according to original contractual terms means that both the contractual interest and principal payments of a loan will be collected as scheduled in the loan agreement. An impaired loan is 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 underlying collateral, reduced by costs to sell on a discounted basis, is used if a loan is collateral dependent.

Investment Securities Impairment

Periodically, the Company may need to assess whether there have been any events or economic circumstances to indicate that a security on which there is an unrealized loss is impaired on an other than temporary basis. In any such instance, the Company would consider many factors, including the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and the near-term prospects of the issuer, expected cash flows, and the intent and ability to hold the investment for a period of time sufficient to recover the temporary loss. Securities on which there is an unrealized loss that is deemed to be other than temporary are written down to fair value, with the write-down recorded as a realized loss in securities gains (losses).

The fair values of investment securities are generally determined by various pricing models. The Company evaluates the methodologies used to develop the resulting fair values. The Company performs a semi-annual analysis on the pricing of investment securities to ensure that the prices represent reasonable estimates of fair value. The procedures include initial and ongoing reviews of pricing methodologies and trends. The Company seeks to ensure prices represent reasonable estimates of fair value through the use of broker quotes, current sales transactions from the portfolio and pricing techniques, which are based on the net present value of future expected cash flows discounted at a rate of return market participants would require. As a result of this analysis, if the Company determines there is a more appropriate fair value, the price is adjusted accordingly.

Deferred Tax Asset

The Company uses the asset and liability method of accounting for income taxes as prescribed by GAAP. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. If currently available information indicates it is “more likely than not” that the deferred tax asset will not be realized, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Accounting for deferred income taxes is a critical accounting estimate because the Company exercises significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. Management’s determination of the realization of deferred tax assets is based upon management’s judgment of various future events and uncertainties, including the timing and amount of future income, reversing temporary differences which may offset, and the implementation of various tax plans to maximize realization of the deferred tax asset. These judgments and estimates are inherently subjective and reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require the Company to record a valuation allowance against the deferred tax assets. A valuation allowance would result in additional income tax expense in such period, which would negatively affect earnings.

Results of Operations

Net Income

2019 compared to 2018

Net income was \$31.4 million for the year ended December 31, 2019, a 16.7% increase over net income of \$26.9 million for the year ended December 31, 2018. Net income per diluted common share for the year ended December 31, 2019 was \$1.05, a 14.5% increase, compared to \$0.91 per diluted common share for the year ended December 31, 2018. ROA was 1.49% and 1.51% for the years ended December 31, 2019 and 2018, respectively. ROE was 13.50% and 13.87% for the years ended December 31, 2019 and 2018, respectively.

2018 compared to 2017

Net income was \$26.9 million for the year ended December 31, 2018, a 59.4% increase over net income of \$16.9 million for the year ended December 31, 2017. Net income per diluted common share for the year ended December 31, 2018 was \$0.91, a 35.5% increase, compared to \$0.68 per diluted common share for the year ended

December 31, 2017. ROA was 1.51% and 1.16% for the years ended December 31, 2018 and 2017, respectively. ROE was 13.87% and 13.18% for the years ended December 31, 2018 and 2017, respectively.

The year ended 2017 included a one-time additional expense of \$2.0 million related to the enactment of the Tax Cuts and Jobs Act. Excluding the one-time impact of the Tax Cuts and Jobs Act, ROA and ROE for the year ended December 31, 2017 would have been 1.30% and 14.75%, respectively.

Net Interest Income

The Company's primary source of revenue is net interest income, which is impacted by the level of interest earning assets and related funding sources, as well as changes in the levels of interest rates. The difference between the average yield on earning assets and the average rate paid for interest bearing liabilities is the net interest spread. Noninterest bearing sources of funds, such as demand deposits and shareholders' equity, also support earning assets. The impact of the noninterest bearing sources of funds is captured in the net interest margin, which is calculated as net interest income divided by average earning assets. Both the net interest margin and net interest spread are presented on a tax-equivalent basis, which means that tax-free interest income has been adjusted to pretax-equivalent income, assuming a 21% federal tax rate beginning in 2018. A 35% federal tax rate has been applied to periods prior to 2018. Management's ability to respond to changes in interest rates by effective asset-liability management techniques is critical to maintaining net interest margin.

Average Balances and Yields

The following table presents, for the years ended December 31, 2019, 2018, and 2017, the average balances of each principal category of assets, liabilities and shareholders' equity, and an analysis of net interest income. The average balances are principally daily averages and, for loans, include both performing and nonperforming balances. Interest income on loans includes the effects of net deferred loan origination fees and costs accounted for as yield adjustments. These tables are presented on a tax-equivalent basis, if applicable.

	December 31, 2019			December 31, 2018			December 31, 2017		
	Average Balance	Interest & Fees	Yield/ Rate	Average Balance	Interest & Fees	Yield/ Rate	Average Balance	Interest & Fees	Yield/ Rate
(dollars in thousands)									
Interest Earning Assets:									
Cash Investments	\$ 46,366	\$ 755	1.63 %	\$ 22,962	\$ 250	1.09 %	\$ 25,306	\$ 226	0.89 %
<i>Investment Securities:</i>									
Taxable Investment									
Securities	149,967	4,354	2.90	129,486	2,878	2.22	102,115	1,892	1.85
Tax-Exempt Investment									
Securities ⁽¹⁾	101,012	4,327	4.28	116,557	4,830	4.14	130,289	6,289	4.83
Total Investment									
Securities	250,979	8,681	3.46	246,043	7,708	3.13	232,404	8,181	3.52
Loans ⁽²⁾	1,785,937	94,852	5.31	1,491,166	78,033	5.23	1,177,491	60,024	5.10
Federal Home Loan									
Bank Stock	7,916	398	5.03	6,321	249	3.94	4,288	115	2.68
Total Interest									
Earning Assets	2,091,198	104,686	5.01 %	1,766,492	86,240	4.88 %	1,439,489	68,546	4.76 %
Noninterest Earning									
Assets	23,013			11,100			12,243		
Total Assets	<u>\$ 2,114,211</u>			<u>\$ 1,777,592</u>			<u>\$ 1,451,732</u>		
Interest Bearing									
Liabilities:									
<i>Deposits:</i>									
Interest Bearing									
Transaction Deposits . . .	223,376	1,634	0.73 %	177,335	635	0.36 %	161,454	389	0.24 %
Savings and Money									
Market Deposits	447,040	7,747	1.73	381,318	4,681	1.23	284,641	2,218	0.78
Time Deposits	349,148	8,379	2.40	300,021	5,731	1.91	286,840	4,360	1.52
Brokered Deposits	261,023	6,236	2.39	232,022	4,924	2.12	185,144	2,752	1.49
Total Deposits	1,280,587	23,996	1.87	1,090,696	15,971	1.46	918,079	9,719	1.06
Federal Funds									
Purchased	7,433	186	2.50	29,671	637	2.15	15,247	169	1.11
Notes Payable	13,750	501	3.64	15,750	594	3.77	17,750	656	3.70
FHLB Advances	133,968	3,407	2.54	82,562	1,718	2.08	56,458	880	1.56
Subordinated									
Debentures	24,686	1,556	6.30	24,582	1,568	6.38	12,253	749	6.11
Total Interest Bearing									
Liabilities	1,460,424	29,646	2.03 %	1,243,261	20,488	1.65 %	1,019,787	12,173	1.19 %
Noninterest Bearing									
Liabilities:									
Noninterest Bearing									
Transaction Deposits . . .	414,377			330,898			299,232		
Other Noninterest									
Bearing Liabilities	6,871			9,350			4,590		
Total Noninterest									
Bearing									
Liabilities	421,248			340,248			303,822		
Shareholders' Equity	232,539			194,083			128,123		
Total Liabilities and									
Shareholders' Equity	<u>\$ 2,114,211</u>			<u>\$ 1,777,592</u>			<u>\$ 1,451,732</u>		
Net Interest Income /									
Interest Rate Spread		75,040	2.98 %		65,752	3.23 %		56,373	3.57 %
Net Interest Margin ⁽³⁾			3.59 %			3.72 %			3.92 %
Taxable Equivalent									
Adjustment:									
Tax-Exempt									
Investment Securities		(908)			(1,014)			(2,200)	
Net Interest Income		<u>\$ 74,132</u>			<u>\$ 64,738</u>			<u>\$ 54,173</u>	

(1) Interest income and average rates for tax-exempt securities are presented on a tax-equivalent basis, assuming a federal income tax rate of 21% in 2019 and 2018 and 35% in 2017.

- (2) Average loan balances include nonaccrual loans. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs.
- (3) Net interest margin includes the tax equivalent adjustment and represents the annualized results of: (i) the difference between interest income on interest earning assets and the interest expense on interest bearing liabilities, divided by (ii) average interest earning assets for the period.

Interest Rates and Operating Interest Differential

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest earning assets and interest bearing liabilities, as well as changes in average interest rates. The following table presents the effect that these factors had on the interest earned on interest earning assets and the interest incurred on interest bearing liabilities. The effect of changes in volume is determined by multiplying the change in volume by the previous period's average rate. Similarly, the effect of rate changes is calculated by multiplying the change in average rate by the previous period's volume. The changes not attributable specifically to either volume or rate have been allocated to the changes due to volume. The following table presents the changes in the volume and rate of interest bearing assets and liabilities for the year ended December 31, 2019, compared to the year ended December 31, 2018, and for the year ended December 31, 2018, compared to the year ended December 31, 2017.

(dollars in thousands)	Year Ended December 31, 2019 Compared with Year Ended December 31, 2018			Year Ended December 31, 2018 Compared with Year Ended December 31, 2017		
	Change Due To:		Interest Variance	Change Due To:		Interest Variance
	Volume	Rate		Volume	Rate	
Interest Earning Assets:						
Cash Investments	255	250	505	(21)	45	24
<i>Investment Securities:</i>						
Taxable Investment Securities	455	1,021	1,476	507	479	986
Tax Exempt Investment Securities	(645)	142	(503)	(663)	(796)	(1,459)
Total Securities	(190)	1,163	973	(156)	(317)	(473)
Loans	15,425	1,394	16,819	15,990	2,019	18,009
Federal Home Loan Bank Stock	63	86	149	55	79	134
Total Interest Earning Assets	<u>\$ 15,553</u>	<u>\$ 2,893</u>	<u>\$ 18,446</u>	<u>\$ 15,868</u>	<u>\$ 1,826</u>	<u>\$ 17,694</u>
Interest Bearing Liabilities:						
Interest Bearing Transaction Deposits	165	834	999	38	208	246
Savings and Money Market Deposits	807	2,259	3,066	753	1,710	2,463
Time Deposits	938	1,710	2,648	200	1,171	1,371
Brokered Deposits	615	697	1,312	697	1,475	2,172
Federal Funds Purchased	(478)	27	(451)	160	308	468
Notes Payable	(75)	(18)	(93)	(74)	12	(62)
FHLB Advances	1,069	620	1,689	407	431	838
Subordinated Debentures	7	(19)	(12)	754	65	819
Total Interest Bearing Liabilities	<u>3,048</u>	<u>6,110</u>	<u>9,158</u>	<u>2,935</u>	<u>5,380</u>	<u>8,315</u>
Net Interest Income	<u>\$ 12,505</u>	<u>\$ (3,217)</u>	<u>\$ 9,288</u>	<u>\$ 12,933</u>	<u>\$ (3,554)</u>	<u>\$ 9,379</u>

Interest Income, Interest Expense, and Net Interest Margin

2019 Compared to 2018

Net interest income was \$74.1 million for the year ended December 31, 2019, an increase of \$9.4 million, or 14.5%, compared to \$64.7 million for the year ended December 31, 2018. The increase in net interest income was largely attributable to growth in average interest earning assets, particularly strong organic growth in the loan portfolio.

Net interest margin (on a fully tax-equivalent basis) for the year ended December 31, 2019 was 3.59%, compared to 3.72% for the year ended December 31, 2018, a decrease of 13 basis points. While net interest margin has benefitted from the repricing of variable rate loans and the origination of new loans at higher rates, this was outpaced by increased balances and rates on deposits and borrowings.

Average interest earning assets for the year ended December 31, 2019 increased \$324.7 million, or 18.4%, to \$2.09 billion from \$1.77 billion for the year ended December 31, 2018. This increase in average interest earning assets was due to continued organic growth in the loan portfolio as a result of increased loan production. Average interest bearing liabilities increased \$217.2 million, or 17.5%, to \$1.46 billion for the year ended December 31, 2019, from \$1.24 billion for the year ended December 31, 2018. The increase in average interest bearing liabilities was due to an increase in interest bearing deposits and FHLB advances, partially offset by a decrease in federal funds purchased and notes payable.

Average interest earning assets produced a tax-equivalent yield of 5.01% for year ended December 31, 2019, compared to 4.88% for the year ended December 31, 2018. The average rate paid on interest bearing liabilities was 2.03% for the year ended December 31, 2019, compared to 1.65% for the year ended December 31, 2018.

Interest Income. Total interest income on a tax-equivalent basis was \$104.7 million for the year ended December 31, 2019, compared to \$86.2 million for the year ended December 31, 2018. The \$18.4 million, or 21.4%, increase in total interest income on a tax-equivalent basis was primarily due to strong organic growth in the loan portfolio and an increase in the average yield on loans.

Interest income on cash investments increased \$505,000, or 202.0%, for the year ended December 31, 2019, compared to the year ended December 31, 2018, due to increased liquidity, which resulted from strong deposit growth. Interest income on the investment securities portfolio on a fully-tax equivalent basis increased \$974,000, or 12.6%, for the year ended December 31, 2019, compared to the year ended December 31, 2018, primarily due to a 33 basis point increase in the aggregate portfolio yield.

Interest income on loans for the year ended December 31, 2019 was \$94.9 million, compared to \$78.0 million for the year ended December 31, 2018. The \$16.8 million, or 21.6%, increase was due to a \$294.8 million, or 19.8%, increase in the average balance of loans outstanding and an 8 basis point increase in the average yield on loans. The increase in the average balance of loans outstanding was due to organic loan growth. The increase in yield on the loan portfolio resulted primarily from strong loan growth at yields accretive to the existing portfolio yield and has enabled the Company to offset the decreases in loan fee income. While deferred fees are regularly amortized into income, fluctuations in the level of loan fees recognized can vary based on prepayments and other factors.

The following table presents a summary of interest and fees recognized on loans for the years ended December 31, 2019, 2018 and 2017:

	For the year ended December 31,		
	2019	2018	2017
Interest	5.06 %	4.85 %	4.67 %
Fees	0.25	0.38	0.43
Yield on Loans	<u>5.31 %</u>	<u>5.23 %</u>	<u>5.10 %</u>

Interest Expense. Interest expense on interest bearing liabilities increased \$9.2 million, or 44.7%, to \$29.6 million for the year ended December 31, 2019, compared to \$20.5 million for the year ended December 31, 2018, due to increases in market interest rates and growth in average balances of both deposits and borrowings, partially offset by a decrease in average balances of federal funds purchased.

Interest expense on deposits increased to \$24.0 million for the year ended December 31, 2019, compared to \$16.0 million for the year ended December 31, 2018. The \$8.0 million, or 50.2%, increase in interest expense on deposits was primarily due to the average balance of interest bearing deposits increasing \$189.9, or 17.4%, combined with a 41 basis point increase in the average rate paid. The increase in the average balance of interest bearing deposits resulted primarily from increases in interest bearing transaction deposits, savings and money market deposits, time deposits and brokered deposits. The increase in the average rate paid was primarily due to the impact of higher market interest rates demanded on deposits in the local and wholesale markets.

Interest expense on borrowings increased \$1.1 million to \$5.7 million for the year ended December 31, 2019, compared to \$4.5 million for the year ended December 31, 2018. This increase was primarily due to increased rates and average balances of FHLB advances, offset in part by a reduction in interest expense on federal funds purchased and notes payable as a result of a decrease in the average balances of these types of borrowings.

2018 Compared to 2017

Net interest income was \$64.7 million for the year ended December 31, 2018, an increase of \$10.6 million, or 19.5%, compared to \$54.2 million for the year ended December 31, 2017. The increase in net interest income was largely attributable to growth in average interest earning assets, particularly strong organic growth in the loan portfolio.

Net interest margin (on a fully tax-equivalent basis) for the year ended December 31, 2018 was 3.72%, compared to 3.92% for the year ended December 31, 2017, a decrease of 20 basis points. While net interest margin benefitted from the repricing of variable rate loans and the origination of new loans at higher rates, this was outpaced by increased balances and rates on deposits and borrowings. Furthermore, the lower statutory federal tax rate reduced the net interest income tax equivalent adjustment by six basis points.

Average interest earning assets for the year ended December 31, 2018 increased \$327.0 million, or 22.7%, to \$1.77 billion from \$1.44 billion for the year ended December 31, 2017. This increase in average interest earning assets was due to continued organic growth in the loan portfolio as a result of increased loan production. Average interest bearing liabilities increased \$223.5 million, or 21.9%, to \$1.24 billion for the year ended December 31, 2018, from \$1.02 billion for the year ended December 31, 2017. The increase in average interest bearing liabilities was due to an increase in interest bearing deposits, federal funds purchased, FHLB advances, and the issuance of \$25.0 million of subordinated debentures in July of 2017.

Average interest earning assets produced a tax-equivalent yield of 4.88% for year ended December 31, 2018, compared to 4.76% for the year ended December 31, 2017. The average rate paid on interest bearing liabilities was 1.65% for the year ended December 31, 2018, compared to 1.19% for the year ended December 31, 2017.

Interest Income. Total interest income on a tax-equivalent basis was \$86.2 million for the year ended December 31, 2018, compared to \$68.5 million for the year ended December 31, 2017. The \$17.7 million, or 25.8%, increase in total interest income on a tax-equivalent basis was primarily due to organic growth in the loan portfolio.

Interest income on loans for the year ended December 31, 2018 was \$78.0 million, compared to \$60.0 million for the year ended December 31, 2017. The \$18.0 million, or 30.0%, increase was due to a 26.6% increase in the average balance of loans outstanding and a 13 basis point increase in the average yield on loans. The increase in the average balance of loans outstanding was due to organic loan growth. The increase in yield on the loan portfolio resulted primarily from repricing of variable rate loans and new loan production at yields accretive to the existing portfolio yield. Interest income on the investment securities portfolio on a fully-tax equivalent basis decreased \$473,000, or 5.8%, during the year ended December 31, 2018 compared to the year ended December 31, 2017, despite a \$13.6 million increase in average balances between the periods.

Interest Expense. Interest expense on interest bearing liabilities increased \$8.3 million, or 68.3%, to \$20.5 million for the year ended December 31, 2018, compared to \$12.2 million for the year ended December 31, 2017, due to increases in interest rates and average balances of both deposits and borrowings.

Interest expense on deposits increased to \$16.0 million for the year ended December 31, 2018, compared to \$9.7 million for the year ended December 31, 2017. The \$6.3 million, or 64.3%, increase in interest expense on deposits was primarily due to the average balance of deposits increasing 18.8% combined with a 40 basis point increase in the average rate paid. The increase in the average balance of deposits resulted primarily from increases in savings and money market deposits, time deposits, and brokered deposits. The increase in the average rate paid was primarily due to the impact of higher market interest rates demanded on deposits in the local and wholesale markets.

Interest expense on borrowings increased \$2.1 million to \$4.5 million for the year ended December 31, 2018, compared to \$2.5 million for the year ended December 31, 2017. This increase was primarily due to increased rates and average balances of federal funds purchased and FHLB advances, offset in part by a reduction in interest expense on notes payable as a result of a decreased principal balance.

Provision for Loan Losses

2019 Compared to 2018

The allowance for loan losses increased \$2.5 million as of December 31, 2019, compared to December 31, 2018, reflecting a provision for loan losses of \$2.7 million and net charge-offs of \$205,000 during 2019. The provision for loan losses was \$2.7 million for the year ended December 31, 2019, a decrease of \$875,000, compared to the provision for loan losses of \$3.6 million for the year ended December 31, 2018, due primarily to continued strength in credit quality and consistent performance of the loan portfolio.

The allowance for loan losses at December 31, 2019 represented 1.18% of gross loans outstanding, compared to 1.20% at December 31, 2018.

2018 Compared to 2017

The allowance for loan losses increased \$3.5 million as of December 31, 2018, compared to December 31, 2017, reflecting a provision for loan losses of \$3.6 million and net charge-offs of \$46,000 during 2018. The provision for loan losses was \$3.6 million for the year ended December 31, 2018, a decrease of \$600,000, compared to the provision for loan losses of \$4.2 million for the year ended December 31, 2017, due primarily to continued strength in credit quality.

The allowance for loan losses at December 31, 2018 represented 1.20% of gross loans outstanding, compared to 1.22% at December 31, 2017.

The following table presents a summary of the activity in the allowance for loan losses for the years ended December 31, 2019, 2018, and 2017:

(dollars in thousands)	Year Ended		
	December 31, 2019	December 31, 2018	December 31, 2017
Balance at Beginning of Period	\$ 20,031	\$ 16,502	\$ 12,333
Provision for Loan Losses	2,700	3,575	4,175
Charge-offs	(388)	(421)	(177)
Recoveries	183	375	171
Balance at End of Period	<u>\$ 22,526</u>	<u>\$ 20,031</u>	<u>\$ 16,502</u>

Noninterest Income

2019 Compared to 2018

Noninterest income was \$3.8 million for the year ended December 31, 2019, compared to \$2.5 million for the year ended December 31, 2018, an increase of \$1.3 million, or 50.5%. The increase was primarily due to an increase in

gains on sales of securities and foreclosed assets and an increase in swap fees, partially offset by decreased letter of credit fees.

2018 Compared to 2017

Noninterest income was \$2.5 million for the years ended December 31, 2018 and 2017, an increase of \$7,000. The marginal increase was largely due to increased fees related to customer deposit accounts as a result of the overall increase in the number of our deposit clients, increased fees earned for letters of credit due to increased volume, and a decrease in losses on sales of securities. This activity was offset by an increased loss on sales of foreclosed assets.

The following table presents the major components of noninterest income for the year ended December 31, 2019, compared to the year ended December 31, 2018, and for the year ended December 31, 2018, compared to the year ended December 31, 2017:

(dollars in thousands)	Year Ended December 31,		Increase/ (Decrease)	Year Ended December 31,		Increase/ (Decrease)
	2019	2018		2018	2017	
Noninterest Income:						
Customer Service Fees	\$ 760	\$ 745	\$ 15	\$ 745	\$ 660	\$ 85
Net Gain (Loss) on Sales of Securities	516	(125)	641	(125)	(250)	125
Net Gain (Loss) on Sales of Foreclosed Assets	69	(225)	294	(225)	356	(581)
Letter of Credit Fees	1,184	1,296	(112)	1,296	1,072	224
Debit Card Interchange Fees	418	391	27	391	390	1
Swap Fees	255	—	255	—	—	—
Other Income	624	461	163	461	308	153
Totals	<u>\$ 3,826</u>	<u>\$ 2,543</u>	<u>\$ 1,283</u>	<u>\$ 2,543</u>	<u>\$ 2,536</u>	<u>\$ 7</u>

Noninterest Expense

2019 Compared to 2018

Noninterest expense totaled \$36.9 million for the year ended December 31, 2019, a \$5.4 million, or 17.0% increase from \$31.6 million for the year ended December 31, 2018. The increase was primarily driven by a \$3.5 million increase in salaries and employee benefits as the result of merit increases and increased staff to meet the needs of the Company's growth, a \$734,000 increase in occupancy and equipment and a \$565,000 increase in professional and consulting fees. The increases were partially offset by a decrease of \$180,000 in FDIC Insurance Assessment due to a credit from the FDIC for a portion of premiums previously paid to the DIF that became refundable when the DIF exceeded 1.38% of insured deposits, which occurred during the year ended December 31, 2019. The Company has no remaining credits as of December 31, 2019.

Full-time equivalent employees increased from 140 as of December 31, 2018, to 160 as of December 31, 2019. The increase includes key strategic hires in deposit gathering roles, lending, information technology and other supportive functions as the Company continues to attract talent and capitalize on the M&A disruption in its market area.

Efficiency Ratio. The efficiency ratio, a non-GAAP financial measure, reports total noninterest expense, less amortization of intangible assets, as a percentage of net interest income plus total noninterest income less gains (losses) on sales of securities. Management believes this non-GAAP financial measure provides a meaningful comparison of operational performance and facilitates investors' assessments of business performance and trends in comparison to peers in the banking industry. The Company's efficiency ratio, and its comparability to some peers, is negatively impacted by the amortization of tax credit investments within noninterest expense.

The efficiency ratio was 47.4% for the year ended December 31, 2019, a marginal increase over 46.5% for the year ended December 31, 2018. The amortization of tax credit investments elevated the level of operating expenses in

both years, and while the recognition of the tax credits increases operating expenses, and concurrently the efficiency ratio, it directly reduces income tax expense and the effective tax rate. The adjusted efficiency ratio, a non-GAAP financial measure, which excludes the impact of the amortization of tax credit investments, increased slightly to 43.3% for the year ended December 31, 2019, compared to 41.7% for the year ended December 31, 2018.

2018 Compared to 2017

Noninterest expense totaled \$31.6 million for the year ended December 31, 2018, a \$6.1 million, or 23.8% increase from \$25.5 million for the year ended December 31, 2017. The increase was primarily driven by a \$4.6 million increase in salaries and employee benefits as the result of merit increases and increased staff to meet the needs of the Company's growth, a \$1.4 million increase in amortization of tax credit investments, a \$261,000 increase in information technology and telecommunication expenses to support the Company's growing infrastructure, and a \$359,000 increase in marketing expenses to increase brand recognition in its market area. The increases were partially offset by a decrease of \$1.1 million in professional and consulting fees due to higher expenses incurred during 2017 for preparation of the Company's initial public offering, in comparison to 2018.

Full-time equivalent employees increased from 114 as of December 31, 2017, to 140 as of December 31, 2018.

Efficiency Ratio. The efficiency ratio was 46.5% for the year ended December 31, 2018, a marginal increase over 44.4% for the year ended December 31, 2017. The amortization of tax credit investments elevated the level of operating expenses in both years, and while the recognition of the tax credits increases operating expenses, and concurrently the efficiency ratio, it directly reduces income tax expense and the effective tax rate. The adjusted efficiency ratio, a non-GAAP financial measure, which excludes the impact of the amortization of tax credit investments, remained generally consistent at 41.7% for the year ended December 31, 2018, compared to 41.1% for the year ended December 31, 2017.

The following table presents the major components of noninterest expense for the year ended December 31, 2019, compared to the year ended December 31, 2018, and the year ended December 31, 2018, compared to the year ended December 31, 2017:

(dollars in thousands)	Year Ended December 31,		Increase/ (Decrease)	Year Ended December 31,		Increase/ (Decrease)
	2019	2018		2018	2017	
Noninterest Expense:						
Salaries and Employee Benefits	\$ 22,076	\$ 18,620	\$ 3,456	\$ 18,620	\$ 14,051	\$ 4,569
Occupancy and Equipment	3,085	2,351	734	2,351	2,192	159
FDIC Insurance Assessment	735	915	(180)	915	770	145
Data Processing.	647	470	177	470	592	(122)
Professional and Consulting Fees	1,690	1,125	565	1,125	2,198	(1,073)
Information Technology and Telecommunications . .	996	932	64	932	671	261
Marketing and Advertising	1,507	1,342	165	1,342	983	359
Intangible Asset Amortization	191	191	—	191	191	—
Amortization of Tax Credit Investments.	3,225	3,293	(68)	3,293	1,916	1,377
Other Expense.	2,780	2,323	457	2,323	1,932	391
Totals.	<u>\$ 36,932</u>	<u>\$ 31,562</u>	<u>\$ 5,370</u>	<u>\$ 31,562</u>	<u>\$ 25,496</u>	<u>\$ 6,066</u>

The Company expects future increases in noninterest expense as the Company continues investing in infrastructure to support balance sheet growth. Management remains focused on supporting growth primarily by adding to staff, investing in technology, and by enhancing risk controls. At the same time, management seeks to contain costs whenever prudent, which is evident in the stable nature of the efficiency ratio.

Income Tax Expense

The provision for income taxes includes both federal and state taxes. Fluctuations in effective tax rates reflect the differences in the inclusion or deductibility of certain income and expenses for income tax purposes. The Company's future effective income tax rate will fluctuate based on the mix of taxable and tax-free investments and loans, the recognition and availability of tax credit investments, and overall taxable income.

2019 Compared to 2018

Income tax expense was \$6.9 million for the year ended December 31, 2019, compared to \$5.2 million for the year ended December 31, 2018. The effective combined federal and state income tax rate for the year ended December 31, 2019 was 18.1%, compared to 16.3% for the year ended December 31, 2018. The higher effective combined rate was primarily due to fewer tax credits being recognized during 2019.

The recognition of tax credit investments significantly impacts the Company's effective tax rate. Excluding the impact of tax credit investments, the effective combined federal and state income tax rate for the year ended December 31, 2019 was 24.8%.

2018 Compared to 2017

In the prior period, comparability is impacted by the enactment of the Tax Cuts and Jobs Act on December 22, 2017. The legislation reduced the federal corporate tax rate from 35% in 2017 and periods prior to 21% starting in 2018 and required the Company to charge a one-time revaluation of the deferred tax asset of \$2.0 million to the provision for income taxes.

Income tax expense was \$5.2 million for the year ended December 31, 2018, compared to \$10.1 million for the year ended December 31, 2017. The effective combined federal and state income tax rate for the year ended December 31, 2018 was 16.3%, compared to 37.5% for the year ended December 31, 2017. The lower effective combined rate was primarily due to the recognition of \$3.8 million of tax credit investments and reduction in the federal corporate tax rate. Excluding the impact of tax credit investments, the effective combined federal and state income tax rate for the year ended December 31, 2018 was 25.5%.

Financial Condition

Overview

Total assets at December 31, 2019 were \$2.27 billion, an increase of \$295.1 million, or 15.0%, from December 31, 2018. Total gross loans were \$1.91 billion, an increase of \$247.1 million, or 14.8%, from December 31, 2018. Securities available for sale were \$289.9 million at December 31, 2019, an increase of \$36.5 million, or 14.4%, from December 31, 2018.

Total liabilities at December 31, 2019 were \$2.02 billion, an increase of \$271.3 million, or 15.5%, from December 31, 2018. Total deposits increased \$262.4 million, or 16.8%, from December 31, 2018. Total borrowings were \$174.2 million, a decrease of \$7.4 million, or 4.1%, from December 31, 2018.

Investment Securities Portfolio

The investment securities portfolio is used to make various term investments and is intended to provide the Company with adequate liquidity, a source of stable income, and at times, serve as collateral for certain types of deposits. Investment balances in the investment securities portfolio are subject to change over time based on funding needs and interest rate risk management objectives. The liquidity levels take into account anticipated future cash flows and are maintained at levels management believes are appropriate to assure future flexibility in meeting anticipated funding needs.

The investment securities portfolio consists primarily of municipal securities, U.S. government agency mortgage-backed securities, Small Business Administration, or SBA, securities, and corporate securities comprised of subordinated debentures of bank and financial holding companies. In addition, the Company also holds U.S. treasury securities, asset-backed securities and other debt securities, all with varying contractual maturities. These maturities do not necessarily represent the expected life of the securities as the securities may be called or paid down without penalty prior to their stated maturities. All investment securities are held as available for sale.

Securities available for sale were \$289.9 million at December 31, 2019, compared to \$253.4 million at December 31, 2018, an increase of \$36.5 million, or 14.4%. At December 31, 2019, municipal securities represented 36.5% of the investment securities portfolio, government agency mortgage-backed securities represented 22.0% of the portfolio, SBA securities represented 17.1% of the portfolio, corporate securities represented 17.3% of the portfolio, U.S. treasury securities represented 1.7% of the portfolio, asset-backed securities represented 5.0% of the portfolio, and other commercial mortgage-backed securities represented 0.4% of the portfolio. The following table presents the amortized cost and fair value of securities available for sale, by type, at December 31, 2019, 2018 and 2017.

	December 31, 2019		December 31, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury Securities	\$ 4,990	\$ 4,998	\$ 17,862	\$ 17,897	\$ —	\$ —
SBA Securities	50,126	49,559	49,876	49,054	45,368	45,383
Mortgage-Backed Securities Issued or Guaranteed by U.S. Agencies (MBS):						
Residential Pass-Through:						
Guaranteed by GNMA	1,195	1,215	6,357	6,137	7,080	6,940
Issued by FNMA and FHLMC	3,571	3,543	314	314	11,340	11,272
Other Residential Mortgage-Backed Securities	46,464	46,695	25,252	24,539	29,516	28,834
Commercial Mortgage-Backed Securities	12,019	12,213	15,443	14,736	12,121	11,748
All Other Commercial MBS	1,063	1,062	1,450	1,450	1,888	1,887
Total MBS	<u>64,312</u>	<u>64,728</u>	<u>48,816</u>	<u>47,176</u>	<u>61,945</u>	<u>60,681</u>
Municipal Securities	99,441	105,743	117,991	118,133	115,784	118,320
Corporate Securities	49,674	50,176	21,170	21,118	5,052	5,107
Asset-Backed Securities	14,673	14,673	—	—	—	—
Total	<u>\$ 283,216</u>	<u>\$ 289,877</u>	<u>\$ 255,715</u>	<u>\$ 253,378</u>	<u>\$ 228,149</u>	<u>\$ 229,491</u>

The following tables present the fair value of securities as of December 31, 2019 and 2018 by their stated maturities, as well as the fully tax-equivalent yields for each maturity range.

	Maturity as of December 31, 2019							
	Due in One Year or Less		More Than One Year to Five Years		More Than Five Years to Ten Years		Due After Ten Years	
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
U.S. Treasury Securities . . .	\$ 4,998	2.56 %	\$ —	— %	\$ —	— %	\$ —	— %
SBA Securities	—	—	1,770	3.16	22,550	2.58	25,239	2.83
Mortgage-Backed Securities								
Issued or Guaranteed by								
U.S. Agencies (MBS):								
Residential Pass-Through:								
Guaranteed by GNMA .	—	—	—	—	—	—	1,215	2.87
Issued by FNMA and								
FHLMC	—	—	65	3.19	71	3.23	3,407	2.78
Other Residential								
Mortgage-Backed								
Securities	—	—	85	1.88	149	3.11	46,461	2.58
Commercial								
Mortgage-Backed								
Securities	—	—	—	—	10,622	2.68	1,591	2.41
All Other Commercial								
MBS	—	—	—	—	—	—	1,062	3.52
Total MBS	—	—	150	2.45	10,842	2.69	53,736	2.61
Municipal Securities	917	3.99	8,704	4.22	26,911	4.20	69,211	4.05
Corporate Securities	1,254	2.37	11,372	4.46	36,550	4.88	1,000	5.25
Asset-Backed Securities . . .	—	—	—	—	—	—	14,673	2.90
Total	<u>\$ 7,169</u>	<u>2.71 %</u>	<u>\$ 21,996</u>	<u>4.25 %</u>	<u>\$ 96,853</u>	<u>3.91 %</u>	<u>\$ 163,859</u>	<u>3.30 %</u>

	Maturity as of December 31, 2018							
	Due in One Year or Less		More Than One Year to Five Years		More Than Five Years to Ten Years		Due After Ten Years	
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
U.S. Treasury Securities	\$ 9,940	2.36 %	\$ 7,957	2.75 %	\$ —	— %	\$ —	— %
SBA Securities	—	—	901	3.66	15,961	3.12	32,192	3.34
Mortgage-Backed Securities Issued or Guaranteed by U.S. Agencies (MBS):								
Residential								
Pass-Through:								
Guaranteed by								
GNMA	—	—	—	—	—	—	6,137	2.53
Issued by FNMA and GHLMC	—	—	—	—	314	2.82	—	—
Other Residential Mortgage-Backed Securities	109	0.91	43	2.84	309	2.28	24,078	2.81
Commercial Mortgage-Backed Securities	—	—	2,525	1.72	6,825	2.61	5,386	2.84
All Other Commercial MBS	—	—	—	—	—	—	1,450	3.52
Total MBS	<u>109</u>	<u>0.91</u>	<u>2,568</u>	<u>1.74</u>	<u>7,448</u>	<u>2.61</u>	<u>37,051</u>	<u>2.80</u>
Municipal Securities	704	3.66	9,401	3.64	30,403	4.18	77,625	4.00
Corporate Securities	—	—	—	—	21,118	5.26	—	—
Total	<u>\$ 10,753</u>	<u>2.43 %</u>	<u>\$ 20,827</u>	<u>3.07 %</u>	<u>\$ 74,930</u>	<u>4.10 %</u>	<u>\$ 146,868</u>	<u>3.55 %</u>

Loan Portfolio

The Company focuses on lending to borrowers located or investing in the Twin Cities MSA across a diverse range of industries and property types. The Company lends primarily to commercial customers, consisting of loans secured by nonfarm, nonresidential properties, loans secured by multifamily residential properties, construction loans, land development loans, and commercial and industrial loans. Responsive service, local decision making, and an efficient turnaround time from application to closing have been significant factors in growing the loan portfolio.

The Company manages concentrations of credit exposure through a comprehensive program which implements formalized processes and procedures specifically for managing and mitigating risk within the loan portfolio. The processes and procedures include board and management oversight, CRE exposure limits, portfolio monitoring tools, management information systems, market reports, underwriting standards, a credit risk review function, and periodic stress testing to evaluate potential credit risk and the subsequent impact on capital and earnings.

The Company originated net loan exposures of \$954.7 million for the year ended December 31, 2019 and \$1.1 billion for the year ended December 31, 2018. Net loan exposures include principal advances and unfunded commitments, net of loan participations sold. Total gross loans increased \$247.1 million, or 14.8%, to \$1.91 billion at December 31, 2019, compared to \$1.66 billion at December 31, 2018. The multifamily, CRE nonowner occupied and 1-4 family mortgage categories contributed most significantly to the \$247.1 million growth. As of December 31, 2019, multifamily loans increased \$107.1 million, or 26.2%, nonowner occupied CRE loans increased \$101.9 million, or 20.8%, and 1-4 family mortgage loans increased \$33.8 million, or 14.9%, when compared to December 31, 2018.

The following table presents the dollar and percentage composition of the loan portfolio by category, at the dates indicated:

(dollars in thousands)	December 31, 2019		December 31, 2018		December 31, 2017		December 31, 2016		December 31, 2015	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Commercial	\$ 276,035	14.5 %	\$ 260,833	15.7 %	\$ 217,753	16.2 %	\$ 132,592	13.2 %	\$ 103,905	13.0 %
Construction and Land Development	196,776	10.3	210,041	12.6	130,586	9.7	106,070	10.6	116,314	14.6
Real Estate Mortgage:										
1 - 4 Family Mortgage	260,611	13.6	226,773	13.6	195,707	14.5	178,815	17.9	143,232	17.9
Multifamily	515,014	26.9	407,934	24.5	317,872	23.6	205,250	20.5	168,458	21.1
CRE Owner Occupied	66,584	3.5	64,458	3.9	65,909	4.9	62,347	6.2	48,917	6.1
CRE Nonowner Occupied	592,545	31.0	490,632	29.5	415,034	30.8	311,835	31.2	215,995	27.0
Total Real Estate Mortgage Loans	1,434,754	75.0	1,189,797	71.5	994,522	73.8	758,247	75.8	576,602	72.1
Consumer and Other	4,473	0.2	4,260	0.2	4,252	0.3	3,830	0.4	2,676	0.3
Total Loans, Gross	1,912,038	100.0 %	1,664,931	100.0 %	1,347,113	100.0 %	1,000,739	100.0 %	799,497	100.0 %
Allowance for Loan Losses	(22,526)		(20,031)		(16,502)		(12,333)		(10,052)	
Net Deferred Loan Fees	(5,512)		(4,515)		(4,104)		(3,266)		(2,686)	
Total Loans, Net	<u>\$ 1,884,000</u>		<u>\$ 1,640,385</u>		<u>\$ 1,326,507</u>		<u>\$ 985,140</u>		<u>\$ 786,759</u>	

The Company's primary focus has been on real estate mortgage lending, which constituted 75.0% of the portfolio as of December 31, 2019. The composition of the portfolio remained consistent with prior periods and although the Company expects continued growth, it does not expect any significant changes in the foreseeable future in the composition of the loan portfolio or in the emphasis on real estate lending.

As of December 31, 2019, CRE loans totaled \$1.30 billion, consisting of \$592.5 million of loans secured by nonowner occupied CRE, \$515.0 million of loans secured by multifamily residential properties and \$196.8 million of construction and land development loans. CRE loans represented 68.2% of the total gross loan portfolio and 516.6% of the Bank's total risk-based capital at December 31, 2019.

The following table presents time to contractual maturity and sensitivity to interest rate changes for the loan portfolio at December 31, 2019 as of such date:

(dollars in thousands)	As of December 31, 2019		
	Due in One Year or Less	More Than One Year to Five Years	After Five Years
Commercial	\$ 121,383	\$ 119,575	\$ 35,077
Construction and Land Development	132,221	53,194	11,361
Real Estate Mortgage:			
1 - 4 Family Mortgage	53,707	170,116	36,788
Multifamily	117,406	168,770	228,838
CRE Owner Occupied	4,078	25,286	37,220
CRE Nonowner Occupied	114,533	234,599	243,413
Total Real Estate Mortgage Loans	289,724	598,771	546,259
Consumer and Other	1,589	2,420	464
Total Loans, Gross	<u>\$ 544,917</u>	<u>\$ 773,960</u>	<u>\$ 593,161</u>
Interest Rate Sensitivity:			
Fixed Interest Rates	\$ 184,370	\$ 545,855	\$ 197,151
Floating or Adjustable Rates	360,547	228,105	396,010
Total Loans, Gross	<u>\$ 544,917</u>	<u>\$ 773,960</u>	<u>\$ 593,161</u>

Asset Quality

The Company emphasizes credit quality in the originating and monitoring of the loan portfolio, and success in underwriting is measured by the levels of classified and nonperforming assets and net charge-offs.

Federal regulations and internal policies require the use of an asset classification system as a means of managing and reporting problem and potential problem assets. The Company has incorporated an internal asset classification system, substantially consistent with federal banking regulations, as a part of the credit monitoring system. Federal banking regulations set forth a classification scheme for problem and potential problem assets as “substandard,” “doubtful” or “loss” assets. An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the insured institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are required to be designated “watch.”

The following table presents information on loan classifications at December 31, 2019. The Company had no assets classified as doubtful or loss.

(dollars in thousands)	Risk Category		Total
	Watch	Substandard	
Commercial	\$ 21	\$ 273	\$ 294
Construction and Land Development	138	176	314
Real Estate Mortgage:			
1 - 4 Family Mortgage	2,028	1,059	3,087
CRE Owner Occupied	—	1,173	1,173
CRE Nonowner Occupied	3,088	—	3,088
Total Real Estate Mortgage Loans	5,116	2,232	7,348
Consumer and Other	—	14	14
Totals.	<u>\$ 5,275</u>	<u>\$ 2,695</u>	<u>\$ 7,970</u>

Nonperforming Assets

Nonperforming loans include loans accounted for on a nonaccrual basis and loans 90 days past due and still accruing. Nonperforming assets consist of nonperforming loans plus foreclosed assets. Nonaccrual loans totaled \$461,000 at December 31, 2019 and \$581,000 at December 31, 2018, a decrease of \$120,000. There were no loans 90 days past due and still accruing as of December 31, 2019 and 2018. There were no foreclosed assets as of December 31, 2019 and 2018.

The following table presents a summary of nonperforming assets, by category, at the dates indicated:

(dollars in thousands)	December 31,				
	2019	2018	2017	2016	2015
Nonaccrual Loans:					
Commercial.....	\$ 7	\$ 8	\$ 9	\$ 15	\$ 98
Construction and Land Development	176	198	583	604	615
Real Estate Mortgage:					
1 - 4 Family Mortgage.....	278	317	472	805	1,029
CRE Owner Occupied.....	—	—	—	—	596
CRE Nonowner Occupied.....	—	—	—	801	—
Total Real Estate Mortgage Loans	278	317	472	1,606	1,625
Consumer and Other.....	—	58	75	98	—
Total Nonaccrual Loans.....	\$ 461	\$ 581	\$ 1,139	\$ 2,323	\$ 2,338
Total Nonperforming Loans.....	\$ 461	\$ 581	\$ 1,139	\$ 2,323	\$ 2,338
Plus: Foreclosed Assets.....	—	—	581	4,183	726
Total Nonperforming Assets ⁽¹⁾	\$ 461	\$ 581	\$ 1,720	\$ 6,506	\$ 3,064
Total Restructured Accruing Loans.....	276	181	2,178	3,286	4,270
Total Nonperforming Assets and Restructured Accruing Loans ...	\$ 737	\$ 762	\$ 3,898	\$ 9,792	\$ 7,334
Nonaccrual Loans to Total Loans	0.02 %	0.03 %	0.08 %	0.23 %	0.29 %
Nonperforming Loans to Total Loans	0.02	0.03	0.08	0.23	0.29
Nonperforming Assets to Total Loans Plus Foreclosed Assets ⁽¹⁾ ..	0.02	0.03	0.13	0.65	0.38
Nonperforming Assets and Restructured Accruing Loans to Total Loans Plus Foreclosed Assets	0.04	0.05	0.29	0.97	0.92

(1) Nonperforming assets are defined as nonaccrual loans and loans greater than 90 days past due still accruing plus foreclosed assets. There were no loans greater than 90 days past due still accruing for any period shown.

The balance of nonperforming assets can fluctuate due to changes in economic conditions. The Company has established a policy to discontinue accruing interest on a loan (that is, place the loan on nonaccrual status) after it has become 90 days delinquent as to payment of principal or interest, unless the loan is considered to be well-collateralized and is actively in the process of collection. In addition, a loan will be placed on nonaccrual status before it becomes 90 days delinquent unless management believes that the collection of interest is expected. Interest previously accrued but uncollected on such loans is reversed and charged against current income when the receivable is determined to be uncollectible. If management believes that a loan will not be collected in full, an increase to the allowance for loan losses is recorded to reflect management's estimate of any potential exposure or loss. Generally, payments received on nonaccrual loans are applied directly to principal. There are not any loans, outside of those included in the table above, that cause management to have serious doubts as to the ability of borrowers to comply with present repayment terms. Due to the low levels of nonaccrual loans, gross income that would have been recorded on nonaccrual loans is \$44,000.

Allowance for Loan Losses

The allowance for loan losses is a reserve established through charges to earnings in the form of a provision for loan losses. The Company maintains an allowance for loan losses at a level management considers adequate to provide for known and probable incurred losses in the portfolio. The level of the allowance is based on management's evaluation of estimated losses in the portfolio, after consideration of risk characteristics of the loans and prevailing and anticipated economic conditions. Loan charge-offs (i.e., loans judged to be uncollectible) are charged against the reserve and any subsequent recovery is credited to the reserve. The Company analyzes risks within the loan portfolio on a continual basis. A risk system, consisting of multiple grading categories for each portfolio class, is utilized as an analytical tool to assess risk and appropriate reserves. In addition to the risk system, management further evaluates risk characteristics of the loan portfolio under current and anticipated economic conditions and considers such factors as the financial condition of the borrower, past and expected loss experience, and other factors which management feels deserve recognition in establishing an appropriate reserve. These estimates are reviewed at least quarterly, and, as adjustments become necessary, they are recognized in the periods in which they become known. Although

management strives to maintain an allowance it deems adequate, future economic changes, deterioration of borrowers' creditworthiness, and the impact of examinations by regulatory agencies all could cause changes to the allowance for loan losses.

At December 31, 2019, the allowance for loan losses was \$22.5 million, an increase of \$2.5 million from \$20.0 million at December 31, 2018. Net charge-offs totaled \$205,000 during the year ended December 31, 2019 and \$46,000 during the year ended December 31, 2018. The allowance for loan losses as a percentage of total loans was 1.18% at December 31, 2019 and 1.20% at December 31, 2018.

The following presents a summary of the activity in the allowance for loan loss reserve for the periods indicated:

(dollars in thousands)	As of and for the year ended December 31,				
	2019	2018	2017	2016	2015
Balance, Beginning of Period	\$ 20,031	\$ 16,502	\$ 12,333	\$ 10,052	\$ 9,489
Charge-offs:					
Commercial	160	10	1	107	34
Construction and Land Development . . .	—	358	—	248	348
Real Estate Mortgage:					
1 - 4 Family Mortgage	195	21	—	1	662
CRE Owner Occupied	—	—	—	123	—
CRE Nonowner Occupied	—	—	111	613	—
Total Real Estate Mortgage Loans	195	21	111	737	662
Consumer and Other	33	32	65	22	—
Total Charge-offs	388	421	177	1,114	1,044
Recoveries:					
Commercial	8	25	5	101	1
Construction and Land Development . . .	1	285	24	8	29
Real Estate Mortgage:					
1 - 4 Family Mortgage	168	59	138	32	29
Multifamily	—	—	—	—	5
CRE Owner Occupied	—	—	—	—	28
Total Real Estate Mortgage Loans	168	59	138	32	62
Consumer and Other	6	6	4	4	15
Total Recoveries	183	375	171	145	107
Net Charge-offs	205	46	6	969	937
Provision for Loan Losses	2,700	3,575	4,175	3,250	1,500
Balance at End of Period	<u>\$ 22,526</u>	<u>\$ 20,031</u>	<u>\$ 16,502</u>	<u>\$ 12,333</u>	<u>\$ 10,052</u>
Gross Loans, End of Period	1,912,038	1,664,931	1,347,113	1,000,739	799,497
Average Loans	1,785,937	1,491,166	1,177,491	896,915	684,498
Net Charge-offs to Average Loans	0.01 %	0.00 %	0.00 %	0.11 %	0.14 %
Allowance to Total Gross Loans	1.18 %	1.20 %	1.22 %	1.23 %	1.26 %

The following table presents a summary of the allocation of the allowance for loan losses by loan portfolio segment for the periods indicated:

	December 31, 2019		December 31, 2018		December 31, 2017		December 31, 2016		December 31, 2015	
(dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Commercial	\$ 3,058	13.6 %	\$ 2,898	14.5 %	\$ 2,435	14.7 %	\$ 1,315	10.7 %	\$ 1,349	13.4 %
Construction and Land										
Development	2,202	9.8	2,451	12.2	1,892	11.5	1,379	11.2	1,708	17.0
Real Estate Mortgage:										
1 - 4 Family Mortgage	2,839	12.6	2,597	13.0	2,317	14.0	2,410	19.5	1,765	17.6
Multifamily	5,824	25.9	4,644	23.2	3,170	19.2	1,568	12.7	871	8.7
CRE Owner Occupied	792	3.5	808	4.0	956	5.8	1,160	9.4	1,019	10.1
CRE Nonowner Occupied	6,972	30.9	5,872	29.3	5,087	30.8	3,323	27.0	2,452	24.4
Total Real Estate Mortgage										
Loans	16,427	72.9	13,921	69.5	11,530	69.8	8,461	68.6	6,107	60.8
Consumer and Other	85	0.4	65	0.3	60	0.4	78	0.6	36	0.3
Unallocated	754	3.3	696	3.5	585	3.6	1,100	8.9	852	8.5
Total Allowance for Loan										
Losses	\$ 22,526	100.0 %	\$ 20,031	100.0 %	\$ 16,502	100.0 %	\$ 12,333	100.0 %	\$ 10,052	100.0 %

Goodwill and Other Intangible Assets

Goodwill was \$2.6 million at December 31, 2019 and 2018. Goodwill represents the excess of the consideration paid over the fair value of the net assets acquired, which originated from the acquisition of First National Bank of the Lakes in May of 2016. Goodwill is not amortized but is subject to, at a minimum, an annual test for impairment. Other intangible assets consist of core deposit relationships and favorable lease term intangibles. Total other intangible assets at December 31, 2019 and 2018 were \$861,000 and \$1.0 million, respectively. Other intangible assets are amortized over their estimated useful life.

Deposits

The principal sources of funds for the Company are core deposits, consisting of demand deposits, money market accounts, savings accounts, and certificates of deposit. The following table presents the dollar and percentage composition of the deposit portfolio by category, at the dates indicated:

	December 31, 2019		December 31, 2018		December 31, 2017		December 31, 2016		December 31, 2015	
(dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Noninterest Bearing										
Transaction Deposits	\$ 447,509	24.5 %	\$ 369,203	23.6 %	\$ 292,539	21.9 %	\$ 238,062	23.3 %	\$ 169,403	22.2 %
Interest Bearing										
Transaction Deposits	264,627	14.5	179,567	11.5	177,292	13.2	132,800	13.0	130,496	17.1
Savings and Money										
Market Deposits	516,785	28.3	402,639	25.8	369,942	27.6	239,084	23.4	152,848	20.1
Time Deposits	360,027	19.8	318,356	20.4	292,096	21.8	273,229	26.6	192,620	25.3
Brokered Deposits	234,362	12.9	291,169	18.7	207,481	15.5	140,333	13.7	116,515	15.3
Total Deposits	\$ 1,823,310	100.0 %	\$ 1,560,934	100.0 %	\$ 1,339,350	100.0 %	\$ 1,023,508	100.0 %	\$ 761,882	100.0 %

Total deposits at December 31, 2019 were \$1.82 billion, an increase of \$262.4 million, or 16.8%, compared to total deposits of \$1.56 billion at December 31, 2018. Noninterest bearing deposits were \$447.5 million at December 31, 2019, an increase of \$78.3 million, or 21.2%, compared to \$369.2 million at December 31, 2018. Noninterest bearing deposits comprised 24.5% of total deposits at December 31, 2019, compared to 23.6% at December 31, 2018.

The Company relies on increasing the deposit base to fund loan and other asset growth. The Company is in a highly competitive market and competes for local deposits by offering attractive products with competitive rates. The Company expects to have a higher average cost of funds for local deposits compared to competitor banks due to the lack of an extensive branch network. The Company's strategy is to offset the higher cost of funding with a lower level of operating expense. When appropriate, the Company utilizes alternative funding sources such as brokered deposits. At December 31, 2019, total brokered deposits were \$234.4 million or 12.9% of total deposits, compared to total brokered deposits of \$291.2 million, or 18.7% of total deposits at December 31, 2018. The decrease in brokered deposits as a percentage of total deposits was primarily attributable to the Company's success in growing core deposits. Furthermore, the core deposit growth supported a strategy whereby the Company was able to exercise embedded call features on higher rate, brokered time deposits during the year ended December 31, 2019. The Company exercised the embedded optionality to decrease brokered deposit exposure, reissue brokered time deposits at lower rates, and utilize other funding sources, such as FHLB advances.

The following table presents the average balance and average rate paid on each of the following deposit categories for the years ended December 31, 2019, 2018, and 2017:

	As of and for the Year Ended December 31, 2019		As of and for the Year Ended December 31, 2018		As of and for the Year Ended December 31, 2017	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
(dollars in thousands)						
Noninterest Bearing Transaction Deposits ..	\$ 414,377	— %	\$ 330,898	— %	\$ 299,232	— %
Interest Bearing Transaction Deposits	223,376	0.73	177,335	0.36	161,454	0.24
Savings and Money Market Deposits	447,040	1.73	381,318	1.23	284,641	0.78
Time Deposits < \$250,000	232,310	2.30	196,235	1.93	181,871	1.62
Time Deposits > \$250,000	116,838	2.61	103,786	1.87	104,969	1.35
Brokered Deposits	261,023	2.39	232,022	2.12	185,144	1.49
Total Deposits	<u>\$ 1,694,964</u>	1.42 %	<u>\$ 1,421,594</u>	1.12 %	<u>\$ 1,217,311</u>	0.80 %

The following table presents time deposits, including brokered time deposits, of \$100,000 or more, by time remaining until maturity.

	December 31, 2019
(dollars in thousands)	
Three Months or Less	\$ 78,005
Over Three Months through Six Months	56,588
Over Six Months through 12 Months	150,083
Over 12 Months	223,927
Totals	<u>\$ 508,603</u>

Borrowed Funds

Federal Funds Purchased

In addition to deposits, the Company utilizes overnight borrowings to meet the daily liquidity needs of clients and fund loan growth. The following table presents a summary of overnight borrowings, which consist of federal funds purchased from correspondent banks on an overnight basis at the prevailing overnight market rates and the weighted average interest rates paid for the periods presented:

(dollars in thousands)	As of and for the year ended December 31,		
	2019	2018	2017
Outstanding at Period-End	\$ —	\$ 18,000	\$ 23,000
Average Amount Outstanding	7,433	29,671	15,247
Maximum Amount Outstanding at any Month-End	87,000	90,000	39,000
Weighted Average Interest Rate:			
During Period	2.50 %	2.15 %	1.11 %
End of Period	1.73 %	2.63 %	1.63 %

Other Borrowings

At December 31, 2019, other borrowings outstanding consisted of FHLB advances of \$136.5 million and notes payable of \$13.0 million. The Company's borrowing capacity at the FHLB is determined based on collateral pledged, generally consisting of loans. The Company had additional borrowing capacity under this credit facility of \$209.8 million and \$122.1 million at December 31, 2019 and 2018, respectively.

Additionally, the Company has borrowing capacity from other sources. As of December 31, 2019, the Bank was eligible to use the Federal Reserve discount window for borrowings. Based on assets pledged as collateral as of the applicable date, the Bank's borrowing availability was approximately \$113.2 million and \$114.1 million at December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, the Company had no outstanding advances.

The Company has entered into a swap agreement with an unaffiliated third party in order to hedge interest rate risk associated with the notes payable. This agreement provides for the Company to make payments at a fixed rate in exchange for receiving payments at a variable rate determined by one-month LIBOR.

Subordinated Debentures

On July 12, 2017, the Company issued \$25.0 million of subordinated debentures at an initial fixed interest rate of 5.875% which is payable semi-annually. Beginning July 15, 2022, the interest rate converts to a variable interest rate equal to the three-month LIBOR plus 3.88%. The subordinated debentures mature on July 15, 2027. The subordinated debentures, net of issuance costs, were \$24.7 million at December 31, 2019, compared to \$24.6 million at December 31, 2018. The subordinated debentures qualify for Tier 2 regulatory capital treatment for the first five years, under applicable regulatory guidelines.

Contractual Obligations

The following table presents supplemental information regarding total contractual obligations at December 31, 2019:

(dollars in thousands)	Within One Year	One to Three Years	Three to Five Years	After Five Years	Total
Deposits Without a Stated Maturity	\$ 1,231,364	\$ —	\$ —	\$ —	\$ 1,231,364
Time Deposits	336,684	177,030	78,232	—	591,946
Notes Payable	2,000	11,000	—	—	13,000
FHLB Advances	10,000	44,000	72,500	10,000	136,500
Subordinated Debentures	—	—	—	25,000	25,000
Commitment to Fund Tax Credit Investments	3,395	—	—	—	3,395
Operating Lease Obligations	940	774	643	1,130	3,487
Totals	<u>\$ 1,584,383</u>	<u>\$ 232,804</u>	<u>\$ 151,375</u>	<u>\$ 36,130</u>	<u>\$ 2,004,692</u>

On August 27, 2018, the Bank and Reuter Walton Commercial, LLC (the "Contractor") entered into a Standard Form of Agreement Between Owner and Contractor and the corresponding General Conditions of the Contract for Construction (collectively, the "Construction Contract"). Under the Construction Contract, the Contractor will construct

the core and shell of a new headquarters building for the Bank in St. Louis Park, Minnesota, and the Bank will pay the Contractor a contract price consisting of the cost of work plus a fee equal to 3.75% of the cost of work, subject to a guaranteed maximum price of \$23.0 million, with anticipated construction to be completed in 2020. As of December 31, 2019, \$15.2 million has been paid under this Construction Contract. On December 3, 2019, the Bank entered into a contract with a third party relating to the construction of the interior build-out of the new headquarters building for the Bank. The sum of the contract is \$6.32 million, with anticipated construction to be completed in 2020. As of December 31, 2019, no payments had been made under this contract.

Operating lease obligations are in place for facilities and land on which banking branches are located. See Note 6 of the Company's Consolidated Financial Statements included as part of this report for additional information.

The Company believes that it will be able to meet all contractual obligations as they come due through the maintenance of adequate cash levels. The Company expects to maintain adequate cash levels through earnings, loan and securities repayments and maturity activity and continued deposit gathering activities. As described above, the Company has in place various borrowing mechanisms for both short-term and long-term liquidity needs.

Shareholders' Equity

Shareholders' equity at December 31, 2019 was \$244.8 million, an increase of \$23.8 million, or 10.8%, over shareholders' equity of \$221.0 million at December 31, 2018, primarily due to \$31.4 million of net income retained and a \$6.3 increase in accumulated other comprehensive income, partially offset by \$15.0 million of stock repurchases made under the Company's stock repurchase program. The increase in accumulated other comprehensive income primarily resulted from interest rate fluctuations between periods.

Stock Repurchase Program. On January 22, 2019, the Company adopted a stock repurchase program. Under the repurchase program, the Company was initially authorized to repurchase up to \$15.0 million of its common stock in open market transactions or through privately negotiated transactions at the Company's discretion. On July 23, 2019, the Company's Board of Directors approved a \$10.0 million increase to the Company's stock repurchase program, increasing the authorization to repurchase common stock under the program from a total of \$15.0 million to a total of \$25.0 million. During the year ended December 31, 2019, the Company repurchased 1,331,512 shares of its common stock, representing approximately 5% of the Company's outstanding shares. Shares were repurchased at a weighted average price of \$11.23 for a total of \$15.0 million. All shares repurchased under the stock repurchase program were converted to authorized but unissued shares. At December 31, 2019, the remaining amount that could be used to repurchase shares under the stock repurchase program was \$10.0 million.

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

Under applicable regulatory capital rules, 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 Bank must also meet certain specific capital guidelines under the prompt corrective action framework. The capital amounts and classification are subject to qualitative judgments by the federal banking regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of common equity Tier 1 capital, Tier 1 capital and total capital to risk-weighted assets and of Tier 1 capital to average consolidated assets (referred to as the "leverage ratio"), as defined under the applicable regulatory capital rules.

Management believes the Company and the Bank met all capital adequacy requirements to which they were subject as of December 31, 2019. The regulatory capital ratios for the Company and the Bank to meet the minimum capital adequacy standards and for the Bank to be considered well capitalized under the prompt corrective action

framework are presented in the following tables. The Company's and the Bank's actual capital amounts and ratios are as of the dates indicated.

December 31, 2019 (dollars in thousands)	Actual		Minimum Required For Capital Adequacy Purposes		For Capital Adequacy Purposes Plus Capital Conservation Buffer		To be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Company (Consolidated):								
Total Risk-Based Capital	\$ 269,613	12.98 %	\$ 166,163	8.00 %	\$ 218,089	10.50 %	N/A	N/A
Tier 1 Risk-Based Capital	236,533	11.39	124,623	6.00	176,549	8.50	N/A	N/A
Common Equity Tier 1 Capital	236,533	11.39	93,467	4.50	145,393	7.00	N/A	N/A
Tier 1 Leverage Ratio	236,533	10.69	88,498	4.00	88,498	4.00	N/A	N/A
Bank:								
Total Risk-Based Capital	\$ 252,501	12.16 %	\$ 166,137	8.00 %	\$ 218,055	10.50 %	\$ 207,671	10.00 %
Tier 1 Risk-Based Capital	243,461	11.72	124,603	6.00	176,521	8.50	166,137	8.00
Common Equity Tier 1 Capital	243,461	11.72	93,452	4.50	145,370	7.00	134,986	6.50
Tier 1 Leverage Ratio	243,461	11.01	88,455	4.00	88,455	4.00	110,569	5.00

December 31, 2018 (dollars in thousands)	Actual		Minimum Required For Capital Adequacy Purposes		For Capital Adequacy Purposes Plus Capital Conservation Buffer		To be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Company (Consolidated):								
Total Risk-Based Capital	\$ 263,909	14.55 %	\$ 145,111	8.00 %	\$ 179,121	9.875 %	N/A	N/A
Tier 1 Risk-Based Capital	218,888	12.07	108,833	6.00	142,844	7.875	N/A	N/A
Common Equity Tier 1 Capital	218,888	12.07	81,625	4.50	115,635	6.375	N/A	N/A
Tier 1 Leverage Ratio	218,888	11.23	77,971	4.00	77,971	4.00	N/A	N/A
Bank:								
Total Risk-Based Capital	\$ 230,865	12.76 %	\$ 144,776	8.00 %	\$ 178,707	9.875 %	\$ 180,970	10.00 %
Tier 1 Risk-Based Capital	210,474	11.63	108,582	6.00	142,514	7.875	144,776	8.00
Common Equity Tier 1 Capital	210,474	11.63	81,436	4.50	115,368	6.375	117,630	6.50
Tier 1 Leverage Ratio	210,474	10.82	77,795	4.00	77,795	4.00	97,244	5.00

The Company and the Bank are subject to the rules of the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act. The rules include the implementation of a capital conservation buffer that is added to the minimum requirements for capital adequacy purposes. The capital conservation buffer was subject to a four year phase-in period that began on January 1, 2016, and was fully phased-in on January 1, 2019, at 2.5%. The required phase-in capital conservation buffer during 2018 was 1.875%. A banking organization with a conservation buffer of less than the required amount will be subject to limitations on capital distributions, including dividend payments, and certain discretionary bonus payments to executive officers. At December 31, 2019, the ratios for the Company and the Bank were sufficient to meet the fully phased-in conservation buffer.

Off-Balance Sheet Arrangements

In the normal course of business, the Company enters into various transactions to meet the financing needs of clients, which, in accordance with GAAP, are not included in the consolidated balance sheets. These transactions include commitments to extend credit, standby letters of credit, and commercial letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. Most of these commitments mature within two years and the standby letters of credit are expected to expire without being drawn upon. All off-balance sheet commitments are included in the determination of the amount of risk-based capital that the Company and the Bank are required to hold.

The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and commercial letters of credit is represented by

the contractual or notional amount of those instruments. The Company decreases its exposure to losses under these commitments by subjecting them to credit approval and monitoring procedures. The Company assesses the credit risk associated with certain commitments to extend credit and establishes a liability for probable credit losses.

The following table presents credit arrangements and financial instruments whose contract amounts represent credit risk as of December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
	Fixed	Variable	Fixed	Variable
(dollars in thousands)				
Unfunded Commitments Under Lines of Credit.....	\$ 181,622	\$ 319,340	\$ 58,611	\$ 336,421
Letters of Credit	17,503	61,722	33,899	47,154
Totals	<u>\$ 199,125</u>	<u>\$ 381,062</u>	<u>\$ 92,510</u>	<u>\$ 383,575</u>

Commitments to extend credit beyond current funding are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Such commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Commercial letters of credit are issued specifically to facilitate trade or commerce and are paid directly when the underlying transaction is consummated. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Liquidity

Liquidity is the Company's capacity to meet cash and collateral obligations at a reasonable cost. Maintaining an adequate level of liquidity depends on the Company's ability to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting either daily operations or financial condition. The Bank's ALM Committee, which is comprised of members of senior management, is responsible for managing commitments to meet the needs of customers while achieving the Company's financial objectives. The ALM Committee meets regularly to review balance sheet composition, funding capacities, and current and forecasted loan demand.

The Company manages liquidity by maintaining adequate levels of cash and other assets from on and off-balance sheet arrangements. Specifically, on-balance sheet liquidity consists of cash and due from banks and unpledged investment securities available for sale, which are referred to as primary liquidity. In regard to off-balance sheet capacity, the Company maintains available borrowing capacity under secured borrowing lines with the FHLB and the Federal Reserve Bank of Minneapolis, as well as unsecured lines of credit for the purpose of overnight funds with various correspondent banks, which the Company refers to as secondary liquidity. In addition, the Bank is a member of the American Financial Exchange, or AFX, through which it may either borrow or lend funds on an overnight or short-term basis with a group of approved commercial banks. The availability of funds changes daily. As of December 31, 2019, the Company had no borrowings outstanding through the AFX.

The following tables present a summary of primary and secondary liquidity levels as of the dates indicated:

Primary Liquidity—On-Balance Sheet (Dollars in thousands)	December 31, 2019	December 31, 2018
Cash and Cash Equivalents	\$ 31,935	\$ 28,444
Securities Available for Sale	289,877	253,378
Total Primary Liquidity	<u>\$ 321,812</u>	<u>\$ 281,822</u>
Ratio of Primary Liquidity to Total Deposits	17.6 %	18.1 %
Secondary Liquidity—Off-Balance Sheet Borrowing Capacity (Dollars in thousands)	December 31, 2019	December 31, 2018
Net Secured Borrowing Capacity with the FHLB	\$ 209,840	\$ 122,120
Net Secured Borrowing Capacity with the Federal Reserve Bank	113,164	114,051
Unsecured Borrowing Capacity with Correspondent Lenders	105,000	90,000
Total Secondary Liquidity	<u>\$ 428,004</u>	<u>\$ 326,171</u>
Ratio of Primary and Secondary Liquidity to Total Deposits	41.1 %	39.0 %

During the year ended December 31, 2019, primary liquidity increased \$40.0 million due to a \$36.5 million increase in securities available for sale and a \$3.5 million increase in cash and cash equivalents, when compared to December 31, 2018. Secondary liquidity increased \$101.8 million as of December 31, 2019 when compared to December 31, 2018, due to a \$87.7 million increase in the borrowing capacity on the secured borrowing line with the FHLB and a \$15.0 million increase in unsecured borrowing capacity with correspondent lenders, offset partially by a \$887,000 decrease in the borrowing capacity on the secured credit line with the Federal Reserve Bank.

In addition to primary liquidity, the Company generates liquidity from cash flows from the loan and securities portfolios and from the large base of core customer deposits, defined as noninterest bearing transaction, interest bearing transaction, savings, non-brokered money market accounts and non-brokered time deposits less than \$250,000. At December 31, 2019, core deposits totaled approximately \$1.47 billion and represented 80.7% of total deposits. These core deposits are normally less volatile, often with customer relationships tied to other products offered by the Company, which promote long-standing relationships and stable funding sources.

The Company uses brokered deposits, the availability of which is uncertain and subject to competitive market forces and regulation, for liquidity management purposes. At December 31, 2019, brokered deposits totaled \$234.4 million, consisting of \$231.9 million of brokered time deposits and \$2.4 million of non-maturity brokered money market and transaction accounts. At December 31, 2018, brokered deposits totaled \$291.2 million, consisting of \$264.2 million of brokered time deposits and \$27.0 million of non-maturity brokered money market accounts.

The Company's liquidity policy includes guidelines for On-Balance Sheet Liquidity (a measurement of primary liquidity to total deposits plus borrowings), Total On-Balance Sheet Liquidity with Borrowing Capacity (a measurement of primary and secondary liquidity to total deposits plus borrowings), Wholesale Funding Ratio (a measurement of total wholesale funding to total deposits plus borrowings), and other guidelines developed for measuring and maintaining liquidity. As of December 31, 2019, the Company was in compliance with all established liquidity guidelines.

GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures

Some of the financial data included in this report are not measures of financial performance recognized by GAAP. Management uses these non-GAAP financial measures in the analysis of performance:

- "Efficiency ratio" is defined as noninterest expense less the amortization of intangibles divided by our operating revenue, which is equal to net interest income plus noninterest income excluding gains and losses on sales of securities. In our judgment, the adjustments made to operating revenue allow investors and analysts to better assess our operating expenses in relation to our core operating revenue by removing the

volatility that is associated with certain one-time items and other discrete items that are unrelated to our core business.

- “Adjusted Efficiency ratio” is defined as the efficiency ratio adjusted to exclude the amortization of tax credit investments from noninterest expense.
- “Tangible common equity” is defined as shareholders’ equity reduced by goodwill and other intangible assets. We believe that this measure is important to many investors in the marketplace who are interested in changes from period to period in shareholders’ equity exclusive of changes in intangible assets. Goodwill and other intangibles that were recorded in a purchase business combination have the effect of increasing both equity and assets while not increasing our tangible equity or tangible assets.
- “Tangible common equity to tangible assets” is defined as the ratio of tangible common equity, as defined above, divided by total assets reduced by goodwill and other intangible assets. We believe that this measure is important to many investors in the market place who are interested in relative changes from period to period in shareholders’ equity to total assets, each exclusive of changes in intangible assets. Goodwill and other intangibles that were recorded in a purchase business combination have the effect of increasing both equity and assets while not increasing our tangible equity or tangible assets.
- “Tangible book value per share” is defined as tangible shareholders’ equity divided by total common voting and non-voting shares outstanding. We believe that this measure is important to many investors in the marketplace who are interested in changes from period to period in book value per share exclusive of changes in intangible assets. Goodwill and other intangibles that were recorded in a purchase business combination have the effect of increasing book value while not increasing our tangible book value.

The Company believes these non-GAAP financial measures provide useful information to management and investors that is supplementary to our financial condition, results of operations and cash flows computed in accordance with GAAP; however, we acknowledge that our non-GAAP financial measures have a number of limitations. As such, you should not view these disclosures as a substitute for results determined in accordance with GAAP, and they are not necessarily comparable to non-GAAP financial measures that other companies use. The following reconciliation table provides a more detailed analysis of these non-GAAP financial measures:

(dollars in thousands, except share data)	As of and for the year ended December 31,				
	2019	2018	2017	2016	2015
Efficiency Ratio					
Noninterest Expense	\$ 36,932	\$ 31,562	\$ 25,496	\$ 20,168	\$ 14,817
Less: Amortization of Intangible Assets	(191)	(191)	(191)	(104)	—
Adjusted Noninterest Expense	<u>\$ 36,741</u>	<u>\$ 31,371</u>	<u>\$ 25,305</u>	<u>\$ 20,064</u>	<u>\$ 14,817</u>
Net Interest Income	\$ 74,132	\$ 64,738	\$ 54,173	\$ 42,118	\$ 32,695
Noninterest Income	3,826	2,543	2,536	2,567	1,872
Less: (Gain) Loss on Sales of Securities	(516)	125	250	(830)	(574)
Adjusted Operating Revenue	<u>\$ 77,442</u>	<u>\$ 67,406</u>	<u>\$ 56,959</u>	<u>\$ 43,855</u>	<u>\$ 33,993</u>
Efficiency Ratio	47.4 %	46.5 %	44.4 %	45.8 %	43.6 %
Adjusted Efficiency Ratio					
Noninterest Expense	\$ 36,932	\$ 31,562	\$ 25,496	\$ 20,168	\$ 14,817
Less: Amortization of Tax Credit Investments	(3,225)	(3,293)	(1,916)	—	—
Less: Amortization of Intangible Assets	(191)	(191)	(191)	(104)	—
Adjusted Noninterest Expense	<u>\$ 33,516</u>	<u>\$ 28,078</u>	<u>\$ 23,389</u>	<u>\$ 20,064</u>	<u>\$ 14,817</u>
Net Interest Income	\$ 74,132	\$ 64,738	\$ 54,173	\$ 42,118	\$ 32,695
Noninterest Income	3,826	2,543	2,536	2,567	1,872
Less: (Gain) Loss on Sales of Securities	(516)	125	250	(830)	(574)
Adjusted Operating Revenue	<u>\$ 77,442</u>	<u>\$ 67,406</u>	<u>\$ 56,959</u>	<u>\$ 43,855</u>	<u>\$ 33,993</u>
Adjusted Efficiency Ratio	43.3 %	41.7 %	41.1 %	45.8 %	43.6 %
Tangible Common Equity and Tangible Common Equity/Tangible Assets					
Common Equity	\$ 244,794	\$ 220,998	\$ 137,162	\$ 115,366	\$ 80,178
Less: Intangible Assets	(3,487)	(3,678)	(3,869)	(4,060)	—
Tangible Common Equity	<u>241,307</u>	<u>217,320</u>	<u>133,293</u>	<u>111,306</u>	<u>80,178</u>
Total Assets	2,268,830	1,973,741	1,616,612	1,260,394	928,686
Less: Intangible Assets	(3,487)	(3,678)	(3,869)	(4,060)	—
Tangible Assets	<u>\$ 2,265,343</u>	<u>\$ 1,970,063</u>	<u>\$ 1,612,743</u>	<u>\$ 1,256,334</u>	<u>\$ 928,686</u>
Tangible Common Equity/Tangible Assets	10.65 %	11.03 %	8.26 %	8.86 %	8.63 %
Tangible Book Value Per Share					
Book Value Per Common Share	\$ 8.45	\$ 7.34	\$ 5.56	\$ 4.69	\$ 4.05
Less: Effects of Intangible Assets	(0.12)	(0.12)	(0.16)	(0.17)	—
Tangible Book Value Per Common Share	<u>\$ 8.33</u>	<u>\$ 7.22</u>	<u>\$ 5.40</u>	<u>\$ 4.52</u>	<u>\$ 4.05</u>
Average Tangible Common Equity					
Average Common Equity	\$ 232,539	\$ 194,083	\$ 128,123	\$ 102,588	\$ 63,981
Less: Effects of Average Intangible Assets	(3,582)	(3,772)	(3,956)	(2,701)	—
Average Tangible Common Equity	<u>\$ 228,957</u>	<u>\$ 190,311</u>	<u>\$ 124,167</u>	<u>\$ 99,887</u>	<u>\$ 63,981</u>

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

As a financial institution, the Company's primary market risk is interest rate risk, which is defined as the risk of loss of net interest income or net interest margin because of changes in interest rates. The Company continually seeks to measure and manage the potential impact of interest rate risk. Interest rate risk occurs when interest earning assets and interest bearing liabilities mature or re-price at different times, on a different basis or in unequal amounts. Interest rate risk also arises when assets and liabilities each respond differently to changes in interest rates.

The Company's management of interest rate risk is overseen by its ALM Committee, based on a risk management infrastructure approved by the board of directors that outlines reporting and measurement requirements. In particular, this infrastructure sets limits and management targets for various metrics, including a net interest income simulation model involving parallel shifts in interest rate curves, steepening and flattening yield curves, and various prepayment and deposit duration assumptions. The Company's risk management infrastructure also requires a periodic review of all key assumptions used, such as identifying appropriate interest rate scenarios, setting loan prepayment rates based on historical analysis and noninterest bearing and interest bearing transaction deposit durations based on historical analysis. The Company does not engage in speculative trading activities relating to interest rates, foreign exchange rates, commodity prices, equities or credit.

The Company manages the interest rate risk associated with interest earning assets by managing the interest rates and terms associated with the investment securities portfolio by purchasing and selling investment securities from time to time. The Company manages the interest rate risk associated with interest bearing liabilities by managing the interest rates and terms associated with wholesale borrowings and deposits from customers which the Company relies on for funding. For example, the Company occasionally uses special offers on deposits to alter the interest rates and terms associated with interest bearing liabilities.

The Company has entered into certain hedging transactions including interest rate swaps, which are designed to lessen elements of the Company's interest rate exposure. The Company utilizes cash flow hedges to manage interest rate exposure for the brokered certificate of deposit, wholesale borrowing, and notes payable portfolios. The hedging strategy converts variable interest rates to a fixed interest rate and is used in an effort to protect the Company from floating interest rate variability. At December 31, 2019 and 2018, these cash flow hedges had a total notional amount of \$48.0 million and \$15.0 million, respectively. In the event that interest rates do not change in the manner anticipated, such transactions may adversely affect the Company's results of operations.

Net Interest Income Simulation

The Company uses a net interest income simulation model to measure and evaluate potential changes in net interest income that would result over the next 12 months from immediate and sustained changes in interest rates as of the measurement date. This model has inherent limitations and the results are based on a given set of rate changes and assumptions as of a certain point in time. For purposes of the simulation, the Company assumes no growth in either interest-sensitive assets or liabilities over the next 12 months; therefore, the model's results reflect an interest rate shock to a static balance sheet. The simulation model also incorporates various other assumptions, which the Company believes are reasonable but which may have a significant impact on results, such as: (1) the timing of changes in interest rates, (2) shifts or rotations in the yield curve, (3) re-pricing characteristics for market-rate-sensitive instruments, (4) differing sensitivities of financial instruments due to differing underlying rate indices, (5) varying loan prepayment speeds for different interest rate scenarios, (6) the effect of interest rate limitations in assets, such as floors and caps, and (7) overall growth and repayment rates and product mix of assets and liabilities. Because of the limitations inherent in any approach used to measure interest rate risk, simulation results are not intended as a forecast of the actual effect of a change in market interest rates on the results, but rather as a means to better plan and execute appropriate asset-liability management strategies and to manage interest rate risk.

Potential changes to our net interest income in hypothetical rising and declining rate scenarios calculated as of December 31, 2019 are presented in the table below. The projections assume immediate, parallel shifts downward of the

yield curve of 100 and 200 basis points and immediate, parallel shifts upward of the yield curve of 100, 200, 300 and 400 basis points. In the current interest rate environment, a downward shift of the yield curve of 300 and 400 basis points does not provide the Company with meaningful results and thus is not presented.

Change (basis points) in Interest Rates (12-Month Projection)	Forecasted Net Interest Income	Percentage Change from Base
+400	\$ 80,558	13.47 %
+300	78,064	9.95
+200	75,591	6.47
+100	73,113	2.98
0	70,996	—
-100	68,685	(3.26)
-200	67,127	(5.45)

The table above indicates that as of December 31, 2019, in the event of an immediate and sustained 400 basis point increase in interest rates, we would experience a 13.47% increase in net interest income. In the event of an immediate 200 basis point decrease in interest rates, we would experience a 5.45% decrease in net interest income.

The results of this simulation analysis are hypothetical, and a variety of factors might cause actual results to differ substantially from what is depicted. For example, if the timing and magnitude of interest rate changes differ from those projected, our net interest income might vary significantly. Non-parallel yield curve shifts such as a flattening or steepening of the yield curve or changes in interest rate spreads would also cause our net interest income to be different from that depicted. An increasing interest rate environment could reduce projected net interest income if deposits and other short-term liabilities re-price faster than expected or re-price faster than our assets. Actual results could differ from those projected if we grow assets and liabilities faster or slower than estimated, if we experience a net outflow of deposit liabilities or if our mix of assets and liabilities otherwise changes. Actual results could also differ from those projected if we experience substantially different repayment speeds in our loan portfolio than those assumed in the simulation model. Finally, these simulation results do not contemplate all the actions that we may undertake in response to potential or actual changes in interest rates, such as changes to our loan, investment, deposit, or funding strategies.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA



CliftonLarsonAllen LLP
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Bridgewater Bancshares, Inc.
Bloomington, Minnesota

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Bridgewater Bancshares, Inc. and Subsidiaries (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2019 and the related notes (collectively referred to as the financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and their cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements 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 the U.S. federal securities laws and the 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting in accordance with the standards of the PCAOB. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting in accordance with the standards of the PCAOB. Accordingly, we express no such opinion.

Our audits 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 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. We believe that our audits provide a reasonable basis for our opinion.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 11, 2020

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



Bridgewater Bancshares, Inc. and Subsidiaries
Consolidated Balance Sheets
(dollars in thousands, except share data)

	December 31, 2019	December 31, 2018
ASSETS		
Cash and Cash Equivalents	\$ 31,935	\$ 28,444
Bank-Owned Certificates of Deposit	2,654	3,305
Securities Available for Sale, at Fair Value	289,877	253,378
Loans, Net of Allowance for Loan Losses of \$22,526 at December 31, 2019 and \$20,031 at December 31, 2018	1,884,000	1,640,385
Federal Home Loan Bank (FHLB) Stock, at Cost	7,824	7,614
Premises and Equipment, Net	27,628	13,074
Accrued Interest	6,775	6,589
Goodwill	2,626	2,626
Other Intangible Assets, Net	861	1,052
Other Assets	14,650	17,274
Total Assets	<u>\$ 2,268,830</u>	<u>\$ 1,973,741</u>
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits:		
Noninterest Bearing	\$ 447,509	\$ 369,203
Interest Bearing	1,375,801	1,191,731
Total Deposits	1,823,310	1,560,934
Federal Funds Purchased	—	18,000
Notes Payable	13,000	15,000
FHLB Advances	136,500	124,000
Subordinated Debentures, Net of Issuance Costs	24,733	24,630
Accrued Interest Payable	1,982	1,806
Other Liabilities	24,511	8,373
Total Liabilities	<u>2,024,036</u>	<u>1,752,743</u>
SHAREHOLDERS' EQUITY		
Preferred Stock- \$0.01 par value		
Authorized 10,000,000; None Issued and Outstanding at December 31, 2019 and December 31, 2018	—	—
Common Stock- \$0.01 par value		
Common Stock - Authorized 75,000,000; Issued and Outstanding 28,973,572 at December 31, 2019 and 30,097,274 at December 31, 2018	290	301
Additional Paid-In Capital	112,093	126,031
Retained Earnings	127,637	96,234
Accumulated Other Comprehensive Income (Loss)	4,774	(1,568)
Total Shareholders' Equity	244,794	220,998
Total Liabilities and Shareholders' Equity	<u>\$ 2,268,830</u>	<u>\$ 1,973,741</u>

See accompanying notes to consolidated financial statements.

Bridgewater Bancshares, Inc. and Subsidiaries
Consolidated Statements of Income
(dollars in thousands, except per share data)

	December 31, 2019	December 31, 2018	December 31, 2017
INTEREST INCOME			
Loans, Including Fees	\$ 94,852	\$ 78,033	\$ 60,024
Investment Securities	7,773	6,694	5,981
Other	1,153	499	341
Total Interest Income	<u>103,778</u>	<u>85,226</u>	<u>66,346</u>
INTEREST EXPENSE			
Deposits	23,996	15,972	9,719
Notes Payable	501	594	656
FHLB Advances	3,407	1,718	880
Subordinated Debentures	1,556	1,568	749
Federal Funds Purchased	186	636	169
Total Interest Expense	<u>29,646</u>	<u>20,488</u>	<u>12,173</u>
NET INTEREST INCOME	74,132	64,738	54,173
Provision for Loan Losses	<u>2,700</u>	<u>3,575</u>	<u>4,175</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	71,432	61,163	49,998
NONINTEREST INCOME			
Customer Service Fees	760	745	660
Net Gain (Loss) on Sales of Available for Sale Securities	516	(125)	(250)
Net Gain (Loss) on Sales of Foreclosed Assets	69	(225)	356
Other Income	2,481	2,148	1,770
Total Noninterest Income	<u>3,826</u>	<u>2,543</u>	<u>2,536</u>
NONINTEREST EXPENSE			
Salaries and Employee Benefits	22,076	18,620	14,051
Occupancy and Equipment	3,085	2,351	2,192
Other Expense	11,771	10,591	9,253
Total Noninterest Expense	<u>36,932</u>	<u>31,562</u>	<u>25,496</u>
INCOME BEFORE INCOME TAXES	38,326	32,144	27,038
Provision for Income Taxes	6,923	5,224	10,149
NET INCOME	<u>\$ 31,403</u>	<u>\$ 26,920</u>	<u>\$ 16,889</u>
EARNINGS PER SHARE			
Basic	\$ 1.07	\$ 0.93	\$ 0.69
Diluted	1.05	0.91	0.68
Dividends Paid Per Share	—	—	—

See accompanying notes to consolidated financial statements.

Bridgewater Bancshares, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
(dollars in thousands)

	December 31, 2019	December 31, 2018	December 31, 2017
Net Income	\$ 31,403	\$ 26,920	\$ 16,889
Other Comprehensive Income (Loss):			
Unrealized Gains (Losses) on Available for Sale Securities	9,514	(3,804)	6,354
Unrealized Gains (Losses) on Cash Flow Hedges	(962)	9	121
Reclassification Adjustment for (Gains) Losses Realized in Income	(525)	125	250
Income Tax Impact	(1,685)	824	(2,366)
Total Other Comprehensive Income (Loss), Net of Tax	6,342	(2,846)	4,359
Comprehensive Income	<u>\$ 37,745</u>	<u>\$ 24,074</u>	<u>\$ 21,248</u>

See accompanying notes to consolidated financial statements.

Bridgewater Bancshares, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity
(amounts in thousands, except share data)

	<u>Shares</u>		<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Accumulated</u>	
	<u>Voting</u>	<u>Non-voting</u>	<u>Voting</u>	<u>Non-voting</u>	<u>Paid-In</u>	<u>Earnings</u>	<u>Other</u>	<u>Total</u>
					<u>Capital</u>		<u>Comprehensive</u>	
							<u>Income (Loss)</u>	
BALANCE,								
December 31, 2016 ..	20,744,001	3,845,860	\$ 207	\$ 38	\$ 65,777	\$ 52,619	\$ (3,275)	\$ 115,366
Stock-based								
Compensation	—	—	—	—	368	—	—	368
Comprehensive								
Income	—	—	—	—	—	16,889	4,359	21,248
Stock Options								
Exercised	90,000	—	1	—	179	—	—	180
BALANCE,								
December 31, 2017 ..	20,834,001	3,845,860	208	38	66,324	69,508	1,084	137,162
Stock-based								
Compensation	—	—	—	—	799	—	—	799
Comprehensive								
Income (Loss)	—	—	—	—	—	26,920	(2,846)	24,074
Issuance of Common								
Stock, Net of								
Issuance Costs	5,379,513	—	54	—	58,803	—	—	58,857
Conversion of Non-								
voting Stock to								
Voting Stock	3,845,860	(3,845,860)	38	(38)	—	—	—	—
Stock Options								
Exercised	37,900	—	1	—	105	—	—	106
Reclassification of								
the Income Tax								
Effects of the Tax								
Cuts and Jobs Act								
to Retained								
Earnings	—	—	—	—	—	(194)	194	—
BALANCE,								
December 31, 2018 ..	30,097,274	—	301	—	126,031	96,234	(1,568)	220,998
Stock-based								
Compensation	—	—	—	—	752	—	—	752
Comprehensive								
Income	—	—	—	—	—	31,403	6,342	37,745
Stock Options								
Exercised	74,850	—	1	—	257	—	—	258
Stock Repurchases ...	(1,331,512)	—	(13)	—	(14,946)	—	—	(14,959)
Issuance of								
Restricted Stock								
Awards	132,960	—	1	—	(1)	—	—	—
BALANCE,								
December 31, 2019 ..	<u>28,973,572</u>	<u>—</u>	<u>\$ 290</u>	<u>\$ —</u>	<u>\$ 112,093</u>	<u>\$ 127,637</u>	<u>\$ 4,774</u>	<u>\$ 244,794</u>

See accompanying notes to consolidated financial statements.

Bridgewater Bancshares, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(dollars in thousands)

	December 31, 2019	December 31, 2018	December 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	\$ 31,403	\$ 26,920	\$ 16,889
Adjustments to Reconcile Net Income to Net Cash			
Provided by Operating Activities:			
Net Amortization on Securities Available for Sale	2,523	3,028	2,779
Net (Gain) Loss on Sales of Securities Available for Sale	(516)	125	250
Provision for Loan Losses	2,700	3,575	4,175
Depreciation and Amortization of Premises and Equipment	1,008	761	694
Loss on Sale of Premises and Equipment	9	—	—
Amortization of Other Intangible Assets	191	191	191
Amortization of Subordinated Debt Issuance Costs	103	103	43
Net (Gain) Loss on Sale of Foreclosed Assets	(69)	225	(356)
Stock-based Compensation	752	799	368
Deferred Income Taxes	(747)	(1,298)	(2,062)
Changes in Operating Assets and Liabilities:			
Accrued Interest Receivable and Other Assets	529	(7,627)	(122)
Accrued Interest Payable and Other Liabilities	1,641	2,606	2,053
Net Cash Provided by Operating Activities	<u>39,527</u>	<u>29,408</u>	<u>24,902</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
(Increase) Decrease in Bank-owned Certificates of Deposit	651	(233)	1,627
Proceeds from Sales of Securities Available for Sale	42,864	24,684	36,209
Proceeds from Maturities, Paydowns, Payups and Calls of Securities			
Available for Sale	41,118	22,965	23,411
Purchases of Securities Available for Sale	(98,817)	(78,368)	(68,453)
Proceeds from Sale of Premises and Equipment	1	—	—
Net Increase in Loans	(247,573)	(317,453)	(346,231)
Net Increase in FHLB Stock	(210)	(2,467)	(157)
Purchases of Premises and Equipment	(15,572)	(3,720)	(1,235)
Proceeds from Sales of Foreclosed Assets	1,327	356	4,647
Net Cash Used in Investing Activities	<u>(276,211)</u>	<u>(354,236)</u>	<u>(350,182)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in Deposits	262,376	221,584	315,842
Net Decrease in Federal Funds Purchased	(18,000)	(5,000)	(21,000)
Principal Payments on Notes Payable	(2,000)	(2,000)	(2,000)
Proceeds from FHLB Advances	42,500	70,000	29,000
Principal Payments on FHLB Advances	(30,000)	(14,000)	(14,000)
Proceeds from Issuance of Subordinated Debentures	—	—	24,484
Stock Options Exercised	258	106	180
Issuance of Common Stock	—	58,857	—
Stock Repurchases	(14,959)	—	—
Net Cash Provided by Financing Activities	<u>240,175</u>	<u>329,547</u>	<u>332,506</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>3,491</u>	<u>4,719</u>	<u>7,226</u>
Cash and Cash Equivalents Beginning	28,444	23,725	16,499
Cash and Cash Equivalents Ending	<u>\$ 31,935</u>	<u>\$ 28,444</u>	<u>\$ 23,725</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE			
Cash Paid for Interest	\$ 29,367	\$ 19,987	\$ 11,334
Cash Paid for Income Taxes	7,625	7,865	12,110
Loans Transferred to Foreclosed Assets	1,258	—	689
Investment Securities Purchased but Not Settled	14,673	—	—

See accompanying notes to consolidated financial statements.

Bridgewater Bancshares, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(dollars in thousands, except share data)

Note 1: Description of the Business and Summary of Significant Accounting Policies

Organization

Bridgewater Bancshares, Inc. (the “Company”) is a financial holding company whose operations consist of the ownership of its wholly-owned subsidiaries, Bridgewater Bank (the “Bank”) and Bridgewater Risk Management, Inc. The Bank commenced operations in 2005 and provides retail and commercial loan and deposit services, principally to customers within the Minneapolis-St. Paul-Bloomington, MN-WI Metropolitan Statistical Area. In 2008, the Bank formed BWB Holdings, LLC, a wholly owned subsidiary of the Bank, for the purpose of holding repossessed property. In 2018, the Bank formed Bridgewater Investment Management, Inc., a wholly owned subsidiary of the Bank, for the purpose of holding certain municipal securities and to engage in municipal lending activities.

Bridgewater Risk Management, Inc. was incorporated in December 2016 as a wholly-owned insurance company subsidiary of the Company. It insures the Company and its subsidiaries against certain risks unique to the operations of the Company and for which insurance may not be currently available or economically feasible in today’s insurance marketplace. Bridgewater Risk Management pools resources with several other insurance company subsidiaries of financial institutions to spread a limited amount of risk among themselves.

Principles of Consolidation

The consolidated financial statements include the amounts of the Company, the Bank, with locations in Bloomington, Greenwood, Minneapolis (2), St. Louis Park, Orono, and St. Paul, Minnesota, BWB Holdings, LLC, Bridgewater Investment Management, Inc., and Bridgewater Risk Management, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates in Preparation of Financial Statements

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

Material estimates that are particularly susceptible to significant change in the near term include the valuation of securities, determination of the allowance for loan losses, calculation of deferred tax assets, and investment securities impairment.

Emerging Growth Company

The Company qualifies as an “emerging growth company” under the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”), and may take advantage of certain exemptions from various reporting requirements that are applicable to public companies that are not emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. In addition, even if the Company complies with the greater obligations of public companies that are not emerging growth companies, the Company may avail itself of the reduced requirements applicable to emerging growth companies from time to time in the future, so long as the Company is an emerging growth company. The Company will continue to be an emerging growth company until the earliest to occur of: (1) the end of the fiscal year following the fifth anniversary of the date of the first sale of common equity securities under the Company’s

Bridgewater Bancshares, Inc. and Subsidiaries
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Registration Statement on Form S-1, which was declared effective by the SEC on March 13, 2018; (2) the last day of the fiscal year in which the Company has \$1.07 billion or more in annual revenues; (3) the date on which the Company is deemed to be a “large accelerated filer” under the Securities Exchange Act of 1934, as amended, or the Exchange Act; or (4) the date on which the Company has, during the previous three-year period, issued publicly or privately, more than \$1.0 billion in non-convertible debt securities. Management cannot predict if investors will find the Company’s common stock less attractive because it will rely on these exemptions. If some investors find the Company’s common stock less attractive as a result, there may be a less active trading market for its common stock and the Company’s stock price may be more volatile.

Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933 for complying with new or revised accounting standards. As an emerging growth company, the Company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. The Company elected to take advantage of the benefits of this extended transition period.

Cash and Cash Equivalents

For purpose of the consolidated statements of cash flows, cash and cash equivalents include cash, both interest bearing and noninterest bearing balances due from banks and federal funds sold, all of which mature within 90 days. Cash flows from loans and deposits are reported net.

Bank-Owned Certificates of Deposit

Bank-owned certificates of deposit mature within five years and are carried at cost.

Securities Available for Sale

Debt securities are classified as available for sale and are carried at fair value with unrealized gains and losses reported in other comprehensive income (loss). Realized gains and losses on securities available for sale are included in noninterest income and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income (loss). Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Declines in the fair value of individual available for sale securities below their cost that are other than temporary result in write-downs of the individual securities to the fair value. The Company monitors the investment security portfolio for impairment on an individual security basis and has a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the Company’s intent and ability to hold the investment for a period of time sufficient to recover the temporary loss. The ability to hold is determined by whether it is more likely than not that the Company will be required to sell the security before its anticipated recovery. A decline in value due to a credit event that is considered other than temporary is recorded as a loss in noninterest income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid balances adjusted for charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans, and premiums or discounts on purchased loans.

Bridgewater Bancshares, Inc. and Subsidiaries
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Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and recognized as an adjustment of the related loan yield using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

The accrual of interest on all loans is discounted if the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued, but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income and amortization of related deferred loan fees or costs is suspended. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. The cash-basis is used when a determination has been made that the principal and interest of the loan is collectible. If collectability of the principal and interest is in doubt, payments are applied to loan principal. The determination of ultimate collectability is supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment, including consideration of the borrower's sustained historical repayment performance and other relevant factors. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, the borrower has demonstrated a period of sustained performance, and future payments are reasonably assured. A sustained period of repayment performance generally would be a minimum of six months.

Allowance for Loan Losses

The allowance for loan losses (the "allowance") is an estimate of loan losses inherent in the Company's loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the adequacy of the total allowance after loan losses and loan growth. Loan losses are charged-off against the allowance when the Company determines all or a portion of the loan balance to be uncollectible. Cash received on previously charged-off amounts is recorded as a recovery to the allowance.

The allowance consists of three primary components, general reserves, specific reserves related to impaired loans, and unallocated reserves. The general component covers nonimpaired loans and is based on historical losses adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent five years. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; trends in volume and terms of loans; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of change in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans determined to be impaired are individually evaluated for impairment. An impaired loan is 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 underlying collateral. The fair value of collateral, reduced by costs to sell on a discounted basis, is used if a loan is collateral dependent. A loan is collateral dependent if the repayment is expected to be provided solely by the underlying collateral.

Allowance allocations other than general and specific reserves are included in the unallocated portion. While allocations are made for loans and leases based upon historical loss analysis, the unallocated portion is designed to cover the uncertainty of how current economic conditions and other uncertainties may impact the existing loan portfolio. Factors to consider include global, national and state economic conditions such as changes in unemployment rates and

Bridgewater Bancshares, Inc. and Subsidiaries
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productivity, geopolitical tensions, monetary and fiscal policy uncertainty, political gridlock, and real estate market trends. The unallocated reserve addresses inherent probable losses not included elsewhere in the allowance for loan losses.

Under certain circumstances, the Company will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above in the calendar year of the restructuring. In subsequent years, a restructured loan may cease being classified as impaired if the loan was modified at a market rate and is performing according to the modified terms. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal or interest due, or acceptance of other assets in full or partial satisfaction of the debt. Restructured loans can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accrual status, depending on the individual facts and circumstances of the borrower. Nonaccrual restructured loans are included with other nonaccrual loans.

The Company assigns risk ratings to all loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Company's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate, and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories defined as follows:

Pass: A pass loan is a credit with no known or existing potential weaknesses deserving of management's close attention.

Watch: Loans classified as watch have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date. Watch loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard: Loans classified as substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified as loss are considered uncollectible and charged-off immediately.

The Company maintains a separate general valuation allowance for each portfolio segment. These portfolio segments include commercial, construction and land development, 1-4 family mortgage, multifamily, CRE owner occupied, CRE non-owner occupied, and consumer and other with risk characteristics described as follows:

Commercial: Commercial loans generally are loans to sole proprietorships, partnerships, corporations, and other business enterprises to finance accounts receivable or inventory, capital assets, or for other business related

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purposes. Commercial lending is not without risk as this asset class has generally exhibited higher loss rates compared to other loan types. The primary repayment sources for commercial and industrial loans are the existing cash flows of operating businesses which can be adversely affected by company, industry and economic business cycles. Economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. The liquidation of collateral, typically accounts receivable, inventory, equipment, or other business assets, is the primary source of principal repayment if the borrower defaults. The value of these assets can be uncertain in a liquidation scenario.

Construction and Land Development: Construction and land development loans generally possess a higher inherent risk of loss and have experienced the highest loss rates of any loan category based on statistics published by the FDIC. Risks associated with these loans often include the borrower's ability to complete the project within specified costs and timelines and the reliance on the sale of the completed project as the primary repayment source for the loan. Trends in the commercial and residential construction industries can significantly impact the credit quality of these loans due to supply and demand imbalances. In addition, fluctuations in real estate values can significantly impact the credit quality of these loans, as property values may determine the economic viability of construction projects and adversely impact the value of the collateral securing the loan.

1-4 Family Mortgage: The degree of risk in residential mortgage lending involving owner occupied properties depends primarily on the borrower's ability to repay in an orderly fashion and the loan amount in relation to collateral value. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrower's capacity to repay their obligations may be deteriorating. Residential mortgage lending also includes the credits to finance nonowner occupied properties used as rentals. These loans can involve additional risks as the borrower's ability to repay is based on the net operating income from the property which can be impacted by occupancy levels, rental rates, and operating expenses. Declines in net operating income can negatively impact the value of the property which increases the credit risk in the event of default. While 1-4 family mortgage loans have historically possessed a lower inherent risk of loss than other real estate portfolio segments, this loan class was significantly impacted during the last recession due in part to weak credit underwriting and speculative lending practices which led to higher default rates and deterioration in residential real estate values.

Multifamily: Multifamily lending has historically had the lowest default rate of any loan class. Nonetheless, economic factors such as unemployment, wage growth and home affordability can impact vacancy rates and property cash flow. In addition, an overbuilt supply of multifamily units can increase competition amongst properties and could have an adverse effect on leasing rates and overall occupancy, which could result in higher default rates and possible loan losses.

CRE Owner Occupied: Owner occupied commercial real estate loans are generally reliant on a single tenant as the repayment source for the loan. The underlying business can be affected by changes in industry and economic business cycles, unemployment and other key economic indicators, which could impact the cash flows of the business and their ability to make rental payments. Certain types of businesses also may require specialized facilities that can increase costs and may not be economically feasible to an alternative user, which could adversely impact the market value of the collateral.

CRE Non-owner Occupied: Non-owner occupied commercial real estate loans can possess a higher inherent risk of loss as the primary repayment source for these loans is based on the net operating income from the underlying property. Changes in economic and market conditions can affect different segments of commercial real estate by impacting overall leasing rates, absorption timelines, vacancy rates, and operating expenses. Banks which are concentrated in commercial real estate lending are subject to additional regulatory scrutiny and must employ enhanced risk management practices.

Bridgewater Bancshares, Inc. and Subsidiaries
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Consumer and Other: The consumer and other loan portfolio is usually comprised of a large number of small loans scheduled to be amortized over a specific period. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

Although management believes the allowance to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the adequacy of the allowance, including consideration of the relevant risks in the portfolio, current economic conditions, and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Company's regulators assess the adequacy of the allowance from time to time. The regulatory agencies may require adjustments to the allowance based on their judgement about information available at the time of their review and examinations.

Off-Balance Sheet Instruments

In the ordinary course of business, the Company has entered into off-balance sheet instruments including commitments to extend credit and unfunded commitments under lines of credit, standby letters of credit, and commercial letters of credit. Such financial instruments are recorded in the consolidated financial statements when they become payable. The Company maintains a separate allowance for off-balance sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for off-balance sheet commitments is included in other liabilities.

Federal Home Loan Bank Stock

The Bank is a member of FHLB Des Moines. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. Restricted stock is carried at cost and periodically evaluated for impairment. Because this stock is viewed as a long-term investment, impairment is based on ultimate recovery at par value. Both cash and stock dividends are reported as income.

Premises and Equipment

Land is stated at cost. Premises and equipment are stated at cost less accumulated depreciation on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of the estimated useful life or lease term for leasehold improvements. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated selling cost at the date of foreclosure, establishing a new cost basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance. Subsequent to foreclosure, valuations are periodically performed by management and the assets held for sale are carried at the lower of the new cost basis or fair value less cost to sell. This evaluation is inherently subjective and requires estimates that are susceptible to significant revisions as more information becomes available.

Impairment losses on assets to be held and used are measured at the amount by which the carrying amount of a property exceeds its fair value. Costs relating to holding and improving assets are expensed. Revenues and expenses from operations are included in other noninterest income and expense on the income statement.

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Goodwill and Intangible Assets

Intangible assets attributed to the value of core deposits and favorable lease terms are stated at cost less accumulated amortization and reported in other intangible assets in the consolidated balance sheets. Intangible assets are amortized on a straight-line basis over the estimated lives of the assets.

The excess of purchase price over fair value of net assets acquired is recorded as goodwill and is not amortized.

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

Transfers of Financial Assets and Participating Interests

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

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, and (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Advertising

Advertising costs are expensed as incurred.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

These calculations are based on many factors including estimates of the timing of reversals of temporary differences, the interpretation of federal and state income tax laws, and a determination of the differences between the tax and the financial reporting basis of assets and liabilities. Actual results could differ significantly from the estimates and interpretations used in determining the current and deferred income tax liabilities.

Under GAAP, a valuation allowance is required to be recognized if it is “more likely than not” that the deferred tax asset will not be realized. The determination of the realizability of the deferred tax assets is highly subjective and dependent upon judgment concerning management’s evaluation of both positive and negative evidence, the forecasts of future income, applicable tax planning strategies, and assessments of the current and future economic and business conditions.

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In preparation of the income tax returns, tax positions are taken based on interpretation of federal and state income tax laws. Management periodically reviews and evaluates the status of uncertain tax positions and makes estimates of amounts ultimately due or owed. The Company can recognize in financial statements the impact of a tax position taken, or expected to be taken, if it is more likely than not that the position will be sustained on audit based on the technical merit of the position. See Note 14 for additional disclosures. The Company recognizes both interest and penalties as a component of other noninterest expenses.

The amount of the uncertain tax positions was not deemed to be material. It is not expected that the unrecognized tax benefit will be material within the next 12 months. The Company did not recognize any interest or penalties for the years ended December 31, 2019, 2018 and 2017.

The Company is no longer subject to federal or state tax examination by tax authorities for years ending before December 31, 2016.

Tax Credit Investments

The Company invests in qualified affordable housing projects and federal historic projects for the purpose of community reinvestment and obtaining tax credits. These investments are included in other assets on the balance sheet, with any unfunded commitments included within other liabilities. The qualified affordable housing projects are accounted for under the proportional amortization method. Under the proportional amortization method, the initial cost of the investment is recognized over the period that the Company expects to receive the tax credits, with the expense included within income tax expense on the consolidated statements of income. The historic tax credits are accounted for under the equity method, with the expense included within noninterest expense on the consolidated statements of income. Management analyzes these investments for potential impairment when events or changes in circumstances indicate that it is more likely than not that the carrying amount of the investment will not be realized. An impairment loss is measured as the amount by which the carrying amount of an investment exceeds its fair value.

Comprehensive Income (Loss)

Recognized revenue, expenses, gains, and losses are included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale and changes in the fair value of derivative instruments designated as a cash flow hedge, are reported as a separate component of the equity section of the consolidated balance sheets, such items, along with net income, are components of comprehensive income (loss).

Derivative Financial Instruments

The Company uses derivative financial instruments, which consist of interest rate swaps, to assist in its interest rate risk management. All derivatives are measured and reported at fair value on the Company's consolidated balance sheet as other assets or other liabilities. The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship. If the derivative instrument is not designated as a hedge, changes in the fair value of the derivative instrument are recognized in earnings, specifically in noninterest income.

The Company enters into interest rate swaps to facilitate client transactions and meet their financing needs. Upon entering into these instruments to meet client needs, the Company enters into offsetting positions with large U.S. and international financial institutions in order to minimize the risk to the Company. These swaps are derivatives, but are not designated as hedging instruments.

Cash flow hedges represent a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability. The Company prepares written hedge documentation for all derivatives

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which are designed as hedges. The written hedge documentation includes identification of, among other items, the risk management objective, hedging instrument, hedged item and methodologies for assessing and measuring hedge effectiveness and ineffectiveness, along with support for management's assertion that the hedge will be highly effective. Assessments of hedge effectiveness and measurements of hedge ineffectiveness are performed at least quarterly. For a cash flow hedge that is effective, the gain or loss on the derivative is reported as a component in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. The changes in the fair value of derivatives that are not highly effective in hedging the changes in expected cash flows of the hedged item are recognized immediately in current earnings. To determine fair value, the Company uses third party pricing models that incorporate assumptions about market conditions and risks that are current at the reporting date. The Company does not use derivative instruments for trading or speculative purposes.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income.

Hedge accounting discontinues on transactions that are no longer deemed effective, or for which the derivative has been terminated or de-designated. When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transaction is still expected to occur, changes in value that were accumulated in other comprehensive income are amortized or accreted into earnings over the same periods which the hedged transactions will affect earnings.

Stock-based Compensation

The Company's stock-based compensation plans provide for awards of stock options and restricted stock to directors, officers and employees. The cost of employee services received in exchange for awards of equity instruments is based on the grant-date fair value of those awards. Compensation cost is recognized over the requisite service period as a component of compensation expense. Compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. Forfeitures are recognized as they occur. The Company uses the Black-Scholes model to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards.

Compensating Balances

The Bank is required to maintain average balances with the Federal Reserve Bank. The Bank has implemented a deposit reclassification program which allows the Bank to reclassify a portion of transaction accounts to nontransaction accounts for reserve purposes. The deposit reclassification program was provided by a third-party vendor, and has been approved by the Federal Reserve Bank. At December 31, 2019, the Bank was subject to maintaining an average balance of \$776. As of December 31, 2019, the Company pledged cash collateral for the Company's derivative contracts of \$1,404. No cash collateral was pledged on any derivative contracts for the year ended December 31, 2018.

Earnings per Share

Basic earnings per share are calculated by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per share are calculated by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of shares adjusted for the dilutive effect of stock compensation using the treasury stock method.

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Segment Reporting

All of the Company's operations are considered by management to be one operating segment.

Reclassifications

Certain reclassifications have been made to the 2018 consolidated financial statements to conform to the 2019 classifications.

Impact of Recently Adopted Accounting Standards

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2015-14") was issued in August 2015 which defers adoption to annual reporting periods beginning after December 15, 2018 and interim reporting periods beginning after December 15, 2019. The Company adopted ASU 2014-09 and its related amendments using the modified retrospective approach effective January 1, 2019, with no material impact on its consolidated financial statements. See Note 22 for the new disclosures related to Topic 606.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). This guidance changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. Entities will be required to measure these investments at fair value at the end of each reporting period and recognize changes in fair value in net income. A practicability exception will be available for equity investments that do not have readily determinable fair values; however, the exception requires the Company to adjust the carrying amount for impairment and observable price changes in orderly transactions for the identical or a similar investment of the same issuer. This guidance also changes certain disclosure requirements and other aspects of current GAAP. This ASU became effective for the Company on January 1, 2019 and did not have a material impact on the Company's consolidated financial statements.

In July 2019, the FASB issued ASU No. 2019-07, *Codification Updates to SEC Sections*, which amends certain SEC sections or paragraphs within the Accounting Standards Codification to reflect changes in SEC Final Rule Releases No. 33-10532, "Disclosure Update and Simplification," and 33-10231 and 33-10442, "Investment Company Reporting Modernization." Other revisions in ASU No. 2019-07 update language in the codification to match the electronic Code of Federal Regulations. The amendments became effective upon addition to the FASB Codification and there is no impact on the consolidated financial statements.

Impact of Recently Issued Accounting Standards

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

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). The new guidance establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. Entities will be required to recognize the lease assets and lease liabilities that arise from leases in the

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statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. Also, in July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements* which provides an optional transition method to adopt the new requirements of ASU 2016-02 as of the adoption date with no adjustment to the presentation or disclosure of comparative prior periods included in the financial statement in the period of adoption. The guidance is effective for fiscal years beginning after December 15, 2019 and interim reporting periods beginning after December 15, 2020. In March 2019, the FASB issued ASU No. 2019-01, *Leases (Topic 842): Codification Improvements*. This ASU provides clarifications to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing essential information about leasing transactions. Specifically, this ASU (i) states that for lessors that are not manufacturers or dealers, the fair value of the underlying asset is its cost, less any volume or trade discounts, as long as there isn't a significant amount of time between acquisition of the asset and lease commencement, (ii) allows for the cash flows received for sales-type and direct financing leases to continue to be presented as results from investing, and (iii) clarifies the transition guidance related to certain interim disclosures provided in the year of adoption. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (815), and Leases (Topic 842) – Effective Dates*. This ASU amended the effective date of ASU 2016-02, ASU 2018-11 and ASU 2019-01 for smaller reporting companies and non-SEC reporting entities. The amendment delays the effective date to fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. As an emerging growth company, the Company can take advantage of this delay. The Company continues to assess and implement changes to its accounting processes for leases to help ensure that it meets the reporting and disclosure requirements of this ASU. The Company's assets and liabilities will increase based on the present value of the remaining lease payments for leases in place at the adoption date; however, this is not expected to be significant to the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (modified by ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments Credit Losses*, ASU 2019-05, *Financial Instruments Credit Losses – Targeted Transition Relief*, and ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*.) The amendments in this ASU affect all entities that measure credit losses on financial instruments including loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial asset that has a contractual right to receive cash that is not specifically excluded. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this ASU replace the incurred loss impairment methodology required in current GAAP with a methodology that reflects expected credit losses that requires consideration of a broader range of reasonable and supportable information to estimate credit losses. The amendments in this ASU will affect entities to varying degrees depending on the credit quality of the assets held by the entity, the duration of the assets held, and how the entity applies the current incurred loss methodology. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (815), and Leases (Topic 842) – Effective Dates*. This ASU amended the effective date of ASU 2016-13 for smaller reporting companies and non-SEC reporting entities. The amendment delays the effective date to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. As an emerging growth company, the Company can take advantage of this delay.

All entities may adopt the amendments in the ASU as early as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Amendments should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. The Company has contracted with a third party to develop a model to comply with CECL requirements. The Company has established a steering committee with representation from various departments across the enterprise. The Company is currently evaluating the impact the new standard will have on the its consolidated financial statements.

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In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The amendments in this ASU were issued to address concerns over the cost and complexity of the two-step goodwill impairment test and resulted in the removal of the second step of the test. The amendments require an entity to apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. This ASU is intended to reduce the cost and complexity of the two-step goodwill impairment test and is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2021, with early adoption permitted for testing performed after January 1, 2017. Upon adoption, the amendments should be applied on a prospective basis and the entity is required to disclose the nature of and reason for the change in accounting principle upon transition. The Company will early adopt this ASU on January 1, 2020. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The amendments in this ASU shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount as discounts continue to be accreted to maturity. This ASU is intended to more closely align the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities. In most cases, market participants price securities to the call date that produces the worst yield when the coupon is above current market rates and prices securities to maturity when the coupon is below market rates. As a result, the amendments more closely align interest income recorded on bonds held at a premium or a discount with the economics of the underlying instrument. This ASU is intended to reduce diversity in practice and is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. Upon adoption, the amendments should be applied using a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principles. The adoption of this guidance is not expected to have a significant 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*. The amendments of this ASU better align an entity's accounting and financial reporting for hedging activities with the economic objectives of those activities. The ASU is effective for fiscal years beginning after December 15, 2019 and interim reporting periods beginning after December 15, 2020, with early adoption permitted. The Company is evaluating the impact this new standard will have on its consolidated financial statements.

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*. The amendments of this ASU modify the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40)*. The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by these amendments. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after

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December 15, 2019. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This ASU aims to simplify the accounting for income taxes by removing certain exceptions to the general principles and also simplification of areas such as franchise taxes, step-up in tax basis goodwill, separate entity financial statements and interim recognition of enactment of tax laws or rate changes. The ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the potential impact this guidance will have on the consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323 and Topic 815*. This ASU clarifies that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the fair value measurement alternative. The ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company does not expect adoption to have a material impact on the consolidated financial statements.

Subsequent Events

Subsequent events have been evaluated through March 11, 2020, which is the date the consolidated financial statements were available to be issued.

Note 2: Earnings Per Share

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per common share are calculated by dividing net income by the weighted average number of shares adjusted for the dilutive effect of stock compensation. For the years ended December 31, 2019 and 2018, 303,000 and 130,000, respectively, of stock options were excluded from the calculation because they were deemed to be antidilutive. For the year ended December 31, 2017, no stock options were excluded from the calculation because none were considered antidilutive.

The following table presents the numerators and denominators for basic and diluted earnings per share computations for the years ended December 31, 2019, 2018 and 2017:

	Year Ended December 31,		
	2019	2018	2017
Net Income Available to Common Shareholders	\$ 31,403	\$ 26,920	\$ 16,889
Weighted Average Common Stock Outstanding:			
Weighted Average Common Stock Outstanding (Basic)	29,358,644	29,001,393	24,604,464
Dilutive Effect of Stock Compensation	638,132	434,821	413,226
Weighted Average Common Stock Outstanding (Dilutive)	<u>29,996,776</u>	<u>29,436,214</u>	<u>25,017,690</u>
Basic Earnings per Common Share	\$ 1.07	\$ 0.93	\$ 0.69
Diluted Earnings per Common Share	1.05	0.91	0.68

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Note 3: Bank-Owned Certificates of Deposit

Certificates of deposit in other financial institutions by maturity are as follows:

	<u>2019</u>	<u>2018</u>
Certificates of Deposit at Cost Maturing in:		
One Year or Less	\$ 1,229	\$ 1,586
After One Year Through Five Years	1,425	1,719
	<u>\$ 2,654</u>	<u>\$ 3,305</u>

Note 4: Securities

The following tables present the amortized cost and estimated fair value of securities with gross unrealized gains and losses at December 31, 2019 and 2018:

<u>December 31, 2019</u>				
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Securities Available for Sale:				
U.S. Treasury Securities	\$ 4,990	\$ 8	\$ —	\$ 4,998
Municipal Bonds	99,441	6,338	(36)	105,743
Mortgage-Backed Securities	64,312	697	(281)	64,728
Corporate Securities	49,674	633	(131)	50,176
SBA Securities	50,126	35	(602)	49,559
Asset-Backed Securities	14,673	—	—	14,673
Total Securities Available for Sale	<u>\$ 283,216</u>	<u>\$ 7,711</u>	<u>\$ (1,050)</u>	<u>\$ 289,877</u>

<u>December 31, 2018</u>				
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Securities Available for Sale:				
U.S. Treasury Securities	\$ 17,862	\$ 54	\$ (19)	\$ 17,897
Municipal Bonds	117,991	1,257	(1,115)	118,133
Mortgage-Backed Securities	48,816	52	(1,692)	47,176
Corporate Securities	21,170	72	(124)	21,118
SBA Securities	49,876	13	(835)	49,054
Total Securities Available for Sale	<u>\$ 255,715</u>	<u>\$ 1,448</u>	<u>\$ (3,785)</u>	<u>\$ 253,378</u>

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

	<u>Less Than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
December 31, 2019						
Municipal Bonds	\$ 2,760	\$ (23)	\$ 1,390	\$ (13)	\$ 4,150	\$ (36)
Mortgage-Backed Securities	32,276	(242)	3,098	(39)	35,374	(281)
Corporate Securities	8,350	(131)	—	—	8,350	(131)
SBA Securities	11,907	(64)	31,036	(538)	42,943	(602)
Total Securities Available for Sale . .	<u>\$ 55,293</u>	<u>\$ (460)</u>	<u>\$ 35,524</u>	<u>\$ (590)</u>	<u>\$ 90,817</u>	<u>\$ (1,050)</u>
	<u>Less Than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
December 31, 2018						
U.S. Treasury Securities	\$ 14,866	\$ (19)	\$ —	\$ —	\$ 14,866	\$ (19)
Municipal Bonds	15,405	(199)	34,172	(916)	49,577	(1,115)
Mortgage-Backed Securities	1,751	(21)	41,776	(1,671)	43,527	(1,692)
Corporate Securities	9,063	(74)	1,996	(50)	11,059	(124)
SBA Securities	28,186	(366)	15,878	(469)	44,064	(835)
Total Securities Available for Sale . .	<u>\$ 69,271</u>	<u>\$ (679)</u>	<u>\$ 93,822</u>	<u>\$ (3,106)</u>	<u>\$ 163,093</u>	<u>\$ (3,785)</u>

At December 31, 2019, 110 debt securities had unrealized losses with aggregate depreciation of approximately 1.1% from the Company's amortized cost basis. At December 31, 2018, 195 debt securities had unrealized losses with aggregate depreciation of approximately 2.3% from the Company's amortized cost basis. These unrealized losses relate principally to changes in interest rates and are not due to changes in the financial condition of the issuer, the quality of any underlying assets, or applicable credit enhancements. In analyzing whether unrealized losses on debt securities are other than temporary, management considers whether the securities are issued by a government body or agency, whether a rating agency has downgraded the securities, industry analysts' reports, the financial condition and performance of the issuer, and the quality of any underlying assets or credit enhancements. Since management has the ability and intent to hold debt securities for the foreseeable future, no declines were deemed to be other than temporary as of December 31, 2019 and 2018.

The following presents a summary of amortized cost and estimated fair value of debt securities by the lesser of expected call date or contractual maturity as of December 31, 2019. Call date is used when a call of the debt security is expected, determined by the Company when the security has a market value above its amortized cost. Contractual

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maturities will differ from expected maturities for mortgage-backed, SBA securities and asset-backed securities because borrowers may have the right to call or prepay obligations without penalties.

December 31, 2019	Amortized Cost	Fair Value
Due in One Year or Less	\$ 15,128	\$ 15,201
Due After One Year Through Five Years	65,790	67,216
Due After Five Years Through 10 Years.	62,287	65,816
Due After 10 Years	10,900	12,684
Subtotal	154,105	160,917
Mortgage-Backed Securities	64,312	64,728
SBA Securities	50,126	49,559
Asset-Backed Securities	14,673	14,673
Totals	<u>\$ 283,216</u>	<u>\$ 289,877</u>

As of December 31, 2019 and 2018, the securities portfolio was completely unencumbered.

The following presents a summary of the proceeds from sales of securities available for sale, as well as gross gains and losses, for the years ended December 31, 2019, 2018 and 2017:

	2019	2018	2017
Proceeds From Sales of Securities	\$ 42,864	\$ 24,684	\$ 36,209
Gross Gains on Sales	774	290	405
Gross Losses on Sales	(258)	(415)	(655)

Note 5: Loans

The following table presents the components of loans at December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Commercial	\$ 276,035	\$ 260,833
Construction and Land Development	196,776	210,041
Real Estate Mortgage:		
1-4 Family Mortgage	260,611	226,773
Multifamily	515,014	407,934
CRE Owner Occupied	66,584	64,458
CRE Non-owner Occupied	592,545	490,632
Total Real Estate Mortgage Loans	1,434,754	1,189,797
Consumer and Other	4,473	4,260
Total Loans, Gross	1,912,038	1,664,931
Allowance for Loan Losses	(22,526)	(20,031)
Net Deferred Loan Fees	(5,512)	(4,515)
Total Loans, Net	<u>\$ 1,884,000</u>	<u>\$ 1,640,385</u>

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The following table presents the activity in the allowance for loan losses, by segment, for the years ended December 31, 2019, 2018 and 2017:

	Commercial	Construction and Land Development	1-4 Family Mortgage	Multifamily	CRE Owner Occupied	CRE Non-owner Occupied	Consumer and Other	Unallocated	Total
Balance at									
January 1, 2017	\$ 1,315	\$ 1,379	\$ 2,410	\$ 1,568	\$ 1,160	\$ 3,323	78	\$ 1,100	\$ 12,333
Provision for Loan Losses . .	1,116	488	(230)	1,602	(204)	1,875	43	(515)	4,175
Loans Charged-off	(1)	—	—	—	—	(111)	(65)	—	(177)
Recoveries of Loans	5	25	137	—	—	—	4	—	171
Balance at									
December 31, 2017	\$ 2,435	\$ 1,892	\$ 2,317	\$ 3,170	\$ 956	\$ 5,087	60	\$ 585	\$ 16,502
Provision for Loan Losses . .	448	632	242	1,474	(148)	785	31	111	3,575
Loans Charged-off	(10)	(358)	(21)	—	—	—	(32)	—	(421)
Recoveries of Loans	25	285	59	—	—	—	6	—	375
Balance at									
December 31, 2018	\$ 2,898	\$ 2,451	\$ 2,597	\$ 4,644	\$ 808	\$ 5,872	65	\$ 696	\$ 20,031
Provision for Loan Losses . .	312	(250)	269	1,180	(16)	1,100	47	58	2,700
Loans Charged-off	(160)	—	(195)	—	—	—	(33)	—	(388)
Recoveries of Loans	8	1	168	—	—	—	6	—	183
Balance at									
December 31, 2019	\$ 3,058	\$ 2,202	\$ 2,839	\$ 5,824	\$ 792	\$ 6,972	85	\$ 754	\$ 22,526

The following tables present the balance in the allowance for loan losses and the recorded investment in loans, by segment, based on impairment method as of December 31, 2019 and 2018:

	Commercial	Construction and Land Development	1-4 Family Mortgage	Multifamily	CRE Owner Occupied	CRE Non-owner Occupied	Consumer and Other	Unallocated	Total
Allowance for Loan Losses at December 31, 2019									
Individually Evaluated for Impairment	\$ 31	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 14	\$ —	\$ 45
Collectively Evaluated for Impairment	3,027	2,202	2,839	5,824	792	6,972	71	754	22,481
Totals	<u>\$ 3,058</u>	<u>\$ 2,202</u>	<u>\$ 2,839</u>	<u>\$ 5,824</u>	<u>\$ 792</u>	<u>\$ 6,972</u>	<u>\$ 85</u>	<u>\$ 754</u>	<u>\$ 22,526</u>

Allowance for Loan Losses at December 31, 2018									
Individually Evaluated for Impairment	\$ 8	\$ —	\$ 17	\$ —	\$ 22	\$ —	\$ —	\$ —	\$ 47
Collectively Evaluated for Impairment	2,890	2,451	2,580	4,644	786	5,872	65	696	19,984
Totals	<u>\$ 2,898</u>	<u>\$ 2,451</u>	<u>\$ 2,597</u>	<u>\$ 4,644</u>	<u>\$ 808</u>	<u>\$ 5,872</u>	<u>\$ 65</u>	<u>\$ 696</u>	<u>\$ 20,031</u>

	Commercial	Construction and Land Development	1-4 Family Mortgage	Multifamily	CRE Owner Occupied	CRE Non-owner Occupied	Consumer and Other	Total
Loans at December 31, 2019								
Individually Evaluated for Impairment	\$ 273	\$ 176	\$ 1,059	\$ —	\$ 236	\$ —	\$ 14	\$ 1,758
Collectively Evaluated for Impairment	275,762	196,600	259,552	515,014	66,348	592,545	4,459	1,910,280
Totals	<u>\$ 276,035</u>	<u>\$ 196,776</u>	<u>\$ 260,611</u>	<u>\$ 515,014</u>	<u>\$ 66,584</u>	<u>\$ 592,545</u>	<u>\$ 4,473</u>	<u>\$ 1,912,038</u>

Loans at December 31, 2018								
Individually Evaluated for Impairment	\$ 8	\$ 198	\$ 1,676	\$ —	\$ 365	\$ —	\$ 58	\$ 2,305
Collectively Evaluated for Impairment	260,825	209,843	225,097	407,934	64,093	490,632	4,202	1,662,626
Totals	<u>\$ 260,833</u>	<u>\$ 210,041</u>	<u>\$ 226,773</u>	<u>\$ 407,934</u>	<u>\$ 64,458</u>	<u>\$ 490,632</u>	<u>\$ 4,260</u>	<u>\$ 1,664,931</u>

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The following table presents information regarding total carrying amounts and total unpaid principal balances of impaired loans by loan segment as of December 31, 2019 and 2018:

	December 31, 2019			December 31, 2018		
	<u>Recorded Investment</u>	<u>Principal Balance</u>	<u>Related Allowance</u>	<u>Recorded Investment</u>	<u>Principal Balance</u>	<u>Related Allowance</u>
<i>Loans With No Related Allowance for Loan Losses:</i>						
Commercial	\$ 167	\$ 167	\$ —	\$ —	\$ —	\$ —
Construction and Land Development	176	785	—	198	807	—
Real Estate Mortgage:						
HELOC and 1-4 Family Junior Mortgage.	302	489	—	157	157	—
1st REM - 1-4 Family.	—	—	—	253	253	—
1st REM - Rentals.	757	757	—	957	957	—
CRE Owner Occupied	236	236	—	209	209	—
Consumer and Other	—	—	—	58	78	—
Totals.	<u>1,638</u>	<u>2,434</u>	<u>—</u>	<u>1,832</u>	<u>2,461</u>	<u>—</u>
<i>Loans With An Allowance for Loan Losses:</i>						
Commercial	106	109	31	8	8	8
Real Estate Mortgage:						
HELOC and 1-4 Family Junior Mortgage.	—	—	—	309	336	17
CRE Owner Occupied	—	—	—	156	156	22
Consumer and Other	14	14	14	—	—	—
Totals.	<u>120</u>	<u>123</u>	<u>45</u>	<u>473</u>	<u>500</u>	<u>47</u>
Grand Totals	<u>\$ 1,758</u>	<u>\$ 2,557</u>	<u>\$ 45</u>	<u>\$ 2,305</u>	<u>\$ 2,961</u>	<u>\$ 47</u>

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The following table presents information regarding the average balances and interest income recognized on impaired loans by loan segment for the years ended December 31, 2019, 2018 and 2017:

	Year Ended December 31, 2019		Year Ended December 31, 2018		Year Ended December 31, 2017	
	Average Investment	Interest Recognized	Average Investment	Interest Recognized	Average Investment	Interest Recognized
<i>Loans With No Related Allowance for Loan Losses:</i>						
Commercial	\$ 188	\$ 13	\$ —	\$ —	\$ —	\$ —
Construction and Land Development	189	—	212	—	594	—
Real Estate Mortgage:						
HELOC and 1-4 Family Junior Mortgage. .	326	9	158	9	537	20
1st REM - 1-4 Family.....	—	—	255	10	130	—
1st REM - Rentals.....	789	41	976	48	739	34
CRE Owner Occupied	240	12	225	13	2,042	97
Consumer and Other	—	—	64	—	97	—
Totals.....	<u>1,732</u>	<u>75</u>	<u>1,890</u>	<u>80</u>	<u>4,139</u>	<u>151</u>
<i>Loans With An Allowance for Loan Losses:</i>						
Commercial	109	1	8	—	14	—
Real Estate Mortgage:						
HELOC and 1-4 Family Junior Mortgage. .	—	—	324	—	—	—
LOCs and 2nd REM - Rentals	—	—	—	—	65	3
1st REM - Rentals.....	—	—	—	—	276	14
Multifamily	—	—	65	3	66	3
CRE Owner Occupied	—	—	158	7	161	7
Consumer and Other	44	2	—	—	—	—
Totals.....	<u>153</u>	<u>3</u>	<u>555</u>	<u>10</u>	<u>582</u>	<u>27</u>
Grand Totals	<u>\$ 1,885</u>	<u>\$ 78</u>	<u>\$ 2,445</u>	<u>\$ 90</u>	<u>\$ 4,721</u>	<u>\$ 178</u>

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The process of analyzing loans for changes in risk ratings is ongoing through routine monitoring of the portfolio and annual internal credit reviews for credits meeting certain thresholds.

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The following tables present the risk category of loans by loan segment as of December 31, 2019 and 2018, based on the most recent analysis performed by management:

	December 31, 2019			
	Pass	Watch	Substandard	Total
Commercial	\$ 275,741	\$ 21	\$ 273	\$ 276,035
Construction and Land Development	196,462	138	176	196,776
Real Estate Mortgage:				
HELOC and 1-4 Family Junior Mortgage.	28,483	138	—	28,621
1st REM - 1-4 Family.	36,370	124	177	36,671
LOCs and 2nd REM - Rentals.	17,890	479	302	18,671
1st REM - Rentals.	174,781	1,287	580	176,648
Multifamily.	515,014	—	—	515,014
CRE Owner Occupied.	65,411	—	1,173	66,584
CRE Non-owner Occupied.	589,457	3,088	—	592,545
Consumer and Other	4,459	—	14	4,473
Totals.	<u>\$ 1,904,068</u>	<u>\$ 5,275</u>	<u>\$ 2,695</u>	<u>\$ 1,912,038</u>

	December 31, 2018			
	Pass	Watch	Substandard	Total
Commercial	\$ 260,225	\$ 600	\$ 8	\$ 260,833
Construction and Land Development	207,174	2,669	198	210,041
Real Estate Mortgage:				
HELOC and 1-4 Family Junior Mortgage.	30,669	587	—	31,256
1st REM - 1-4 Family.	37,526	126	253	37,905
LOCs and 2nd REM - Rentals.	11,341	628	474	12,443
1st REM - Rentals.	142,357	1,854	958	145,169
Multifamily.	407,934	—	—	407,934
CRE Owner Occupied.	62,223	—	2,235	64,458
CRE Non-owner Occupied.	487,438	3,194	—	490,632
Consumer and Other	4,202	—	58	4,260
Totals.	<u>\$ 1,651,089</u>	<u>\$ 9,658</u>	<u>\$ 4,184</u>	<u>\$ 1,664,931</u>

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The following tables present the aging of the recorded investment in past due loans by loan segment as of December 31, 2019 and 2018:

	Accruing Interest				Total
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual	
December 31, 2019					
Commercial	\$ 276,028	\$ —	\$ —	\$ 7	\$ 276,035
Construction and Land Development	196,600	—	—	176	196,776
Real Estate Mortgage:					
HELOC and 1-4 Family Junior Mortgage.	28,621	—	—	—	28,621
1st REM - 1-4 Family.	36,671	—	—	—	36,671
LOCs and 2nd REM - Rentals.	18,527	—	—	144	18,671
1st REM - Rentals.	176,114	400	—	134	176,648
Multifamily.	515,014	—	—	—	515,014
CRE Owner Occupied.	66,584	—	—	—	66,584
CRE Non-owner Occupied.	592,545	—	—	—	592,545
Consumer and Other	4,470	3	—	—	4,473
Totals.	<u>\$ 1,911,174</u>	<u>\$ 403</u>	<u>\$ —</u>	<u>\$ 461</u>	<u>\$ 1,912,038</u>
	Accruing Interest				Total
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual	
December 31, 2018					
Commercial	\$ 260,813	\$ 12	\$ —	\$ 8	\$ 260,833
Construction and Land Development	209,843	—	—	198	210,041
Real Estate Mortgage:					
HELOC and 1-4 Family Junior Mortgage.	30,939	—	—	317	31,256
1st REM - 1-4 Family.	37,705	200	—	—	37,905
LOCs and 2nd REM - Rentals.	12,443	—	—	—	12,443
1st REM - Rentals.	145,169	—	—	—	145,169
Multifamily.	407,934	—	—	—	407,934
CRE Owner Occupied.	64,360	98	—	—	64,458
CRE Non-owner Occupied.	490,632	—	—	—	490,632
Consumer and Other	4,201	1	—	58	4,260
Totals.	<u>\$ 1,664,039</u>	<u>\$ 311</u>	<u>\$ —</u>	<u>\$ 581</u>	<u>\$ 1,664,931</u>

At December 31, 2019, there were three loans classified as troubled debt restructurings with a current outstanding balance of \$452. In comparison, at December 31, 2018, there were three loans classified as troubled debt restructurings with an outstanding balance of \$437. There was one new loan classified as a troubled debt restructuring during the year ended December 31, 2019, and no loans classified as troubled debt restructurings during the previous twelve months that subsequently defaulted during the year ended December 31, 2019.

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Note 6: Premises and Equipment

Premises and equipment are summarized as follows for the years ended December 31, 2019 and 2018:

	Range of Useful Lives	December 31,	
		2019	2018
Land	N/A	\$ 5,174	\$ 5,174
Building	15 - 39 Years	3,487	3,462
Leasehold Improvements	3 - 10 Years	3,344	2,718
Furniture and Equipment	3 - 5 Years	3,902	3,191
Construction in Progress	N/A	16,693	2,494
Subtotal		32,600	17,039
Accumulated Depreciation		(4,972)	(3,965)
Totals		<u>\$ 27,628</u>	<u>\$ 13,074</u>

Depreciation and amortization expense charged to noninterest expense for the years ended December 31, 2019, 2018 and 2017, totaled \$1,008, \$761 and \$694, respectively. Construction in progress represents amounts paid for the construction of the Company's new corporate headquarters building. Construction is expected to be completed in 2020.

Pursuant to the terms of non-cancelable lease agreements in effect at December 31, 2019, pertaining to banking premises in Bloomington, Downtown Minneapolis, St. Paul and Uptown Minneapolis (Drive-Up) total future minimum rent commitments under various operating leases are as follows:

	2019
2020	\$ 776
2021	336
2022	327
2023	319
2024	324
Thereafter	1,130
Totals	<u>\$ 3,212</u>

Rent expense, including common area maintenance pertaining to banking premises for the years ended December 31, 2019, 2018 and 2017, totaled \$1,264, \$870 and \$774, respectively.

The Bloomington, Downtown Minneapolis and St. Paul leases each contain two consecutive options to extend the lease for a period of five years each. The Uptown Minneapolis (Drive-Up) contains one option to extend the lease for a period of five years. The monthly minimum rent payable will be at a market rate as reasonably determined by the lessor.

The Greenwood location is leased pursuant to the terms of a non-cancelable lease agreement with Bridgewater Properties Greenwood, LLC, a related party through common ownership, in effect at December 31, 2019. The lease contains two consecutive options to extend the lease for a period of five years each. Future minimum rent commitments under the operating lease are listed below.

	2019
2020	\$ 164
2021	111
Totals	<u>\$ 275</u>

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Note 7: Intangible Assets

The following table presents a summary of intangible assets at December 31, 2019 and 2018:

	December 31,	
	2019	2018
Core Deposit Intangible	\$ 1,093	\$ 1,093
Favorable Lease	445	445
Subtotal	1,538	1,538
Accumulated Amortization	(677)	(486)
Totals	<u>\$ 861</u>	<u>\$ 1,052</u>

Amortization expense of intangible assets was \$191 for the years ended December 31, 2019, 2018 and 2017.

The following table presents the estimated future amortization of the core deposit premium intangible and favorable lease asset for the next five years and thereafter. The projections of amortization expense are based on existing asset balances as of December 31, 2019.

	Core Deposit Intangible	Favorable Lease
2020	\$ 157	\$ 34
2021	157	34
2022	157	34
2023	65	34
2024	—	34
Thereafter	—	155
Totals	<u>\$ 536</u>	<u>\$ 325</u>

Note 8: Deposits

The following table presents the composition of deposits at December 31, 2019 and 2018:

	December 31,	
	2019	2018
Transaction Deposits	\$ 712,136	\$ 548,770
Savings and Money Market Deposits	516,785	402,639
Time Deposits	360,027	318,356
Brokered Deposits	234,362	291,169
Totals	<u>\$ 1,823,310</u>	<u>\$ 1,560,934</u>

Brokered deposits contain brokered money market accounts of \$2,443 and \$26,990 as of December 31, 2019 and 2018, respectively.

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The following table presents the scheduled maturities of brokered and customer time deposits at December 31, 2019:

	<u>2019</u>
Less than 1 Year	\$ 336,684
1 to 2 Years	133,771
2 to 3 Years	43,259
3 to 4 Years	67,913
4 to 5 Years	10,319
Totals	<u>\$ 591,946</u>

The aggregate amount of time deposits greater than \$250 was approximately \$118,318 and \$111,297 at December 31, 2019 and 2018, respectively.

Note 9: Notes Payable

During 2016, the Company entered into a note payable with an unaffiliated financial institution that is secured by 100% of the stock of the Bank. The proceeds of the note were partially used to payoff existing notes payable. The note requires interest payments monthly and principal payments of \$500 quarterly. Interest is accrued at a variable rate equal to 1-month LIBOR plus 2.40% and matures in February 2021. The interest rate at December 31, 2019 and 2018, was 4.09% and 4.75%, respectively. The note contains several financial and reporting covenants. As of December 31, 2019 and 2018, the Company believes it was in compliance with all covenants. The unpaid principal balance of the note at December 31, 2019 and 2018, was \$13,000 and \$15,000, respectively.

Note 10: Derivative Instruments and Hedging Activities

The Company uses derivative financial instruments, which consist of interest rate swaps, to assist in its interest rate risk management. The notional amount does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual agreements. Derivative financial instruments are reported at fair value in other assets or other liabilities. The accounting for changes in the fair value of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship. For derivatives not designated as hedges, the gain or loss is recognized in current earnings.

Non-hedge Derivatives

The Company enters into interest rate swaps to facilitate client transactions and meet their financing needs. Upon entering into these instruments to meet client needs, the Company enters into offsetting positions with large U.S. financial institutions in order to minimize the risk to the Company. These swaps are derivatives, but are not designated as hedging instruments.

Interest rate swap contracts involve the risk of dealing with counterparties and their ability to meet contractual terms. When the fair value of a derivative instrument contract is positive, this generally indicates that the counter party or client owes the Company, and results in credit risk to the Company. When the fair value of a derivative instrument contract is negative, the Company owes the client or counterparty and therefore, the Company has no credit risk.

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The following table presents a summary of the Company's interest rate swaps to facilitate customer transactions as of December 31, 2019:

	<u>December 31, 2019</u>	
	<u>Notional Amount</u>	<u>Estimated Fair Value</u>
Interest rate swap agreements:		
Assets	\$ 7,140	\$ 150
Liabilities	7,140	(150)
Total	<u>\$ 14,280</u>	<u>\$ —</u>

The Company had no interest rate swaps to facilitate customer transactions outstanding as of December 31, 2018.

Cash Flow Hedging Derivatives

For derivative instruments that are designated and qualify as a cash flow hedge, the aggregate fair value of the derivative instrument is recorded in other assets or other liabilities with any gain or loss related to changes in fair value recorded in accumulated other comprehensive income, net of tax. The gain or loss is reclassified into earnings in the same period during which the hedged asset or liability affects earnings and is presented in the same income statement line item as the earnings effect of the hedged asset or liability. The Company utilizes cash flow hedges to manage interest rate exposure for the brokered certificate of deposit, wholesale borrowing, and notes payable portfolios. During the next 12 months, the Company estimates that \$146 will be reclassified to interest expense.

The following tables present a summary of the Company's interest rate swaps designated as cash flow hedges as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Notional Amount	\$ 48,000	\$ 15,000
Weighted Average Pay Rate	1.89 %	1.21 %
Weighted Average Receive Rate	2.25 %	1.97 %
Weighted Average Maturity (Years)	3.53	2.16
Net Unrealized Gain (Loss)	\$ (618)	\$ 352

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Notional Amount</u>	<u>Estimated Fair Value</u>	<u>Notional Amount</u>	<u>Estimated Fair Value</u>
Interest rate swap agreements:				
Assets	\$ 18,000	\$ 134	\$ 15,000	\$ 352
Liabilities	30,000	(752)	—	—

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The following table presents the effect of derivative instruments in cash flow hedging relationships on the consolidated statements of income for the year ended December 31, 2019, 2018 and 2017:

(dollars in thousands)		Year Ended December 31,		
		2019	2018	2017
Derivatives in Cash Flow Hedging Relationships	Location of Gain or (Loss) Reclassified from AOCI into Income	Gain (Loss) Reclassified from AOCI into Earnings		
Interest rate swaps	Interest expense	\$ 9	\$ —	\$ —

No amounts were reclassified from accumulated other comprehensive income into net income related to hedge ineffectiveness for these derivatives during the years ended December 31, 2019, 2018 and 2017, and no amounts are expected to be reclassified from accumulated other comprehensive income into net income related to hedge ineffectiveness over the next twelve months.

Note 11: Federal Home Loan Bank Advances and Other Borrowings

Federal Home Loan Bank Advances. The Company has entered into an Advances, Pledge, and Security Agreement with the FHLB whereby specific mortgage loans of the Bank's with principal balances of \$690,609 and \$577,241 at December 31, 2019 and 2018, respectively, were pledged to the FHLB as collateral. FHLB advances are also secured with FHLB stock owned by the Company. Total remaining available borrowings were \$209,840 and \$122,120 at December 31, 2019 and 2018, respectively.

The following table presents FHLB advances, by maturity, at December 31, 2019 and 2018:

	2019		2018	
	Weighted Average Rate	Total Outstanding	Weighted Average Rate	Total Outstanding
2019	N/A	\$ —	1.47 %	\$ 20,000
2020	1.76 %	10,000	1.65	5,000
2021	1.99	15,000	1.99	15,000
2022	2.50	29,000	2.50	29,000
2023	2.93	45,000	3.03	40,000
2024	2.20	27,500	3.17	5,000
2025	3.29	10,000	3.29	10,000
Totals		<u>\$ 136,500</u>		<u>\$ 124,000</u>

Federal Reserve Discount Window. At December 31, 2019 and 2018, the Company had the ability to draw additional borrowings of \$113,164 and \$114,051, respectively, from the Federal Reserve Bank of Minneapolis. The ability to draw borrowings is based on loan collateral pledged with principal balances of \$159,568 and \$159,616 as of December 31, 2019 and 2018, subject to the approval from the Board of Governors of the Federal Reserve System.

Federal Funds Purchased. Federal funds purchased mature one business day from the transaction date. There were no federal funds purchased outstanding as of December 31, 2019 and \$18,000 of federal funds purchased outstanding as of December 31, 2018. The interest rate as of December 31, 2018 was 2.63%.

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Note 12: Subordinated Debentures

On July 12, 2017, the Company entered into a Subordinated Note Purchase Agreement with certain institutional accredited investors (the “Purchasers”) whereby the Company sold and issued \$25,000 in aggregate principal amount of fixed-to-floating subordinated notes due 2027 (the “Notes”). The Notes were issued by the Company to the Purchasers at a price equal to 100% of their face amount. Issuance costs were \$516 and have been netted against Subordinated Debt on the consolidated balance sheets. These costs are being amortized over five years, which represents the period from issuance to the first redemption date of July 15, 2022. Total amortization expense for the year ended December 31, 2019 was \$103, with \$267 remaining to be amortized as of December 31, 2019. Total amortization expense for the year ended December 31, 2018 was \$103, with \$370 remaining to be amortized as of December 31, 2018. Total amortization expense for the year ended December 31, 2017 was \$43, with \$473 remaining to be amortized as of December 31, 2017.

The Notes mature on July 15, 2027, with a fixed interest rate of 5.875% payable semiannually in arrears for five years until July 15, 2022. Thereafter, the Company will be obligated to pay interest at a rate equal to 3-month LIBOR plus 388 basis points quarterly in arrears until either the early redemption date or the maturity date. The Notes are not convertible into or exchangeable for any other securities or assets of the Company or any of its subsidiaries. The Notes are redeemable by the Company, in whole or in part, on or after July 15, 2022, and at any time upon the occurrence of certain events. Any redemption by the Company would be at a redemption price equal to 100% of the outstanding principal amount of the Notes being redeemed, including any accrued and unpaid interest thereon.

Note 13: Related-Party Transactions

In the ordinary course of business, the Company has granted loans to executive officers, directors, principal shareholders, and their affiliates (related parties). The following table presents the activity associated with loans made between related parties for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Beginning Balance	\$ 39,454	\$ 11,344
New Loans and Advances	13,298	35,761
Repayments	(15,269)	(7,653)
Changes to Related Parties	-	2
Totals	<u>\$ 37,483</u>	<u>\$ 39,454</u>

Deposits from related parties held by the Company at December 31, 2019 and 2018 were \$11,223 and \$8,856, respectively.

The Company has a related party lease which is disclosed in Note 6.

A member of the Company’s board of directors, David J. Volk, is a principal at Castle Creek Capital, LLC, which is the sole general partner of Castle Creek Capital Partners V, LP. During 2018, the Company entered into an Exchange Agreement with Castle Creek Capital Partners V, LP providing for the exchange of 1,431,796 shares of the Company’s non-voting common stock for 1,431,796 shares of the Company’s voting common stock.

Note 14: Income Taxes

On December 22, 2017, the President of the United States signed into law Public Law 115-97, commonly known as the Tax Cuts and Jobs Act, which amended the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, the Tax Cuts and Jobs Act reduced the federal corporate tax rate from a maximum of 35% to a flat rate of 21%. The rate reduction was effective January 1, 2018.

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The lower corporate income tax rate reduces the future net tax benefits of timing differences between book and taxable income recorded by the Company as a net deferred tax asset. As of December 31, 2017, the Company revalued its net deferred tax assets and recorded a one-time additional income tax expense of \$2,005 related to the write-down of deferred tax assets for tax benefits that the Company does not expect to realize.

The following table presents the allocation of federal and state income taxes between current and deferred portions as of December 31, 2019, 2018 and 2017:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current Tax Provision	\$ 7,670	\$ 6,522	\$ 10,206
Deferred Tax Benefit	(747)	(1,298)	(2,062)
Change in Deferred Taxes Due to Enacted Changes in Tax Law	—	—	2,005
Total Income Tax Provision	<u>\$ 6,923</u>	<u>\$ 5,224</u>	<u>\$ 10,149</u>

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows as of December 31, 2019, 2018 and 2017:

	<u>2019</u>		<u>2018</u>		<u>2017</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Amount of Statutory Rate	\$ 8,048	21.0 %	\$ 6,750	21.0 %	\$ 9,463	35.0 %
State Income Taxes (Net of Federal Income Tax Benefit) ..	2,711	7.1	2,755	8.6	1,757	6.5
Interest on Investment Securities and Loans Exempt						
From Federal Income Tax	(734)	(1.9)	(719)	(2.2)	(1,170)	(4.3)
Tax Credits	(2,781)	(7.3)	(3,207)	(10.0)	(1,621)	(6.0)
Deferred Tax Asset Revaluation	—	—	—	—	2,005	7.4
Other Differences	(321)	(0.8)	(355)	(1.1)	(285)	(1.1)
Totals	<u>\$ 6,923</u>	<u>18.1 %</u>	<u>\$ 5,224</u>	<u>16.3 %</u>	<u>\$ 10,149</u>	<u>37.5 %</u>

The Company's effective tax rate may fluctuate as it is impacted by the level and timing of the Company's utilization of historic tax credits, low-income housing tax credits, the level of tax-exempt investments and loans, and the overall level of pre-tax income. In 2017, the negative impact of the deferred tax asset revaluation was offset primarily by the effects of certain federal historic tax credits utilized in the period.

The following table presents the components of the net deferred tax asset included in other assets, as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Depreciation	\$ (231)	\$ (249)
Allowance for Loan Losses	6,342	5,757
Unrealized (Gain) Loss on Securities Available for Sale	(1,399)	491
Unrealized (Gain) Loss on Cash Flow Hedge	130	(74)
Prepaid Expenses	(50)	(496)
Deferred Compensation	742	651
Deferred Loan Fees	599	—
Other	(230)	762
Totals	<u>\$ 5,903</u>	<u>\$ 6,842</u>

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Note 15: Tax Credit Investments

The Company invests in qualified affordable housing projects and federal historic projects for the purpose of community reinvestment and obtaining tax credits. The Company's tax credit investments are limited to existing lending relationships with well-known developers and projects within the Company's market area.

The following table presents a summary of the Company's investments in qualified affordable housing projects and other tax credit investments at December 31, 2019 and 2018:

Investment	Accounting Method	December 31, 2019		December 31, 2018	
		Investment	Unfunded Commitment ⁽¹⁾	Investment	Unfunded Commitment
Low Income Housing Tax Credit (LIHTC)	Proportional Amortization	\$ 2,148	\$ —	\$ 2,436	\$ —
Federal Historic Tax Credit (FHTC)	Equity	2,262	3,395	1,814	3,226
Total		<u>\$ 4,410</u>	<u>\$ 3,395</u>	<u>\$ 4,250</u>	<u>\$ 3,226</u>

(1) All commitments are expected to be paid by the Company by December 31, 2020.

The following table presents a summary of the amortization expense and tax benefit recognized for the Company's qualified affordable housing projects and other tax credit investments during 2019, 2018 and 2017.

	Amortization Expense ⁽¹⁾	Tax Benefit Recognized ⁽²⁾
Year Ended December 31, 2019		
LIHTC	\$ 289	\$ (330)
FHTC	3,225	(3,687)
Total	<u>\$ 3,514</u>	<u>\$ (4,017)</u>
Year Ended December 31, 2018		
LIHTC	\$ 310	\$ (346)
FHTC	3,293	(3,782)
Total	<u>\$ 3,603</u>	<u>\$ (4,128)</u>
Year Ended December 31, 2017		
LIHTC	\$ —	\$ —
FHTC	1,916	(2,225)
Total	<u>\$ 1,916</u>	<u>\$ (2,225)</u>

(1) The amortization expense for the LIHTC investments are included in income tax expense. The amortization for the FHTC tax credits are included in noninterest expense.

(2) All of the tax benefits recognized are included in income tax expense. The tax benefit recognized for the FHTC investments primarily reflects the tax credits generated from the investments, and excludes the net tax expense/benefit of the investments' income/loss.

Note 16: Commitments, Contingencies and Credit Risk

Financial Instruments with Off-Balance Sheet Credit Risk

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

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

The following commitments were outstanding at December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Unfunded Commitments Under Lines of Credit	\$ 500,962	\$ 395,032
Letters of Credit	79,225	81,053
Totals	<u>\$ 580,187</u>	<u>\$ 476,085</u>

Commitments to extend credit are agreements to lend to a customer at fixed or variable rates as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable; inventory; property, plant, and equipment; real estate; and stocks and bonds. Unfunded commitments under commercial lines of credit, home equity lines of credit, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit may or may not require collateral and may or may not contain a specific maturity date.

Standby letters of credit are conditional lending commitments issued by the Company to guarantee the performance of a customer to a third party. Generally, all standby letters of credit issued have expiration dates within two years. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting these commitments.

The Company had outstanding letters of credit with the FHLB in the amount of \$108,502 and \$129,152 at December 31, 2019 and 2018, respectively, on behalf of customers and to secure public deposits.

On August 27, 2018, the Bank and Reuter Walton Commercial, LLC (the "Contractor") entered into a Standard Form of Agreement Between Owner and Contractor and the corresponding General Conditions of the Contract for Construction (collectively, the "Construction Contract"). Under the Construction Contract, the Contractor will construct the core and shell of a new headquarters building for the Bank in St. Louis Park, Minnesota, and the Bank will pay the Contractor a contract price consisting of the cost of work plus a fee equal to 3.75% of the cost of work, subject to a guaranteed maximum price of \$23,000, with anticipated construction completed in 2020. As of December 31, 2019, \$15,189 has been paid under this Construction Contract. On December 3, 2019, the Bank entered into a separate contract with a third party relating to the construction of the build-out of the new headquarters building for the Bank. The total amount to be paid by the Bank under the contract is \$6,321, with anticipated construction to be completed in 2020. As of December 31, 2019, no payments had been made under this contract.

Legal Contingencies

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

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Note 17: Stock Options and Restricted Stock Awards

The Company established the Bridgewater Bancshares, Inc. 2012 Combined Incentive and Non-Statutory Stock Option Plan (the “2012 Plan”) under which the Company may grant options to its directors, officers, and employees for up to 750,000 shares of common stock. Both incentive stock options and nonqualified stock options may be granted under the 2012 Plan. The exercise price of each option equals the fair market value of the Company’s stock on the date of grant and the maximum term of each outstanding option is ten years. All outstanding options have been granted with a vesting period of five years. As of December 31, 2019 and 2018, there were no remaining shares of the Company’s common stock reserved for future option grants under the 2012 Plan.

In 2017, the Company adopted the Bridgewater Bancshares, Inc. 2017 Combined Incentive and Non-Statutory Stock Option Plan (the “2017 Plan”). Under the 2017 Plan, the Company may grant options to its directors, officers, and employees and consultants for up to 1,500,000 shares of common stock. Both incentive stock options and nonqualified stock options may be granted under the 2017 Plan. The exercise price of each option equals the fair market value of the Company’s stock on the date of grant and the maximum term of each outstanding option is ten years. All outstanding options have been granted with vesting periods of four or five years. As of December 31, 2019 and 2018, there were 310,600 and 540,000, respectively, remaining shares of the Company’s common stock reserved for future option grants under the 2017 Plan.

In 2019, the Company adopted the Bridgewater Bancshares, Inc. 2019 Equity Incentive Plan (the “2019 EIP”). The types of awards which may be granted under the 2019 EIP include incentive and nonqualified stock options, stock appreciation rights, stock awards, restricted stock units, restricted stock and cash incentive awards. The Company may grant these awards to its directors, officers, employees and certain other service providers for up to 1,000,000 shares of common stock. The exercise price of each option equals the fair market value of the Company’s stock on the date of grant and the maximum term of each award is ten years. All outstanding awards have been granted with a vesting period of four years. As of December 31, 2019, there were 867,040 of remaining shares of the Company’s common stock reserved for future grants under the 2019 EIP.

Stock Options

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on an industry index as described below. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. Historically, the Company has not paid a dividend on its common stock and does not expect to do so in the near future.

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The Company used the S&P 600 CM Bank Index as its historical volatility index. The S&P 600 CM Bank Index is an index of publicly traded small capitalization, regional, commercial banks located throughout the United States. There were 54 banks in the index ranging in market capitalization from \$500 million up to \$4.5 billion.

The weighted average assumptions used in the model for valuing stock option grants in 2019 is as follows:

	<u>December 31, 2019</u>
Dividend Yield	— %
Expected Life	7 Years
Expected Volatility	21.93 %
Risk-Free Interest Rate	1.75 %

The following table presents a summary of the status of the Company's outstanding stock options for the years ended December 31, 2019 and 2018:

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at Beginning of Year	1,807,100	\$ 6.24	1,721,000	\$ 5.68
Granted	238,000	12.47	135,000	12.52
Exercised	(74,850)	3.45	(37,900)	2.78
Forfeitures	(8,600)	10.65	(11,000)	7.61
Outstanding at End of Year	<u>1,961,650</u>	<u>\$ 7.08</u>	<u>1,807,100</u>	<u>\$ 6.24</u>
Options Exercisable at End of Year	<u>992,050</u>	<u>\$ 5.01</u>	<u>721,100</u>	<u>\$ 4.19</u>

For the years ended December 31, 2019, 2018 and 2017, the Company recognized compensation expense for stock options of \$721, \$799 and \$368, respectively.

The following table presents information pertaining to options outstanding at December 31, 2019:

		<u>Options Outstanding</u>		<u>Options Exercisable</u>	
<u>Exercise Price</u>		<u>Number Outstanding</u>	<u>Remaining Contractual Life</u>	<u>Exercise Price</u>	<u>Number Outstanding</u>
\$ 2.13		74,750	3.3 Years	\$ 2.13	74,750
3.00		455,000	4.0 Years	3.00	455,000
3.58		45,000	5.0 Years	3.58	35,000
7.47		1,023,900	7.8 Years	7.47	402,300
13.22		25,000	8.4 Years	13.22	5,000
12.86		45,000	8.7 Years	12.86	9,000
12.94		30,000	8.8 Years	12.94	6,000
11.59		25,000	8.8 Years	11.59	5,000
11.15		10,000	9.2 Years	11.15	—
11.13		50,000	9.7 Years	11.13	—
12.92		178,000	9.9 Years	12.92	—
Totals		<u>1,961,650</u>	<u>7.0 Years</u>	<u>\$ 7.08</u>	<u>992,050</u>

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As of December 31, 2019, there was \$2,738 of total unrecognized compensation cost related to nonvested stock options granted under the 2017 Plan, 2012 Plan and 2019 EIP that is expected to be recognized over a weighted-average period of 4.9 years.

The following presents an analysis of nonvested options to purchase shares of the Company's stock issued and outstanding for the year ended December 31, 2019:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested Options at December 31, 2018	1,086,000	\$ 2.78
Granted	238,000	3.46
Vested	(346,200)	2.41
Forfeited.	(8,200)	3.40
Nonvested Options at December 31, 2019	<u>969,600</u>	<u>\$ 3.08</u>

Restricted Stock Awards

In 2019, the Company granted 132,960 restricted stock awards with a grant date fair value of \$12.92. These awards were granted out of the 2019 EIP and vest in equal annual installments on the first four anniversaries of the date of the grant. Nonvested restricted stock awards are classified as outstanding shares with voting and forfeitable dividend rights.

Compensation expense associated with the restricted stock awards is recognized on a straight-line basis over the period that the restrictions associated with the awards lapse based on the total cost of the award at the grant date. For the year ended December 31, 2019, the Company recognized compensation expense for restricted stock awards of \$31. No compensation expense was recognized for restricted stock awards for the years ended December 31, 2018 and 2017.

As of December 31, 2019, there was \$1,687 of total unrecognized compensation cost related to nonvested restricted stock awards granted under the 2019 EIP that is expected to be recognized over a period of four years. No restricted stock awards vested during 2019.

Note 18: Profit Sharing Plan

The Company has a combined profit sharing 401(k) plan which provides that an annual contribution, up to 100% of each participating employee's total pay, may be contributed to the plan. Employees are eligible to participate after meeting certain eligibility requirements as defined in the plan and are allowed to make pre-tax contributions up to the maximum amount allowed by the Internal Revenue Service. The terms of the 401(k) plan require employer match contributions equal to 100% of the employee contributions up to 4% of pay. In addition, the terms of the plan allow for discretionary contributions as determined by the Company and approved by the Board of Directors.

The employer match contributions for the 401(k) plan were \$603, \$483, and \$304 for the years ended December 31, 2019, 2018 and 2017, respectively. The total employer profit sharing contributions to the plan were \$473, \$328, and \$250 for the years ended December 31, 2019, 2018 and 2017, respectively.

Note 19: Deferred Compensation Plan

In 2013, the Company implemented a deferred compensation plan for certain employees which allows the Company to make a discretionary contribution to the account of any employee designated as a participant in the plan based upon the participant's performance for the calendar year. Company contributions to the plan vest on the fourth anniversary

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of the last day of the calendar year for which the contribution was made to the plan and accrue interest at a rate equal to the Bank's return on average equity for the immediately preceding calendar year. Distribution of amounts contributed under the plan, including accrued interest, is made in a lump sum cash payment within 75 days following the date such amounts become vested. As of December 31, 2019 and 2018, the Company had a liability of \$3,546 and \$2,914, respectively, recorded on the consolidated balance sheets. There were no new contributions made to the plan during the year ended December 31, 2019.

Note 20: Regulatory Capital

Effective January 1, 2015, the capital requirements of the Company and the Bank were changed to implement the regulatory requirements of the Basel III capital reforms. The Basel III requirements, among other things, (i) apply a strengthened set of capital requirements to the Company and Bank, including requirements related to common equity as a component of core capital, (ii) implement a "capital conservation buffer" against risk and higher minimum tier 1 capital requirement, and (iii) revise the rules for calculating risk-weighted assets for purposes of such requirements. The rules made corresponding revisions to the prompt corrective action framework and include the new capital ratios and buffer requirements which were phased in incrementally, with full implementation on January 1, 2019. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (set forth in the table and defined in the regulation) of Total Capital to Risk Weighted Assets, Tier 1 Capital to Risk Weighted Assets, Common Equity Tier 1 Capital to Risk Weighted Assets, and Tier 1 Capital to Average Assets.

The following tables present the Company and the Bank's capital amounts and ratios as of December 31, 2019 and 2018:

	Actual		Minimum Required For Capital Adequacy Purposes		For Capital Adequacy Purposes Plus Capital Conservation Buffer		To be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019								
(dollars in thousands)								
Company (Consolidated):								
Total Risk-Based Capital	\$ 269,613	12.98 %	\$ 166,163	8.00 %	\$ 218,089	10.50 %	N/A	N/A
Tier 1 Risk-Based Capital	236,533	11.39	124,623	6.00	176,549	8.50	N/A	N/A
Common Equity Tier 1 Capital	236,533	11.39	93,467	4.50	145,393	7.00	N/A	N/A
Tier 1 Leverage Ratio	236,533	10.69	88,498	4.00	88,498	4.00	N/A	N/A
Bank:								
Total Risk-Based Capital	\$ 252,501	12.16 %	\$ 166,137	8.00 %	\$ 218,055	10.50 %	\$ 207,671	10.00 %
Tier 1 Risk-Based Capital	243,461	11.72	124,603	6.00	176,521	8.50	166,137	8.00
Common Equity Tier 1 Capital	243,461	11.72	93,452	4.50	145,370	7.00	134,986	6.50
Tier 1 Leverage Ratio	243,461	11.01	88,455	4.00	88,455	4.00	110,569	5.00

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December 31, 2018 (dollars in thousands)	Actual		Minimum Required For Capital Adequacy Purposes		For Capital Adequacy Purposes Plus Capital Conservation Buffer		To be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Company (Consolidated):								
Total Risk-Based Capital	\$ 263,909	14.55 %	\$ 145,111	8.00 %	\$ 179,121	9.875 %	N/A	N/A
Tier 1 Risk-Based Capital	218,888	12.07	108,833	6.00	142,844	7.875	N/A	N/A
Common Equity Tier 1 Capital	218,888	12.07	81,625	4.50	115,635	6.375	N/A	N/A
Tier 1 Leverage Ratio	218,888	11.23	77,971	4.00	77,971	4.00	N/A	N/A
Bank:								
Total Risk-Based Capital	\$ 230,865	12.76 %	\$ 144,776	8.00 %	\$ 178,707	9.875 %	\$ 180,970	10.00 %
Tier 1 Risk-Based Capital	210,474	11.63	108,582	6.00	142,514	7.875	144,776	8.00
Common Equity Tier 1 Capital	210,474	11.63	81,436	4.50	115,368	6.375	117,630	6.50
Tier 1 Leverage Ratio	210,474	10.82	77,795	4.00	77,795	4.00	97,244	5.00

The Company and the Bank must maintain a capital conservation buffer as defined by Basel III regulatory capital guidelines, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer was fully phased-in on January 1, 2019 at 2.5%. The required phase-in capital conservation buffer during 2018 was 1.875%.

Management believes that, as of December 31, 2019 and 2018, the Company and the Bank's capital ratios were in excess of the quantitative capital ratio standards applicable on those dates. However, there can be no assurance that the Company and the Bank will continue to maintain such status in the future.

Note 21: Fair Value Measurement

The Company categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilized quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Company may re-measure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

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Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Company adopted the policy to value certain financial instruments at fair value. The Company has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

Recurring Basis

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The following table presents the balances of the assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 and 2018:

December 31, 2019				
	Level 1	Level 2	Level 3	Total
Fair Value of Financial Assets:				
Securities Available for Sale:				
U.S. Treasury Securities	\$ 4,998	\$ —	\$ —	\$ 4,998
Municipal Bonds	—	105,743	—	105,743
Mortgage-Backed Securities	—	64,728	—	64,728
Corporate Securities	—	50,176	—	50,176
SBA Securities	—	49,559	—	49,559
Asset-Backed Securities	—	14,673	—	14,673
Interest Rate Swaps	—	284	—	284
Total Fair Value of Financial Assets	<u>\$ 4,998</u>	<u>\$ 285,163</u>	<u>\$ —</u>	<u>\$ 290,161</u>
Fair Value of Financial Liabilities:				
Interest Rate Swaps	\$ —	\$ 902	\$ —	\$ 902
Total Fair Value of Financial Liabilities	<u>\$ —</u>	<u>\$ 902</u>	<u>\$ —</u>	<u>\$ 902</u>
December 31, 2018				
	Level 1	Level 2	Level 3	Total
Fair Value of Financial Assets:				
Securities Available for Sale:				
U.S. Treasury Securities	\$ 17,897	\$ —	\$ —	\$ 17,897
Municipal Bonds	—	118,133	—	118,133
Mortgage-Backed Securities	—	47,176	—	47,176
Corporate Securities	—	21,118	—	21,118
SBA Securities	—	49,054	—	49,054
Interest Rate Swaps	—	352	—	352
Total Fair Value of Financial Assets	<u>\$ 17,897</u>	<u>\$ 235,833</u>	<u>\$ —</u>	<u>\$ 253,730</u>

Investment Securities

When available, the Company uses quoted market prices to determine the fair value of investment securities; such items are classified in Level 1 of the fair value hierarchy.

For the Company's investments, when quoted prices are not available for identical securities in an active market, the Company determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market, and contractual prices for the underlying financial instruments, as well as other relevant

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economic measures. Substantially, all of these assumptions are observable in the marketplace and can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, or cannot be obtained or corroborated, a security is generally classified as Level 3.

Interest Rate Swaps

Interest rate swaps are traded in over-the-counter markets where quoted market prices are not readily available. For those interest rate swaps, fair value is determined using internally developed models of a third party that uses primarily market observable inputs, such as yield curves and option volatilities, and accordingly are valued using Level 2 inputs.

Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment or a change in the amount of previously recognized impairment.

The following tables present net impairment losses related to nonrecurring fair value measurements of certain assets for the periods ended December 31, 2019, 2018 and 2017:

		December 31, 2019			
		Level 1	Level 2	Level 3	Loss
Impaired Loans	.....	\$ —	\$ 75	\$ —	\$ 206
Totals	.....	<u>\$ —</u>	<u>\$ 75</u>	<u>\$ —</u>	<u>\$ 206</u>
		December 31, 2018			
		Level 1	Level 2	Level 3	Loss
Impaired Loans	.....	\$ —	\$ 426	\$ —	\$ 396
Totals	.....	<u>\$ —</u>	<u>\$ 426</u>	<u>\$ —</u>	<u>\$ 396</u>
		December 31, 2017			
		Level 1	Level 2	Level 3	Loss
Impaired Loans	.....	\$ —	\$ 464	\$ —	\$ 109
Totals	.....	<u>\$ —</u>	<u>\$ 464</u>	<u>\$ —</u>	<u>\$ 109</u>

Impaired Loans

In accordance with the provisions of the loan impairment guidance, impairment is measured on loans when it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceeds the recorded investments in such loans. Impaired loans for which an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 2 inputs based on customized discounting criteria.

Impairment amounts on impaired loans represent specific valuation allowance and write-downs during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged-off.

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Fair Value

Disclosure of fair value information about financial instruments, for which it is practicable to estimate that value, is required whether or not recognized in the consolidated balance sheets. In cases where quoted market prices are not available, fair values are based on estimates using present value of cash flow or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimate of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases could not be realized in immediate settlement of the instruments. Certain financial instruments with a fair value that is not practicable to estimate and all non-financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented do not necessarily represent the underlying value of the Company.

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 instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters that could affect the estimates. Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business. Deposits with no stated maturities are defined as having a fair value equivalent to the amount payable on demand. This prohibits adjusting fair value derived from retaining those deposits for an expected future period of time. This component, commonly referred to as a deposit base intangible, is neither considered in the below amounts nor is it recorded as an intangible asset on the balance sheet. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

The following tables present the carrying amount and estimated fair values of financial instruments at December 31, 2019 and 2018:

	December 31, 2019				
		Fair Value Hierarchy			
	Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
Financial Assets:					
Cash and Due From Banks.	\$ 31,935	\$ 31,935	\$ —	\$ —	\$ 31,935
Bank-Owned Certificates of Deposit.	2,654	—	2,677	—	2,677
Securities Available for Sale	289,877	4,998	284,879	—	289,877
FHLB Stock, at Cost.	7,824	—	7,824	—	7,824
Loans, Net	1,884,000	—	1,891,987	—	1,891,987
Accrued Interest Receivable	6,775	—	6,775	—	6,775
Interest Rate Swaps.	284	—	284	—	284
Financial Liabilities:					
Deposits.	\$ 1,823,310	\$ —	\$ 1,821,915	\$ —	\$ 1,821,915
Notes Payable	13,000	—	13,022	—	13,022
FHLB Advances	136,500	—	141,152	—	141,152
Subordinated Debentures	24,733	—	25,309	—	25,309
Accrued Interest Payable	1,982	—	1,982	—	1,982
Interest Rate Swaps.	902	—	902	—	902

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	December 31, 2018				
		Fair Value Hierarchy			
	Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
Financial Assets:					
Cash and Due From Banks.	\$ 28,444	\$ 28,444	\$ —	\$ —	\$ 28,444
Bank-Owned Certificates of Deposit.	3,305	—	3,292	—	3,292
Securities Available for Sale	253,378	17,897	235,481	—	253,378
FHLB Stock, at Cost.	7,614	—	7,614	—	7,614
Loans, Net.	1,640,385	—	1,634,196	—	1,634,196
Accrued Interest Receivable	6,589	—	6,589	—	6,589
Interest Rate Swap	352	—	352	—	352
Financial Liabilities:					
Deposits.	\$ 1,560,934	\$ —	\$ 1,560,488	\$ —	\$ 1,560,488
Federal Funds Purchased	18,000	—	18,000	—	18,000
Notes Payable	15,000	—	15,551	—	15,551
FHLB Advances	124,000	—	124,952	—	124,952
Subordinated Debentures	24,630	—	25,365	—	25,365
Accrued Interest Payable	1,806	—	1,806	—	1,806

The following methods and assumptions were used by the Company to estimate fair value of consolidated financial statements not previously discussed.

Cash and due from banks – The carrying amount of cash and cash equivalents approximates their fair value.

Bank-owned certificates of deposit – Fair values of bank-owned certificates of deposit are estimated using the discounted cash flow analysis based on current rates for similar types of deposits.

FHLB stock – The carrying amount of FHLB stock approximates its fair value.

Loans, Net – Fair values for loans are estimated based on discounted cash flows, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality.

Accrued interest receivable – The carrying amount of accrued interest receivable approximates its fair value since it is short term in nature and does not present anticipated credit concerns.

Deposits – The fair values disclosed for demand deposits without stated maturities (interest and noninterest transaction, savings, and money market accounts) are equal to the amount payable on demand at the reporting date (their carrying amounts). Fair values for the fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Federal funds purchased – The carrying amount of federal funds purchased approximates the fair value.

Notes payable and subordinated debentures – The fair values of the Company's notes payable and subordinated debentures are estimated using a discounted cash flow analysis, based on the Company's current incremental borrowing rate for similar types of borrowing arrangements.

Bridgewater Bancshares, Inc. and Subsidiaries
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FHLB advances – The fair values of the Company’s FHLB advances are estimated using discounted cash flow analysis based on the Company’s current incremental borrowing rates for similar types of borrowing agreements.

Accrued interest payable – The carrying amount of accrued interest payable approximates its fair value since it is short term in nature.

Off-balance sheet instruments – Fair values of the Company’s off-balance sheet instruments (lending commitments and unused lines of credit) are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, the counterparties’ credit standing and discounted cash flow analysis. The fair value of these off-balance sheet items approximates the recorded amounts of the related fees and was not material at December 31, 2019 and 2018.

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

Note 22: Revenue Recognition

On January 1, 2019, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers (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 new standard.

Substantially all of the Company’s revenue is generated from financial instruments, including interest income related to loans and investment securities, letters of credit, and derivatives, which are not within the scope of Topic 606 as these activities are subject to other GAAP discussed elsewhere within the Company’s disclosures. The following is a summary of revenue-generating activities that are within the scope of Topic 606, which are presented in the Company’s income statements as components of noninterest income:

Service charges on deposit accounts. These represent general service fees for monthly account maintenance and activity and transaction-based fees such as wire transfer fees, check cashing fees, check printing fees, stop payment fees and ATM and card replacement fees. Revenue is recognized when the Company’s performance obligation is completed, which is generally monthly for account maintenance services or when a transaction has been completed. Payments for these performance obligations are generally received at the time the performance obligations are satisfied. The adoption of Topic 606 had no impact on the Company’s revenue recognition practice for these services.

Debit card interchange fees. When a debit card issued by the Company is used to purchase goods or services from a merchant, the Company earns an interchange fee. The performance obligation is completed and the fees are recognized as the service is provided (i.e., when the customer uses the debit card). The adoption of Topic 606 has no impact on the Company’s revenue recognition related to debit card interchange fees.

Gain on sales of other real estate. ASU 2014-09 also created Topic 610-20, under which a gain on sale should be recognized when a contract for sale exists and control of the asset has been transferred to the buyer. Topic 606 list several criteria which must exist to conclude that a contract for sale exists, including a determination that the institution will collect substantially all of the consideration to which it is entitled. This presents a key difference between the current and new guidance related to the recognition of the gain when the institution finances the sale of the property.

Bridgewater Bancshares, Inc. and Subsidiaries
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Rather than basing recognition on the amount of the buyer's initial investment, which was the primary consideration under prior guidance, the analysis is now based on various factors including not only the loan to value, but also the credit quality of the borrower, the structure of the loan, and any other factors that may affect collectability. The new requirements could result in earlier revenue recognition; however, such sales are infrequent, and the impact of this change is not considered material to the Company's consolidated financial statements.

Note 23: Accumulated Other Comprehensive Income (Loss)

The following table presents the components of other comprehensive income (loss) for the years ended December 31, 2019, 2018 and 2017.

	<u>Before Tax</u>	<u>Tax Effect</u>	<u>Net of Tax</u>
Year Ended December 31, 2019			
Net Unrealized Gain on Available for Sale Securities	\$ 9,514	\$ (1,998)	\$ 7,516
Less: Reclassification Adjustment for Net Gains Included in Net Income	(516)	109	(407)
Total Unrealized Gain	<u>8,998</u>	<u>(1,889)</u>	<u>7,109</u>
Net Unrealized Loss on Cash Flow Hedge	(962)	202	(760)
Less: Reclassification Adjustment for Gains Included in Net Income	(9)	2	(7)
Total Unrealized Loss	<u>(971)</u>	<u>204</u>	<u>(767)</u>
Other Comprehensive Gain	<u>\$ 8,027</u>	<u>\$ (1,685)</u>	<u>\$ 6,342</u>
Year Ended December 31, 2018			
Net Unrealized Loss on Available for Sale Securities	\$ (3,804)	\$ 852	\$ (2,952)
Less: Reclassification Adjustment for Net Losses Included in Net Income	125	(26)	99
Total Unrealized Loss	<u>(3,679)</u>	<u>826</u>	<u>(2,853)</u>
Net Unrealized Gain on Cash Flow Hedge	9	(2)	7
Less: Reclassification Adjustment for Gains Included in Net Income	—	—	—
Total Unrealized Gain	<u>9</u>	<u>(2)</u>	<u>7</u>
Other Comprehensive Loss	<u>\$ (3,670)</u>	<u>\$ 824</u>	<u>\$ (2,846)</u>
Year Ended December 31, 2017			
Net Unrealized Gain on Available for Sale Securities	\$ 6,354	\$ (2,236)	\$ 4,118
Less: Reclassification Adjustment for Net Losses Included in Net Income	250	(88)	162
Total Unrealized Gain	<u>6,604</u>	<u>(2,324)</u>	<u>4,280</u>
Net Unrealized Gain on Cash Flow Hedge	121	(42)	79
Less: Reclassification Adjustment for Gains Included in Net Income	—	—	—
Total Unrealized Gain	<u>121</u>	<u>(42)</u>	<u>79</u>
Other Comprehensive Income	<u>\$ 6,725</u>	<u>\$ (2,366)</u>	<u>\$ 4,359</u>

Bridgewater Bancshares, Inc. and Subsidiaries
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The following table presents the changes in each component of accumulated other comprehensive income (loss), net of tax, for the years ended December 31, 2019, 2018 and 2017.

	Available For Sale Securities	Cash Flow Hedge	Accumulated Other Comprehensive Income (Loss)
Year Ended December 31, 2019			
Balance at Beginning of Year	\$ (1,846)	\$ 278	\$ (1,568)
Other Comprehensive Income (Loss) Before Reclassifications	7,516	(760)	6,756
Amounts Reclassified from Accumulated Other Comprehensive Income	(407)	(7)	(414)
Net Other Comprehensive Income During Period	7,109	(767)	6,342
Balance at End of Year	<u>\$ 5,263</u>	<u>\$ (489)</u>	<u>\$ 4,774</u>
Year Ended December 31, 2018			
Balance at Beginning of Year	\$ 860	\$ 224	\$ 1,084
Reclassification of the Income Tax Effects of the Tax Cuts and Jobs Act	147	47	194
Other Comprehensive Income (Loss) Before Reclassifications ..	(2,952)	7	(2,945)
Amounts Reclassified from Accumulated Other Comprehensive Income	99	—	99
Net Other Comprehensive Income During Period	(2,853)	7	(2,846)
Balance at End of Year	<u>\$ (1,846)</u>	<u>\$ 278</u>	<u>\$ (1,568)</u>
Year Ended December 31, 2017			
Balance at Beginning of Year	\$ (3,420)	\$ 145	\$ (3,275)
Other Comprehensive Income (Loss) Before Reclassifications	4,118	79	4,197
Amounts Reclassified from Accumulated Other Comprehensive Income	162	—	162
Net Other Comprehensive Income During Period	4,280	79	4,359
Balance at End of Year	<u>\$ 860</u>	<u>\$ 224</u>	<u>\$ 1,084</u>

Bridgewater Bancshares, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
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Note 24: Parent Company Financial Information

The following information presents the condensed balance sheets of the Company as of December 31, 2019 and 2018, and the condensed statements of income and cash flows of the Company for the years ended December 31, 2019, 2018 and 2017:

Condensed Balance Sheets

	December 31, 2019	December 31, 2018
ASSETS		
Cash and Cash Equivalents	\$ 27,315	\$ 45,498
Investment in Subsidiaries	253,456	213,676
Premises and Equipment, Net	795	816
Other Assets	2,181	1,571
Total Assets	<u>\$ 283,747</u>	<u>\$ 261,561</u>
LIABILITIES AND EQUITY		
LIABILITIES		
Notes Payable	\$ 13,000	\$ 15,000
Subordinated Debentures, Net of Issuance Costs	24,733	24,630
Accrued Interest Payable	713	745
Other Liabilities	507	188
Total Liabilities	38,953	40,563
SHAREHOLDERS' EQUITY		
Preferred Stock—\$0.01 par value		
Preferred Stock—Authorized 10,000,000	—	—
Common Stock—\$0.01 par value		
Voting Common Stock—Authorized 75,000,000	290	301
Additional Paid-In Capital	112,093	126,031
Retained Earnings	127,637	96,234
Accumulated Other Comprehensive Income (Loss)	4,774	(1,568)
Total Shareholders' Equity	244,794	220,998
Total Liabilities and Shareholders' Equity	<u>\$ 283,747</u>	<u>\$ 261,561</u>

Bridgewater Bancshares, Inc. and Subsidiaries
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Condensed Statements of Income

	December 31, 2019	December 31, 2018	December 31, 2017
INCOME			
Dividend Income	\$ 1,040	\$ 1,100	\$ —
Interest Income	27	3	9
Other Income	158	136	145
Total Income	1,225	1,239	154
EXPENSE			
Interest Expense	2,056	2,162	1,405
Other Expenses	996	1,152	555
Total Interest Expense	3,052	3,314	1,960
LOSS BEFORE INCOME TAX BENEFIT AND EQUITY IN			
UNDISTRIBUTED EARNINGS	(1,827)	(2,075)	(1,806)
Income Tax Benefit	776	924	713
LOSS BEFORE EQUITY IN UNDISTRIBUTED EARNINGS	(1,051)	(1,151)	(1,093)
Equity in Undistributed Earnings	32,454	28,071	17,982
NET INCOME	<u>\$ 31,403</u>	<u>\$ 26,920</u>	<u>\$ 16,889</u>

Condensed Statements of Cash Flows

	December 31, 2019	December 31, 2018	December 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	\$ 31,403	\$ 26,920	\$ 16,889
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by			
Operating Activities:			
Equity in Undistributed Earnings of Subsidiaries	(32,454)	(28,071)	(17,982)
Changes in Other Assets and Liabilities	311	(368)	180
Net Cash Used by Operating Activities	(740)	(1,519)	(913)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Increase in Loans	(742)	—	—
Investment in Subsidiaries	—	(25,000)	(25,000)
Net Cash Used in Investing Activities	(742)	(25,000)	(25,000)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal Payments on Notes Payable	(2,000)	(2,000)	(2,000)
Proceeds from Issuance of Subordinated Debt	—	—	24,484
Stock Options Exercised	258	106	180
Stock Repurchases	(14,959)	—	—
Issuance of Common Stock	—	58,857	—
Net Cash Provided (Used) by Financing Activities	(16,701)	56,963	22,664
NET CHANGE IN CASH AND CASH EQUIVALENTS	(18,183)	30,444	(3,249)
Cash and Cash Equivalents Beginning	45,498	15,054	18,303
Cash and Cash Equivalents Ending	<u>\$ 27,315</u>	<u>\$ 45,498</u>	<u>\$ 15,054</u>

Bridgewater Bancshares, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
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Note 25: Quarterly Condensed Financial Information (Unaudited)

The following tables present the unaudited quarterly condensed financial information for the years ended December 31, 2019 and 2018:

	2019 Quarter Ended			
	March 31	June 30	September 30	December 31
(dollars in thousands)				
Interest Income	\$ 24,267	\$ 25,520	\$ 26,572	\$ 27,419
Interest Expense	7,136	7,382	7,637	7,491
Net Interest Income	17,131	18,138	18,935	19,928
Provision for Loan Losses	600	600	900	600
Net Interest Income after Provision for Loan Losses	16,531	17,538	18,035	19,328
Noninterest Income	634	1,134	946	1,112
Noninterest Expense	7,885	9,474	9,084	10,489
Income Before Income Taxes	9,280	9,198	9,897	9,951
Provision for Income Taxes	2,262	1,189	2,092	1,380
Net Income	<u>\$ 7,018</u>	<u>\$ 8,009</u>	<u>\$ 7,805</u>	<u>\$ 8,571</u>
Earnings per share				
Basic	\$ 0.23	\$ 0.27	\$ 0.27	\$ 0.30
Diluted	\$ 0.23	\$ 0.26	\$ 0.27	\$ 0.29

	2018 Quarter Ended			
	March 31	June 30	September 30	December 31
(dollars in thousands)				
Interest Income	\$ 18,710	\$ 20,392	\$ 22,136	\$ 23,988
Interest Expense	3,947	4,493	5,502	6,546
Net Interest Income	14,763	15,899	16,634	17,442
Provision for Loan Losses	600	900	1,275	800
Net Interest Income after Provision for Loan Losses	14,163	14,999	15,359	16,642
Noninterest Income	387	485	814	857
Noninterest Expense	6,532	6,464	7,526	11,040
Income Before Income Taxes	8,018	9,020	8,647	6,459
Provision (Benefit) for Income Taxes	2,068	2,274	2,184	(1,302)
Net Income	<u>\$ 5,950</u>	<u>\$ 6,746</u>	<u>\$ 6,463</u>	<u>\$ 7,761</u>
Earnings per share				
Basic	\$ 0.23	\$ 0.22	\$ 0.22	\$ 0.26
Diluted	\$ 0.23	\$ 0.22	\$ 0.21	\$ 0.25

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as that term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, or the Exchange Act) as of December 31, 2019, the end of the fiscal year covered by this Annual Report on Form 10-K. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2019, the Company's disclosure controls and procedures were effective to ensure that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

This annual report does not include an attestation report of the Company's independent registered public accounting firm. As an emerging growth company, management's report on internal control over financial reporting was not subject to attestation by the Company's independent registered public accounting firm in accordance with the JOBS Act.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act). The Company's internal control system is a process designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Internal control over financial reporting of the Company includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions of the Company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of 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 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 Company's consolidated financial statements.

Because of inherent limitations in any system of internal control, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the Company's internal control over financial reporting as of December 31, 2019. This assessment was based on criteria for effective internal control over financial reporting set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework in 2013. Based on this assessment, the Chief Executive Officer and Chief Financial Officer assert that the Company maintained effective internal control over financial reporting as of December 31, 2019 based on the specified criteria.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting that occurred during the period covered by this Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information called for by this item is set forth under the headings "Proposal 1 – Election of Directors," "Security Ownership of Certain Beneficial Owners," and "Corporate Governance and the Board of Directors" appearing in the Company's definitive Proxy Statement for our Annual Meeting of Shareholders to be held on April 28, 2020, which will be filed with the SEC pursuant to Regulation 14A under the Exchange Act within 120 days of the Company's fiscal year end, which is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information called for by this item is set forth under the headings "Executive Compensation," "Corporate Governance and the Board of Directors – Director Compensation," and "Corporate Governance and the Board of Directors – Compensation Committee Interlocks and Insider Participation" appearing in the Company's definitive Proxy Statement for our Annual Meeting of Shareholders to be held on April 28, 2020, which will be filed with the SEC pursuant to Regulation 14A under the Exchange Act within 120 days of the Company's fiscal year end, which is incorporated herein by reference.

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

Equity Compensation Plans

The following table presents the number of outstanding options, warrants and rights granted to participants by the Company under our equity compensation plans, as well as the number of securities remaining available for future issuance under these plans as of December 31, 2019. The table provides this information separately for equity compensation plans that have and have not been approved by security holders. Additional information regarding stock incentive plans is presented in Note 17 to the Consolidated Financial Statements for the year ending December 31, 2019.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted- average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by shareholders ⁽¹⁾	1,961,650	\$ 7.08	1,177,640
Equity compensation plans not approved by shareholders	—	—	—
Total	<u>1,961,650</u>	<u>\$ 7.08</u>	<u>1,177,640</u>

(1) Column (a) includes outstanding stock options granted from the Bridgewater Bancshares, Inc. 2019 Equity Incentive Plan, the Bridgewater Bancshares, Inc. 2017 Combined Incentive and Non-Statutory Stock Option Plan, the Bridgewater Bancshares, Inc. 2012 Combined Incentive and Non-Statutory Stock Option Plan and the Bridgewater Bancshares, Inc. 2005 Combined Incentive and Non-Statutory Stock Option Plan. Column (c) includes 310,600 and 867,040 shares remaining available for future issuance under the Bridgewater Bancshares, Inc. 2017 Combined Incentive and Non-Statutory Stock Option Plan and the Bridgewater Bancshares, Inc. 2019 Equity Incentive Plan, respectively.

The information required pursuant to Item 403 of Regulation S-K can be found under the caption “Security Ownership of Certain Beneficial Owners” in the Company’s definitive Proxy Statement on Form DEF 14A for our Annual Meeting of Shareholders to be held on April 28, 2020, which will be filed with the SEC within 120 days of the Company’s fiscal year end, and is incorporated herein by reference.

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

The information called for by this item is set forth under the headings “Certain Relationships and Related Party Transactions” and “Corporate Governance and the Board of Directors” appearing in the Company’s definitive Proxy Statement for our Annual Meeting of Shareholders to be held on April 28, 2020, which will be filed with the SEC pursuant to Regulation 14A under the Exchange Act within 120 days of the Company’s fiscal year end, which is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information called for by this item is set forth under the heading “Proposal 2 – Ratification of the Appointment of CliftonLarsonAllen LLP as our Independent Registered Public Accounting Firm” appearing in the Company’s definitive Proxy Statement for our Annual Meeting of Shareholders to be held on April 28, 2020, which will be filed with the SEC pursuant to Regulation 14A under the Exchange Act within 120 days of the Company’s fiscal year end, which is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. Financial Statements: See the consolidated financial statements which appear in Item 8 of this Form 10-K.
2. Financial Statement Schedules: All schedules are omitted because they are not applicable, not required, or because the required information is included in the consolidated financial statements or notes thereto.
3. Exhibits.

Exhibit Number	Description
3.1	Second Amended and Restated Articles of Incorporation of Bridgewater Bancshares, Inc. (incorporated herein by reference to Exhibit 3.1 on Form 8-K filed on April 25, 2019)
3.2	Amended and Restated Bylaws of Bridgewater Bancshares, Inc. (incorporated herein by reference to Exhibit 3.2 on Form S-1/A filed on March 5, 2018)
4.1	Description of the Company's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934
10.1	Employment Agreement by and among Bridgewater Bancshares, Inc., Bridgewater Bank and Jerry Baack, dated October 1, 2017 (incorporated herein by reference to Exhibit 10.1 on Form S-1 filed on February 16, 2018)†
10.2	Employment Agreement by and among Bridgewater Bancshares, Inc., Bridgewater Bank and Mary Jayne Crocker, dated October 1, 2017 (incorporated herein by reference to Exhibit 10.2 on Form S-1 filed on February 16, 2018)†
10.3	Employment Agreement by and among Bridgewater Bancshares, Inc., Bridgewater Bank and Jeffrey D. Shellberg, dated October 1, 2017 (incorporated herein by reference to Exhibit 10.3 on Form S-1 filed on February 16, 2018)†
10.4	Bridgewater Bank Deferred Cash Incentive Plan effective December 31, 2013 (incorporated herein by reference to Exhibit 10.4 filed on Form S-1 on February 16, 2018)†
10.5	Bridgewater Bancshares, Inc. 2017 Combined Incentive and Non-Statutory Stock Option Plan (incorporated herein by reference to Exhibit 10.5 on Form S-1 filed on February 16, 2018)†
10.6	Form of Stock Option Agreement under the Bridgewater Bancshares, Inc. 2017 Combined Incentive and Non-Statutory Stock Option Plan (incorporated herein by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q filed on August 8, 2019)†
10.7	Bridgewater Bancshares, Inc. 2012 Combined Incentive and Non-Statutory Stock Option Plan (incorporated herein by reference to Exhibit 10.7 on Form S-1 filed on February 16, 2018)†
10.8	Form of Stock Option Agreement under the Bridgewater Bancshares, Inc. 2012 Combined Incentive and Non-Statutory Stock Option Plan (incorporated herein by reference to Exhibit 10.8 on Form S-1 filed on February 16, 2018)†
10.9	Bridgewater Bancshares, Inc. 2005 Combined Incentive and Non-Statutory Stock Option Plan (incorporated herein by reference to Exhibit 10.9 filed on Form S-1 on February 16, 2018)†

- 10.10 Form of Incentive Stock Option Agreement under the Bridgewater Bancshares, Inc. 2005 Combined Incentive and Non-Statutory Stock Option Plan (incorporated herein by reference to Exhibit 10.10 on Form S-1 filed on February 16, 2018)†
- 10.11 Construction Contract, dated as of August 27, 2018, by and between Bridgewater Bank and Reuter Walton Commercial, LLC (incorporated herein by reference to Exhibit 10.1 filed with the Form 8-K on August 30, 2018)
- 10.12 Exchange Agreement, dated as of October 25, 2018 by and between Bridgewater Bancshares, Inc. and Castle Creek Capital Partners V, LP (incorporated herein by reference to Exhibit 10.1 filed with the Form 8-K on October 26, 2018)
- 10.13 Exchange Agreement, dated as of October 25, 2018 by and between Bridgewater Bancshares, Inc. and EJF Sidecar Fund, Series LLC – Series E (incorporated herein by reference to Exhibit 10.2 filed with the Form 8-K on October 26, 2018)
- 10.14 Exchange Agreement, dated as of October 25, 2018 by and between Bridgewater Bancshares, Inc. and Endeavour Regional Bank Opportunities Fund II LP (incorporated herein by reference to Exhibit 10.3 filed with the Form 8-K on October 26, 2018)
- 10.15 Bridgewater Bancshares, Inc. 2019 Equity Incentive Plan (incorporated herein by reference to Exhibit 4.3 to the Company’s Registration Statement on Form S-8 filed on April 26, 2019)†
- 10.16 Form of Restricted Stock Award Agreement under the Bridgewater Bancshares, Inc. 2019 Equity Incentive Plan (incorporated herein by reference to Exhibit 4.4 to the Company’s Registration Statement on Form S-8 filed on April 26, 2019)†
- 10.17 Form of Restricted Stock Unit Award Agreement under the Bridgewater Bancshares, Inc. 2019 Equity Incentive Plan (incorporated herein by reference to Exhibit 4.5 to the Company’s Registration Statement on Form S-8 filed on April 26, 2019)†
- 10.18 Form of Nonqualified Stock Option Award Agreement under the Bridgewater Bancshares, Inc. 2019 Equity Incentive Plan (incorporated herein by reference to Exhibit 4.6 to the Company’s Registration Statement on Form S-8 filed on April 26, 2019)†
- 10.19 Form of Incentive Stock Option Award Agreement under the Bridgewater Bancshares, Inc. 2019 Equity Incentive Plan (incorporated herein by reference to Exhibit 4.7 to the Company’s Registration Statement on Form S-8 filed on April 26, 2019)†
- 21.1 Subsidiaries of Bridgewater Bancshares, Inc. (incorporated herein by reference to Exhibit 21.1 filed with the Form S-1 on February 16, 2018)
- 23.1 Consent of CliftonLarsonAllen LLP
- 31.1 Certification of the Chief Executive Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, and Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Chief Financial Officer required by Rule 13a-14(a) of the Securities Exchange Act of 1934, and Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- 32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.1 Financial information from the Company's Annual Report on Form 10-K for the year ended December 31, 2019, formatted in XBRL interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Shareholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements

† Indicates a management contract or compensatory plan.

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.

Bridgewater Bancshares, Inc.

Date: March 12, 2020

By: /s/ Jerry J. Baack

Name: Jerry J. Baack

Title: Chairman, Chief Executive Officer and President
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Jerry J. Baack</u> Jerry J. Baack	Chairman, Chief Executive Officer and President (Principal Executive Officer)	March 12, 2020
<u>/s/ Joe M. Chybowski</u> Joe M. Chybowski	Chief Financial Officer (Principal Financial and Accounting Officer)	March 12, 2020
<u>/s/ Lisa M. Brezonik</u> Lisa M. Brezonik	Director	March 12, 2020
<u>/s/ James S. Johnson</u> James S. Johnson	Director	March 12, 2020
<u>/s/ David B. Juran</u> David B. Juran	Director	March 12, 2020
<u>/s/ Douglas J. Parish</u> Douglas J. Parish	Director	March 12, 2020
<u>/s/ Jeffrey D. Shellberg</u> Jeffrey D. Shellberg	Director, Executive Vice President and Chief Credit Officer	March 12, 2020
<u>/s/ Thomas P. Trutna</u> Thomas P. Trutna	Director	March 12, 2020
<u>/s/ Todd B. Urness</u> Todd B. Urness	Director	March 12, 2020
<u>/s/ David J. Volk</u> David J. Volk	Director	March 12, 2020



CliftonLarsonAllen LLP
CLAconnect.com

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference of our report dated March 11, 2020, with respect to the consolidated balance sheets of Bridgewater Bancshares, Inc. and Subsidiaries as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2019, which appears in the December 31, 2019 annual report on Form 10-K of Bridgewater Bancshares, Inc. and Subsidiaries and in the Registration Statements of Bridgewater Bancshares, Inc. and Subsidiaries No. 333-223770 and No. 333-231068 on Form S-8.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Minneapolis, Minnesota
March 11, 2020

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER PURSUANT TO EXCHANGE ACT
RULE 13a-14(a) OR RULE 15d-14(a) AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jerry J. Baack, certify that:

1. I have reviewed this annual report on Form 10-K of Bridgewater Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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 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.

Date: March 12, 2020

/s/ Jerry J. Baack

Jerry J. Baack

Chairman, Chief Executive Officer and President
(Principal Executive Officer)

**CERTIFICATIONS OF CHIEF FINANCIAL OFFICER PURSUANT TO EXCHANGE ACT
RULE 13a-14(a) OR RULE 15d-14(a) AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joe M. Chybowski, certify that:

1. I have reviewed this annual report on Form 10-K of Bridgewater Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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 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.

Date: March 12, 2020

/s/ Joe M. Chybowski

Joe M. Chybowski

Chief Financial Officer

(Principal Financial and Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Bridgewater Bancshares, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jerry J. Baack, Chairman, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 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), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 12, 2020

/s/ Jerry J. Baack

Jerry J. Baack

Chairman, Chief Executive Officer and President
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Bridgewater Bancshares, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Joe M. Chybowski, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 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), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 12, 2020

/s/ Joe M. Chybowski

Joe M. Chybowski

Chief Financial Officer

(Principal Financial and Accounting Officer)

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LEADERSHIP GUIDING THE COMPANY

Board of Directors



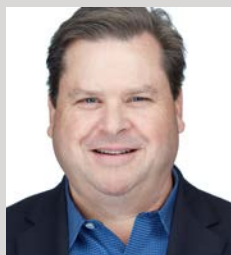
Jerry Baack
Chairman, Chief Executive
Officer and President



Lisa Brezonik
President of Salo, LLC



James Johnson
Franchise Owner Flagship Marketing
Inc., Regional Franchise Developer
at Express Services, Inc.



David Juran
Executive Vice President
of Dougherty &
Company LLC



Doug Parish
Former Senior Vice President and
Chief Compliance Officer of
Ameriprise Financial, Inc.



Jeffrey Shellberg
Secretary, Executive Vice
President and Chief Credit
Officer



Tom Trutna
President and Founder
of BIG INK



Todd Urness
Shareholder at Winthrop
& Weinstine, P.A.



David Volk
Principal at Castle
Creek Capital ®

Strategic Leadership Team



Jerry Baack
Chairman, Chief Executive
Officer and President



Joe Chybowski
Chief Financial
Officer



Mary Jayne Crocker
Executive Vice President
and Chief Operating Officer



Mark Hokanson
Chief Technology
Officer



Nick Place
Chief Lending
Officer



Lisa Salazar
Chief Deposit
Officer



Jeffrey Shellberg
Secretary, Executive Vice
President and Chief Credit
Officer

