

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, 2022
- 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 001-34095

FIRST BUSINESS FINANCIAL SERVICES, INC.

(Exact name of registrant as specified in its charter)

Wisconsin
(State or other jurisdiction of incorporation or organization)

401 Charmany Drive, Madison, WI
(Address of principal executive offices)

Registrant's telephone number, including area code: (608) 238-8008

39-1576570
(I.R.S. Employer Identification No.)

53719
(Zip Code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	FBIZ	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act
None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 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 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

The aggregate market value of the common equity held by non-affiliates computed by reference to the closing price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$264.4 million.

As of February 20, 2023, 8,347,241 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III – Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on April 28, 2023 are incorporated by reference into Part III hereof.

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PART I.

Item 1. Business

BUSINESS

General

First Business Financial Services, Inc. (together with all of its subsidiaries, collectively referred to as the “Corporation,” “FBFS,” “we,” “us,” or “our”) is a registered bank holding company originally incorporated in 1986 under the laws of the State of Wisconsin and is engaged in the commercial banking business through its wholly-owned bank subsidiary, First Business Bank (“FBB” or the “Bank”), headquartered in Madison, Wisconsin. All of our operations are conducted through FBB and its wholly-owned subsidiary First Business Specialty Finance, LLC (“FBSF”). The Bank operates as a business bank, delivering a full line of commercial banking products and services tailored to meet the specific needs of small and medium-sized businesses, business owners, executives, professionals, and high net worth individuals. Our products and services are focused on business banking, private wealth, and bank consulting. Within business banking, we offer commercial lending, asset-based lending, accounts receivable financing, equipment financing, floorplan financing, vendor financing, Small Business Administration (“SBA”) lending and servicing, treasury management solutions, and company retirement services. Our private wealth management services include trust and estate administration, financial planning, investment management, and private banking for executives and owners of our business banking clients and others. Our bank consulting experts provide investment portfolio administrative services, asset liability management services, and asset liability management process validation for other financial institutions. We do not utilize a branch network to attract retail clients. Our operating model is predicated on deep client relationships, financial expertise, and an efficient, centralized administration function delivering best in class client satisfaction. Our focused model allows experienced staff to provide the level of financial expertise needed to develop and maintain long-term relationships with our clients. We conduct our commercial banking operations through one operating segment.

As of December 31, 2022, on a consolidated basis, we had total assets of \$2.977 billion, total gross loans and leases of \$2.443 billion, total deposits of \$2.168 billion, and total stockholders’ equity of \$260.6 million.

Commercial Banking Products and Services

Commercial Lending

We strive to meet the specific commercial lending needs of small- to medium-sized companies in our primary markets in Wisconsin, Kansas, and Missouri, predominantly through lines of credit and term loans to businesses with annual sales of up to \$150 million. Through FBB, we service South Central Wisconsin, Southeast Wisconsin, Northeast Wisconsin, and the greater Kansas City Metro.

Our commercial loans are typically secured by various types of business assets, including inventory, receivables, and equipment. We also originate loans secured by commercial real estate, including owner-occupied and non owner-occupied facilities. As of December 31, 2022, our conventional commercial real estate and commercial loans – excluding consumer lending, asset-based lending, accounts receivable financing, equipment financing, floorplan financing, and SBA lending described below – represented approximately 75% of our total gross loans and leases receivable.

Asset-Based Lending

FBB, through its wholly-owned subsidiary FBSF, provides asset-based lending to small- to medium-sized companies. With business development officers located in several states, our asset-based lending team serves clients nationwide. We primarily provide revolving lines of credit and term loans for financial and strategic acquisitions, capital expenditures, working capital to support rapid growth, bank debt refinancing, debt restructuring, and corporate turnaround strategies. As a bank-owned, asset-based lender with strong underwriting standards, our team is positioned to provide cost-effective financing solutions to companies which do not have the established, stable cash flows necessary to qualify for traditional commercial lending products. These borrowing relationships generally range between \$2 million and \$15 million with terms of 24 to 60 months. Asset-based lending typically generates higher yields than traditional commercial lending. This line of business complements our traditional commercial loan portfolio and provides us with more diverse income opportunities. As of December 31, 2022, asset-based lending represented approximately 8% of our total gross loans and leases receivable.

Accounts Receivable Financing

FBB, through its wholly-owned subsidiary FBSF, provides funding to clients by purchasing accounts receivable primarily on a full recourse basis. With business development officers located in several states, our accounts receivable financing team serves clients nationwide. Our accounts receivable financing team provides working capital to support growth and other cash flow needs. Accounts receivable financing typically generates higher yields than traditional commercial lending and complements our traditional commercial portfolio. As of December 31, 2022, accounts receivable financing represented approximately 3% of our total gross loans and leases receivable.

Equipment Financing

FBB, through its wholly-owned subsidiary FBSF, finances a broad range of equipment, through loans and leases, to address the financing needs of commercial clients in a variety of industries. Our focus in this financing vertical includes manufacturing equipment, industrial assets, construction and transportation equipment, and a wide variety of other commercial equipment. These financings generally range between \$250,000 and \$5 million with terms of 36 to 84 months.

FBSF also delivers small ticket vendor equipment financing via an online application and proprietary credit scoring architecture. Through this nationwide distribution channel, FBSF provides financing solutions for equipment vendors and their end users. These equipment vendors specialize primarily in healthcare, manufacturing, technology equipment, and specialty vehicles. The end users (i.e., our lessees and borrowers) are primarily industrial transportation users, physician groups, veterinarians, and hospitals. These financings generally range between \$25,000 and \$500,000 with terms of 36 to 84 months. Small ticket vendor equipment financing typically generates higher yields than traditional commercial lending. As of December 31, 2022, equipment financing represented approximately 8% of our total gross loans and leases receivable.

Floorplan Financing

FBB, through its wholly-owned subsidiary FBSF, offers floorplan financing for independent car dealerships nationwide. These floorplan programs generally range from \$500,000 to \$10 million for larger, well-established independent car dealers. As of December 31, 2022, floorplan financing represented approximately 2% of our total gross loans and leases receivable.

SBA Lending and Servicing

SBA loans are made through programs designed by the federal government to assist the small business community in obtaining financing. We are an approved participant in the SBA's Preferred Lender Program ("PLP"). The PLP is part of the SBA's effort to streamline the procedures necessary to provide financial assistance to the small business community. Under this program, the SBA delegates the final credit decision, most servicing, liquidation authority and responsibility to PLP lenders. We leverage this program authority and capacity to package, underwrite, process, service, and liquidate, if necessary, SBA loans nationwide.

Excluding Paycheck Protection Program ("PPP") loans, our SBA loans fall into three categories: loans originated under the SBA's 7(a) term loan program; loans originated under the SBA's 504 program; and SBA Express loans and lines of credit. Specific program guidelines vary based on the SBA loan program; however, all loans must be underwritten, originated, monitored, and serviced according to the SBA's Standard Operating Procedures in order to maintain the guaranty, if any, under the SBA program. Except for loans originated under the SBA's 504 program, the SBA generally provides a guaranty to the lender ranging from 50% to 90% of principal and interest as an inducement to the lender to originate the loan.

The majority of our SBA loans are originated using the 7(a) term loan program. This program typically provides a guaranty of 75% of principal and interest. In the event of default on the loan, the lender may request that the SBA purchase the guaranteed portion of the loan for an amount equal to outstanding principal plus accrued interest permissible under SBA guidelines. In addition, the SBA will share on a pro-rata basis in certain costs of collection, subject to SBA rules and limits, as well as the proceeds of liquidation.

SBA lending is designed to generate new business opportunities for the Bank by meeting the needs of clients that cannot be met with conventional bank loans. We earn interest income from these loans, generally at variable rates higher than those of our traditional commercial loans. We also obtain funding and treasury management fee income by gathering deposits from these clients. Our SBA strategy generates non-interest income from two primary sources. First, we often choose to sell the guaranteed portions of the SBA loans to aggregators who securitize the assets for sale in the secondary market. We receive a premium on each loan sold, resulting in the recognition of a gain in the period of sale. Second, we receive servicing income from the holder of the securitized asset over the life of the loan. As of December 31, 2022, the on-balance sheet portion of SBA loans represented approximately 2% of our total gross loans and leases receivable.

Treasury Management Services

FBB provides comprehensive treasury management services for commercial banking and specialized lending clients to manage their cash and liquidity, including lockbox, accounts receivable collection services, electronic payment solutions, fraud detection and protection, information reporting, reconciliation, and data integration solutions. For our clients involved in international trade, the Bank offers international payment services, foreign exchange, and trade letters of credit. The Bank also offers a variety of deposit accounts and balance optimization solutions.

Company Retirement Plan Services

FBB acts as fiduciary and investment manager for corporate clients, creating and executing asset allocation strategies tailored to each corporation's unique situation. FBB acts as a discretionary trustee and investment fiduciary, sharing responsibility for monitoring assets to match the client's specifications. Offering only non-proprietary funds removes conflict of interest while designing cost-effective company retirement plans which provide a competitive return. As of December 31, 2022, FBB had \$373.3 million of company retirement plan assets under management and administration.

Private Wealth Management

FBB acts as fiduciary and investment manager for individual clients, creating and executing asset allocation strategies tailored to each client's unique situation. FBB has full fiduciary powers and offers trust and estate administration, financial planning, and investment management, acting in a trustee or agent capacity. FBB also provides brokerage and custody-only services, for which we administer and safeguard assets, but do not provide investment advice. As of December 31, 2022, FBB had \$2.287 billion of private wealth assets under management and administration.

The Bank also offers private banking to its Private Wealth Management clients. As of December 31, 2022, our private wealth loans represented approximately 2% of our total gross loans and leases receivable.

Bank Consulting Services

FBB provides outsourced treasury services to assist banks and other financial institutions with balance sheet management. These services include investment portfolio management and administrative services, asset liability management services, and asset liability process validations required by regulators.

Competition

FBB encounters strong competition across all of our commercial banking products and services. Such competition includes banks, savings institutions, mortgage banking companies, credit unions, finance companies, equipment finance companies, mutual funds, insurance companies, brokerage firms, investment banking firms, and FinTech companies. The Bank also competes with regional and national financial institutions, many of which have greater liquidity, higher lending limits, greater access to capital, more established market recognition, and more resources than the Bank. We believe the experience, expertise, and responsiveness of our banking professionals, as well as our focus on fostering long-lasting relationships, sets us apart from our competitors.

Human Capital Management

At December 31, 2022, we had 345 employees which equated to approximately 337 full-time equivalent employees ("FTE"). None of our employees are represented by a union or subject to a collective bargaining agreement.

The Corporation believes achieving strong financial results begins with its employees. In 2022, the workforce grew to 345 employees. While the majority of employees are located in the primary banking markets, the Corporation has employees in over 27 states. This geographic expansion allows the Corporation to continue to diversify the workforce and add producers and specialists as the business lines grow.

The Corporation's culture is critical and is rooted in our founding beliefs and guided by our cultural competencies. The Corporation's leaders and employees are expected to treat everyone with the highest respect. The clarity of the Corporation's core values creates a special and committed team atmosphere. This increases productivity, reduces turnover, attracts motivated employees, and cultivates an inclusive atmosphere. The Corporation's culture creates engaged employees, who, in turn, generate satisfied clients. The Corporation is in a people-differentiated business and attracting and retaining the best talent possible is critical to our success. The strength of our culture and core values is demonstrated in a number of ways:

- In 2023, the Corporation was named to the national list of Top Workplaces USA for the second year in a row and to the regional list of Wisconsin State Journal Top Workplaces for the South Central Wisconsin area and Milwaukee

Journal Sentinel for the Milwaukee/Southeast Wisconsin area. Top Workplaces awards are based solely on feedback captured through a third-party administered employee engagement survey and provide regional and national level programs plus industry and culture excellence awards. Being part of the highly regarded Top Workplaces list is a tangible indicator how well the Corporation is navigating its culture in today's world of work.

- In 2022, as part of the Top Workplaces Survey, the Corporation was awarded the Top Workplaces Culture Excellence recognition across nine categories. These awards celebrate companies that excel in specific areas of workplace culture. The Corporation's Culture Excellence Awards include: Leadership, Innovation, Compensation & Benefits, Work-Life Flexibility, Purpose & Values, DEI Practices, Employee Appreciation, Employee Well-Being, and Professional Development.
- The Corporation has been successful in rehiring former employees ("boomerangs"). The special culture and character and caliber of coworkers are the boomerangs' top reasons for returning. Eighteen employees have rejoined the Corporation which represents approximately 5% of the workforce.
- In 2022, the Corporation achieved an employee engagement rating of 87% with a 92% participation rate – both are well above the finance and insurance industry norm of 76% and 70%, respectively. Employee engagement is a key business driver for organizational success. Engaged employees work harder, are more loyal and are more likely to go the extra mile for the organization and our clients.
- Employee turnover was 11.02% across the Corporation in 2022 – well below the employee turnover average of 20.3% in the banking industry, as reported in a survey conducted by Aon in 2022.

The Corporation is committed to expanding its talent pool and leadership pipeline to include more individuals from underrepresented groups and recognizes how important it is for employees to develop and progress in their careers. To support this development, the Corporation provides a variety of resources to help employees grow in their current roles and build new skills, including a learning management system, tuition reimbursement, commercial banking development program, and manager effectiveness programs. The Corporation has an interactive talent management platform which enables more effective talent management, increases engagement and accountability, and supports performance management, goal planning, career pathing and succession management.

- The Corporation continues to make progress with multi-year strategic succession planning goals. On January 3, 2023, the Corporation announced a number of executive-level promotions and appointments. In addition, we invest in all our people and have succession planning and talent development goals that go beyond the executive level. In 2022, the Corporation made progress with the successful recruitment of females in leadership roles in multiple regions.
- A Professional Development check-in was conducted with all employees to encourage goal setting that could potentially lead to a promotion, an internal transfer, or being more effective in their current role. In 2022, 100% of the workforce established performance goals and nearly 20% of the workforce progressed along their career path into new roles within the Corporation.

The Corporation recognizes the value different perspectives, experiences, and cultures bring to our organization. To deliver the client-centered solutions for which the Corporation is known, it is important to fully embrace and welcome the dynamic and vibrant backgrounds of our ever-growing workforce and community. Leaders and managers are committed to fostering a culture of belonging, broadening perspectives, and deepening relationships.

- Throughout 2022, the Corporation furthered its DEI efforts by introducing leaders and all employees to foundational DEI concepts, establishing a shared understanding of why they matter and equipping leaders and managers to demonstrate their commitment to DEI to motivate employee engagement.
 - 100% of the Corporation's leaders completed a multi-session DEI course curated by our external DEI consultant, an inclusive leadership self-assessment, and participated in all or most of the learning sessions offered throughout the year.
 - All employees were invited to participate in the multi-session DEI course and learning sessions on a voluntary basis. Approximately 65% of employees participated in one or more learning courses throughout the year.
- A Belonging Index is measured as part of the Corporation's engagement survey. The Belonging Index measures a feeling of security and support, and a sense of acceptance and inclusion as a member of the team and employee of the Corporation. The Corporation's Belonging Index was 91% in our 2022 engagement survey.

The Corporation continues to evaluate where and how employees work. As hybrid work has evolved, so has the Corporation. The Corporation's leaders and managers have learned to be more flexible and enable employees to do their jobs with more autonomy and in new ways. This has also enabled the Corporation to expand talent pools and grow the depth and

diversity of its workforce. In 2022, the Corporation had approximately 75% of its employees working a hybrid or remote work schedule.

The Corporation is committed to paying an attractive, equitable, and competitive wage based on market rates for the employees' roles, experience and how they perform. To ensure pay is competitive, the Corporation regularly benchmarks against other companies both within and outside our industry. The Corporation is additionally committed to supporting employees' and their families' well-being by offering a very comprehensive total rewards package. The Corporation's Wellness Committee assists in prioritizing how to best support employees' physical, emotional, and financial wellness. Given the competitive job market and the critical importance of retaining employees, annual base salaries were increased by an additional \$650,000 or approximately 2% more in 2023 (and in 2022) than the Corporation's historical average annual merit increase.

Subsidiaries

First Business Bank

FBB is a state bank chartered in 1909 in Wisconsin under the name Kingston State Bank. In 1990, FBB relocated its home office to Madison, Wisconsin, and began focusing on providing high-quality banking services to small- to medium-sized businesses located in Madison and the surrounding area. FBB's business lines include commercial loans, commercial real estate loans, asset-based loans, accounts receivable financing, SBA lending and servicing, floorplan financing, equipment loans and leases, commercial deposit accounts, company retirement solutions, and treasury management services. FBB offers a variety of deposit accounts and personal loans to business owners, executives, professionals, and high net worth individuals. FBB also offers private wealth management services and bank consulting services. FBB has four full-service banking locations in Madison, Brookfield, and Appleton, Wisconsin, and Leawood, Kansas.

As of December 31, 2022, FBB had six wholly-owned subsidiaries and total gross loans and leases receivable of \$2.443 billion, total deposits of \$2.171 billion, and total stockholders' equity of \$294.1 million.

FBFS Statutory Trust II

In September 2008, FBFS formed FBFS Statutory Trust II ("Trust II"), a Delaware business trust wholly-owned by FBFS to facilitate the sale of trust preferred securities by Trust II and Trust II's purchase of junior subordinated notes issued by FBFS. FBFS's ownership interest in Trust II has not been consolidated into the financial statements. As of March 30, 2022, the junior subordinated notes and preferred securities were redeemed and Trust II was dissolved.

Corporate Information

Our principal executive offices are located at 401 Charmany Drive, Madison, Wisconsin 53719 and our telephone number is (608) 238-8008. The contents of our website are not incorporated by reference into this Form 10-K. We maintain an Internet website at www.firstbusiness.bank. This Form 10-K and all of our other filings under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are available free of charge through that website, including copies of our proxy statement, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we file those materials with, or furnish them to, the Securities and Exchange Commission ("SEC").

Markets

Although certain of our commercial banking products and services are marketed throughout the Midwest and beyond, our primary markets lie in Wisconsin, Kansas, and Missouri. Specifically, our three markets in Wisconsin consist of South Central Wisconsin, Southeast Wisconsin, and Northeast Wisconsin. We serve the greater Kansas City Metro through our Leawood, Kansas office, which is located in the Kansas City metropolitan area. Each of our primary markets provides a unique set of economic and demographic characteristics which provide us with a variety of strategic opportunities. A brief description of each of our primary markets is as follows:

South Central Wisconsin

As the capital of Wisconsin and home of the University of Wisconsin-Madison, the greater Madison area, specifically Dane County and surrounding counties, offers an appealing economic environment populated by a highly educated workforce. While the economy of the South Central Wisconsin is driven in large part by the government and education sectors, there is also a diverse array of industries outside of these segments. South Central Wisconsin is also home to technology and research and development related companies, which benefit from the area's strong governmental and academic ties, as well as several major health care systems and hospitals, which provides healthcare services to South Central Wisconsin.

Southeast Wisconsin

Southeast Wisconsin provides a diverse economic base with a highly skilled labor force and strong manufacturing industry. The most prominent economic sectors include manufacturing, financial services, health care, diversified service companies, and education. The area is home to several major hospitals, providing health services to the greater Southeast Wisconsin market, several large academic institutions including the University of Wisconsin-Milwaukee and Marquette University, and a wide variety of small- to medium-sized firms with representatives in nearly every industrial classification.

Northeast Wisconsin

The cities of Appleton, Green Bay, and Oshkosh, Wisconsin serve as the primary population centers in our Northeast Wisconsin market and provide an attractive market to a variety of industries, including transportation, utilities, packaging, and diversified services, with the most significant economic drivers being the manufacturing, packaging, and paper goods industries.

Kansas City Metro

Geographically located in the center of the U.S., the greater Kansas City Metro includes 15 counties and more than 50 communities in Missouri and Kansas, including a central business district located in Kansas City, Missouri and communities on both sides of the state line. The area is known for the diversity of its economic base, with major employers in manufacturing and distribution, architecture and engineering, technology, telecommunications, financial services, and bioscience, as well as local government and higher education.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following contains certain information about the executive officers of FBFS. There are no family relationships between any directors or executive officers of FBFS.

Corey A. Chambas, age 60, has served as a director of FBFS since July 2002, as Chief Executive Officer since December 2006 and as President from February 2005 until January 2023. He served as Chief Operating Officer of FBFS from February 2005 to September 2006 and as Executive Vice President from July 2002 to February 2005. He served as Chief Executive Officer of FBB from July 1999 to September 2006 and as President of FBB from July 1999 to February 2005. Mr. Chambas has over 35 years of commercial banking experience. Prior to joining FBFS in 1993, he was a Vice President of Commercial Lending with M&I Bank, now known as BMO Harris Bank, N.A. ("BMO Harris Bank"), in Madison, Wisconsin.

Edward G. Sloane, Jr., age 62, has served as Chief Financial Officer of FBFS since January 2016. Mr. Sloane also serves as the Chief Financial Officer of the Bank. Mr. Sloane has over 35 years of financial services experience including mergers and acquisitions, strategic planning and financial reporting and analysis. On May 18, 2022, Mr. Sloane notified the Corporation that he intends to retire on March 31, 2023. The Corporation plans to appoint Brian D. Spielmann to succeed Mr. Sloane as the Corporation's Chief Financial Officer upon Mr. Sloane's retirement. Mr. Spielmann is currently serving as Deputy Chief Financial Officer and Chief Accounting Officer of the Corporation.

Barbara M. Conley, age 69, has served as FBFS's General Counsel since June 2008. Ms. Conley also serves as General Counsel of the Bank. She has over 35 years of experience in commercial banking. Immediately prior to joining FBFS in 2007, Ms. Conley was a Senior Vice President in Corporate Banking with Associated Bank, National Association. She had been employed at Associated Bank since May 1976.

Jodi A. Chandler, age 58, has served as Chief Human Resources Officer of FBFS since January 2010. Prior to that, she held the position of Senior Vice President-Human Resources for several years. She has been an employee of FBFS for over 25 years.

Mark J. Meloy, age 61, was promoted to Executive Vice President of FBFS in January 2023. Mr. Meloy joined FBFS in 2000 and has held various positions including Chief Executive Officer of FBB, Executive Vice President of FBB, and President and Chief Executive Officer of FBB-Milwaukee. He also currently serves as a director of our FBSF subsidiary. Mr. Meloy has over 35 years of commercial lending experience. Prior to joining FBFS, Mr. Meloy was a Vice President and Senior Relationship Manager with Firststar Bank, NA, in Cedar Rapids, Iowa and Milwaukee, Wisconsin, now known as U.S. Bank, working in their financial institutions group with mergers and acquisition financing.

Daniel S. Ovokaitys, age 49, has served as Chief Information Officer since June 2014. Prior to joining FBFS, Mr. Ovokaitys held the position of Head of Corporate IT (North/South America) for Merz Pharmaceuticals, located in Frankfurt, Germany, from 2010 to 2014. He also served as Director of IT for Aurora Health Care from 2006 to 2010 and Manager of IT for the American Transmission Company from 2000 to 2006.

David R. Seiler, age 58, has served as Chief Operating Officer of FBFS since April 2016 and was promoted to President of FBFS in January 2023. He also currently serves as a director for our subsidiary FBSF. Mr. Seiler has over 25 years of financial services experience including his previous position as Managing Director (formerly Senior Vice President/Manager) of the Correspondent Banking Division with BMO Harris Bank in Milwaukee, Wisconsin which he held from 2007 to 2016. Prior to that, he held the position of Senior Vice President/Team Leader, Correspondent Real Estate Division from 2005 to 2007 and Vice President, Relationship Manager, Commercial Real Estate from 2002 to 2005.

Bradley A. Quade, age 57, has served as Chief Credit Officer of FBFS since April 2020. Mr. Quade had been serving as the Corporation's Deputy Chief Credit Officer since October 2019. He also currently serves as a director for our subsidiary FBSF. Mr. Quade has over 30 years of experience in banking at publicly traded and privately-owned institutions and has led successful lending teams in commercial banking, investment real estate, equipment leasing, and treasury management. Prior to joining FBFS, Mr. Quade held the position of Senior Vice President with Johnson Bank in Milwaukee, Wisconsin which he held from 2008 to 2019.

James E. Hartlieb, age 52, has served as President of FBB since 2015 and was promoted to Chief Executive Officer and concurrently elected a director of FBB in January 2023. Mr. Hartlieb joined FBB in 2009 as Senior Vice President of Greater Dane County. Mr. Hartlieb has over 25 years of financial services experience. Prior to joining FBB, Mr. Hartlieb held the position of Regional President with AMCORE Bank in Madison, Wisconsin, which he held from 1998 to 2009.

SUPERVISION AND REGULATION

Below is a brief description of certain laws and regulations that relate to us and the Bank. This narrative does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

General

Federal Deposit Insurance Corporation ("FDIC")-insured institutions, like the Bank, their holding companies, and their affiliates are extensively regulated under federal and state law. As a result, our 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 our primary regulator, the Board of Governors of the Federal Reserve System ("Federal Reserve"), the Bank's state regulator, the Wisconsin Department of Financial Institutions ("WDFI"), and its primary federal regulator, the FDIC. Furthermore, taxation laws administered by the Internal Revenue Service ("IRS") and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board ("FASB"), securities laws administered by the SEC and state securities authorities, and anti-money laundering laws enforced by the U.S. Department of the Treasury ("Treasury") have an impact on our business. The effect of these statutes, regulations, regulatory policies, and accounting rules are significant to our 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 our business, the kinds and amounts of investments the Corporation and the Bank may make, limits on the Bank's loans to any one borrower, 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 Corporation's and the Bank's insiders and affiliates, and payment of dividends. In reaction to the global financial crisis beginning in 2008 (the "global financial crisis"), and particularly following the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act"), we 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 our 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 (the “Regulatory Relief Act”) was enacted to modify or remove certain financial reform rules and regulations. While the Regulatory Relief Act maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than \$10 billion, like us, and for large banks with assets of more than \$50 billion that were considered systemically important under the Dodd-Frank Act solely because of size. Many of these changes were intended to result in meaningful regulatory relief for community banks and their holding companies, including new rules that may make the capital requirements less complex. For a discussion of capital requirements, see **The Role of Capital** below. The Regulatory Relief Act also eliminated questions about the applicability of certain Dodd-Frank Act reforms to community bank systems, including relieving the Bank of any requirement to engage in mandatory stress tests, name a risk committee, or comply with the Volcker Rule’s complicated prohibitions on proprietary trading and ownership of private funds. The Corporation believes these reforms are generally 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 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 and risk, management ability and performance, earnings, liquidity, information technology, 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 Corporation and the Bank, beginning with a discussion of the continuing regulatory emphasis on our 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 our 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 for banks and bank holding companies 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. A result of this change is that the proceeds of hybrid instruments, such as trust preferred securities, were excluded from capital over a phase-out period. However, if such securities were issued prior to May 19, 2010 by bank holding companies with less than \$15 billion of assets, they may be retained, subject to certain restrictions.

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 (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. While holding companies with consolidated assets of less than \$3 billion, like us, are considered small bank holding companies for this purpose, we have securities registered with the SEC and that disqualifies us from taking advantage of the relief. Banking organizations became subject to the Basel III Rule on January 1, 2015, and its requirements were fully phased-in as of January 1, 2019.

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 historically 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, 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 required minimum capital ratios beginning as of January 1, 2015, 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 (fully phased-in as of January 1, 2019). 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, 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;
- A ratio of Total Capital to total risk-weighted assets of 10% or more; and
- A leverage ratio of Tier 1 Capital to total adjusted average quarterly assets of 5% or greater.

As of December 31, 2022: (i) the Bank is not subject to a directive from the WDFI or the FDIC to increase its capital; and (ii) the Bank was well-capitalized, as defined by FDIC regulations. Additionally, the Corporation had regulatory capital in excess of the Federal Reserve’s requirements as of December 31, 2022.

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 a potential Basel III "off-ramp" for certain institutions, like us, under Section 201 of the Regulatory Relief Act. Pursuant to authority granted thereunder, on September 17, 2019, the agencies adopted a final rule, effective on January 1, 2020, providing that banks and bank holding companies that have less than \$10 billion in total consolidated assets and meet other qualifying criteria, including a "Community Bank Leverage Ratio" ("CBLR") calculated by dividing tier 1 capital by average total consolidated assets of greater than 9%, will be eligible to opt into the CBLR framework. By opting into the framework, qualifying banks and bank holding companies maintaining a CBLR greater than 9% will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the agencies' capital rules and, if applicable, will be considered to have met the well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. In addition to the consolidated assets and CBLR requirements described above, a qualifying bank or bank holding company must also have (i) total off-balance sheet exposures (excluding derivatives other than sold credit derivatives and unconditionally cancellable commitments) of 25% or less of total consolidated assets, and (ii) the sum of total trading assets and trading liabilities of 5% or less of total consolidated assets.

The Corporation and the Bank opted out of the CBLR framework for each reporting period in 2022 and has the option to opt into the framework for future reporting periods. The decision to opt into or out of the CBLR framework is monitored on an ongoing basis.

First Business Financial Services, Inc.

General. As the sole shareholder of the Bank, we are a bank holding company. As a bank holding company, we are registered with, and subject to regulation, supervision, and enforcement by, the Federal Reserve under the Bank Holding Company Act of 1956, as amended ("BHCA"). We are legally obligated to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where we might not otherwise do so. Under the BHCA, we are subject to periodic examination by the Federal Reserve. We are required to file with the Federal Reserve periodic reports of our operations and such additional information regarding the Corporation and our subsidiaries as the Federal Reserve may require.

Acquisitions and Activities. 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 has 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 Corporation 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 Corporation 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 non-bank 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 non-banking

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 Corporation has not elected to operate as a financial holding company.

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. On January 30, 2020, the Federal Reserve issued a final rule clarifying and expanding upon the Federal Reserve’s position on determinations of whether a company has the ability to exercise a controlling influence over another company. In particular, the final rule is intended to provide a better understanding of the facts and circumstances that the Federal Reserve considers most relevant when assessing whether control exists. On March 31, 2020, the final rule’s original effective date was delayed and became effective on September 30, 2020.

Dividend Payments. Our ability to pay dividends to our shareholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. As a Wisconsin corporation, we are subject to the limitations of Wisconsin law, which allows us to pay dividends unless, after giving effect to a dividend, any of the following would occur: (i) we would not be able to pay our debts as they become due in the usual course of business or (ii) the total assets would be less than the sum of its total liabilities plus any amount that would be needed if we were to be dissolved at the time of the dividend payment, to satisfy the preferential rights upon dissolution of shareholders whose rights are superior to the rights of the shareholders 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 non-bank 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 for additional information.

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 Corporation’s common stock is registered with the SEC under the Securities Act of 1933, as amended, and the Exchange Act. Consequently, we are 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 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 by 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.

The Bank

General. The Bank is a Wisconsin state-chartered bank. The deposit accounts of the Bank are insured by the FDIC's Deposit Insurance Fund ("DIF") to the maximum extent provided under federal law and FDIC regulations, currently \$250,000 per insured depositor category. As a Wisconsin-chartered FDIC-insured bank, the Bank is subject to the examination, supervision, reporting, and enforcement requirements of the WDFI, the chartering authority for Wisconsin 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 System (nonmember banks).

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. 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 is 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 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 was 1.26% as of June 30, 2022, which is less than the statutory minimum reserve ratio of 1.35% to be achieved by September 30, 2028. Accordingly, on June 1, 2022, the FDIC adopted a final rule increasing the initial base deposit insurance rate schedules by 2 basis points, beginning with the first quarterly assessment period of 2023. Starting January 1, 2023, the total base assessment rates for small banks, such as the Bank, ranged from 2.5 basis points to 32 basis points. This new assessment rate schedule will remain in effect unless and until the reserve ratio meets or exceeds 2.00%. Progressively lower assessment rate schedules will take effect when the reserve ratio reaches 2.00%, and again when it reaches 2.50%.

Supervisory Assessments. All Wisconsin banks are required to pay supervisory assessments to the WDFI to fund the operations of that agency. The amount of the assessment is calculated on the basis of the Bank's total assets.

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 ("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 Ratio ("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).

Dividend Payments. The primary source of funds for the Corporation is dividends from the Bank. Under Wisconsin law, the board of directors of a bank may declare and pay a dividend from its undivided profits in an amount it considers expedient. The board of directors must provide for the payment of all expenses, losses, required reserves, taxes, and interest accrued or due from the bank before the declaration of dividends from undivided profits. If dividends declared and paid in either of the two immediately preceding years exceeded net income for either of those two years respectively, the bank may not declare or pay any dividend in the current year that exceeds year-to-date net income except with the written consent of the WDFI. The FDIC and the WDFI 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 will 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 Wisconsin 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.” We are an affiliate of the Bank for purposes of these restrictions, and covered transactions subject to the restrictions include extensions of credit to the Corporation, investments in the stock or other securities of the Corporation, and the acceptance of the stock or other securities of the Corporation 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 Corporation and its subsidiaries, to principal shareholders of the Corporation, 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 Corporation or the Bank, or a principal shareholder of the Corporation, 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, risk mitigation, bank operations, compliance, credit underwriting, interest rate exposure, asset growth, compensation, fiduciary risk, 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 several years, 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, compliance, and reputational risk. In particular, recent regulatory pronouncements have focused on operational risk, which arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses. New products and services, third-party risk, incentive compensation, and cybersecurity are critical sources of risk that FDIC-insured institutions are expected to address in the current environment. 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.

Branching Authority. Wisconsin banks, such as the Bank, have the authority under Wisconsin law to establish branches anywhere in the State of Wisconsin, subject to receipt of all required regulatory approvals. The establishment of new interstate branches has historically been permitted only in those states the laws of which expressly authorize such expansion. 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.

Brokered Deposits. On December 19, 2018, the FDIC adopted a final rule on the treatment of reciprocal deposits pursuant to the Regulatory Relief Act. The final rule, effective March 6, 2019, exempts certain reciprocal deposits from being

considered as brokered deposits for certain insured institutions. In particular, well-capitalized and well-rated institutions are not required to treat reciprocal deposits as brokered deposits up to the lesser of 20% of their total liabilities or \$5 billion. Institutions that are not both well-capitalized and well-rated may also exclude reciprocal deposits from their brokered deposits under certain circumstances.

On December 15, 2020, the FDIC issued a final rule on brokered deposits. The rule aims to clarify and modernize the FDIC's existing regulatory framework for brokered deposits. Among other things, the rule establishes bright-line standards for determining whether an entity meets the definition of a "deposit broker," and identifies a number of business relationships (or "designated exceptions") that automatically meet the "primary purpose" exception. The rule also establishes a transparent application process for entities that seek a "primary purpose" exception but do not meet one of the "designated exceptions." The new rule also reflects technological changes across the banking industry and removes regulatory disincentives that limit banks' ability to serve their customers.

Community Reinvestment Act ("CRA") 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. An institution's CRA assessment may be used by its regulators in their evaluation of certain applications, including a merger, acquisition, or the establishment of a branch office. An unsatisfactory rating may be used as a basis for denial of such an application.

On December 14, 2021, the Office of the Comptroller of the Currency ("OCC") issued a final rule to rescind the June 2020 Community Reinvestment Act ("CRA") rule and replace it with a rule based on the rules adopted jointly by the federal banking agencies in 1995, as amended. The final rule aligns the OCC's CRA rules with the current Federal Reserve and FDIC rules and thereby facilitates the ongoing interagency work to modernize the CRA regulatory framework and create consistency for all insured depository institutions.

Anti-Money Laundering. The Bank is subject to several federal laws that are designed to combat money laundering and terrorist financing, and to restrict transactions with persons, companies, or foreign governments sanctioned by United States authorities. This category of laws includes the Bank Secrecy Act (the "BSA"), the Money Laundering Control Act, the USA PATRIOT Act (collectively, "AML laws") and implementing regulations as administered by the United States Treasury Department's Office of Foreign Assets Control ("sanctions laws").

As implemented by federal banking and securities regulators and the Department of the Treasury, AML laws obligate depository institutions to verify their customers' identity, conduct customer due diligence, report on suspicious activity, file reports of transactions in currency, and conduct enhanced due diligence on certain accounts. In addition, the Financial Crimes Enforcement Network ("FinCen") promulgated customer due diligence and customer identification rules that required banks to identify and verify the identity of beneficial owners of all legal entity customers (with certain exclusions) at the time a new account is opened (subject to certain exemptions). Sanctions laws prohibit persons of the United States from engaging in any transaction with a restricted person or restricted country. Depository institutions are required by their respective federal regulators to maintain policies and procedures in order to ensure compliance with the above obligations. Federal regulators regularly examine BSA/Anti-Money Laundering ("AML") and sanctions compliance programs to ensure their adequacy and effectiveness, and the frequency and extent of such examinations and the remedial actions resulting therefrom have been increasing. Non-compliance with sanctions laws and/or AML laws or failure to maintain an adequate BSA/AML compliance program can lead to significant monetary penalties and reputational damage, and federal regulators evaluate the effectiveness of an applicant in combating money laundering when determining whether to approve a proposed bank merger, acquisition, restructuring, or other expansionary activity.

On January 1, 2021, the National Defense Authorization Act was enacted by Congress. The new law establishes the most significant overhaul of BSA and AML since the USA PATRIOT Act of 2001, including: (i) new beneficial ownership information and the establishment of a beneficial ownership registry, which requires corporate entities (generally any corporation, limited liability company or similar entity with 20 or fewer employees and annual gross income of \$5 million or less) to report beneficial ownership information to FinCEN (which information will be maintained by FinCEN and made available upon request to financial institutions); (ii) whistleblower and penalty enhancements; (iii) improvements to existing information sharing provisions that permit financial institutions to share information relating to suspicious activity reports for purposes of combating illicit finance risks; and (iv) provisions emphasizing the importance of risk-based approaches to AML program requirements.

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 personal information of their consumers. These laws

require the Bank to periodically disclose their 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 clients with marketing offers. In addition, 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. These security and privacy policies and procedures, for the protection of personal and confidential information, are in effect across the Bank and its subsidiaries.

Moreover, given the increased focus on privacy and data security in the United States and internationally, laws and regulations related to the same are evolving. Multiple states and Congress are considering additional laws or regulations that could create or alter individual privacy rights and impose additional obligations on banks and related financial services companies in possession of or with access to personal data. On November 18, 2021, the FDIC, the Federal Reserve System, and the OCC (collectively, the agencies) issued a joint final rule, to establish computer-security incident notification requirements for banking organizations and their bank service providers. The rule will provide the agencies with early awareness of emerging threats to banking organizations and the broader financial system, including potentially systemic cyber events. The final rule took effect on April 1, 2022, with full compliance extended to May 1, 2022.

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 is one example of regulatory concern. The interagency Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices guidance ("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.

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 Consumer Financial Protection Bureau ("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.

Current Expected Credit Loss ("CECL") Treatment. In June 2016, the FASB issued an accounting standard update, "Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments," which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the CECL model. Under the CECL model, we will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount.

On December 21, 2018, the federal banking agencies issued a joint final rule revising their regulatory capital rules to (i) address the impending implementation of the CECL accounting standard under GAAP; (ii) provide an optional three-year phase-in period for the day-one adverse regulatory capital effects that banking organizations were expected to experience upon enacting CECL; and (iii) require the use of CECL in stress tests beginning with the 2020 capital planning and stress testing cycle for certain banking organizations. The final rule took effect on April 1, 2019; however, on August 26, 2020, the federal bank regulatory agencies issued a final rule allowing institutions that adopted the CECL accounting standard in 2020 the option to mitigate the estimated capital effects of CECL for two years, followed by the three-year transition period already provided by the joint final rule. We elected to use the 2020 Capital Transition Relief as permitted under the applicable regulations.

Legislation and Regulation Addressing the COVID-19 Pandemic

The COVID-19 pandemic created unprecedented health and economic uncertainty in the United States and internationally and has prompted federal, state, and local legislative and regulatory action designed to address the pandemic's challenges. Beginning in March 2020, the federal bank regulatory agencies began issuing various rulemakings and interagency statements providing temporary resources, flexibility and relief for financial institutions. These rulemakings and statements related to, among other things, deferrals for certain borrowers and compliance with capital adequacy guidelines.

In addition, on March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), a \$2.2 trillion economic stimulus law, was enacted. The CARES Act and various regulations promulgated thereunder contain many provisions that impact financial institutions, including, among others, forbearance protections for certain borrowers, relief from characterizing loan modifications as "troubled debt restrictions, a new Paycheck Protection Program ("PPP") available in the form of Small Business Administration 7(a) loans made by financial institutions to eligible borrowers, and various liquidity facilities to fund the PPP and other pandemic-related financing programs. After the initial fund for PPP loans was exhausted, the PPP was extended multiple times until expiring on August 8, 2020. In January 2021, the SBA reopened the PPP for eligible borrowers that did not receive a PPP loan during the initial PPP phase, as well as for a certain subset of borrowers who had received an initial PPP loan previously. The PPP expired for any new applicants on May 31, 2021.

Item 1A. Risk Factors

An investment in our common stock is subject to risks inherent to our business. Before making an investment decision, you should carefully read and consider the following risks and uncertainties. We may encounter risks in addition to those described below, including risks and uncertainties not currently known to us or those we currently deem to be immaterial. The risks described below, as well as such additional risks and uncertainties, may impair or materially and adversely affect our business, results of operations, and financial condition. The risks are organized in the following categories:

- Credit Risk
- Liquidity and Interest Rate Risk
- Operational Risk
- Strategic and External Risk
- Regulatory, Compliance, Legal, and Reputational Risk
- Risks Related to Investing in Our Common Stock
- General Risk Factors

Credit Risks

If we do not effectively manage our credit risk, we may experience increased levels of delinquencies, non-performing loans, and charge-offs, which would require increases in our provision for loan and lease losses.

There are risks inherent in making any loan or lease, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and cash flows available to service debt, and risks resulting from changes in economic and market conditions. We cannot assure you that our credit risk approval and monitoring procedures have identified or will identify all of these credit risks, and they cannot be expected to completely eliminate our credit risks. If the overall economic climate in the U.S., generally, or in our markets, specifically, deteriorates, or if the financial condition of our borrowers otherwise declines, then our borrowers may experience difficulties in repaying their loans and leases, and the level of non-performing loans and leases, charge-offs, and delinquencies could rise. This would, in turn, require increases in the provision for loan and lease losses, which may adversely affect our business, results of operations, and financial condition.

Our allowance for loan and lease losses may not be adequate to cover actual losses.

We establish our allowance for loan and lease losses and maintain it at a level considered appropriate by management based on an analysis of our portfolio and market environment. The allowance for loan and lease losses represents our estimate of probable losses inherent in the portfolio at each balance sheet date and is based upon relevant information available to us. The allowance contains provisions for probable losses that have been identified relating to specific relationships, as well as probable losses inherent in our loan and lease portfolio that are not specifically identified. Additions to the allowance for loan and lease losses, which are charged to earnings through the provision for loan and lease losses, are determined based on a variety of factors, including an analysis of our loan and lease portfolio by segment, historical loss experience, subjective factors, and an evaluation of current economic conditions in our markets. The actual amount of loan and lease losses is affected by changes in economic, operating, and other conditions within our markets, which may be beyond our control, and such losses may exceed current estimates.

At December 31, 2022, our allowance for loan and lease losses as a percentage of total loans and leases was 0.99% and as a percentage of total non-performing loans and leases was 662.20%. Although management believes the allowance for loan and lease losses is appropriate, we may be required to take additional provisions for losses in the future to further supplement the allowance, either due to management's decision, based on credit conditions, or requirements by our banking regulators. In addition, bank regulatory agencies will periodically review our allowance for loan and lease losses and the value attributed to non-performing loans and leases. Such regulatory agencies may require us to adjust our determination of the value for these items. Any significant increases to the allowance for loan and lease losses may materially decrease our net income, which may adversely affect our business, results of operations, and financial condition.

A significant portion of our loan and lease portfolio is comprised of commercial real estate loans, which involve risks specific to real estate values and the real estate markets in general.

At December 31, 2022 we had \$1.542 billion of commercial real estate loans, which represented 63.1% of our total loan and lease portfolio. Because payments on such loans are often dependent on the successful operation or development of the property or business involved, repayment of such loans is sensitive to conditions in the real estate market or the general economy, which are outside the borrower's control. In the event that the cash flow from the property is reduced, the borrower's ability to repay the loan could be negatively impacted. The deterioration of one or a few of these loans could cause a material increase in our level of non-performing loans, which would result in a loss of revenue from these loans and could result in an increase in the provision for loan and lease losses and an increase in charge-offs, all of which could have a material adverse impact on our net income. Additionally, many of these loans have real estate as a primary or secondary component of collateral. The market value of real estate can fluctuate significantly in a short period of time as a result of economic conditions. Adverse developments affecting real estate values in one or more of our markets could impact the collateral coverage associated with the commercial real estate segment of our portfolio, possibly leading to increased specific reserves or charge-offs, which may adversely affect our business, results of operations, and financial condition.

Because of the risks associated with commercial real estate loans, we closely monitor the concentration of such loans in our portfolio. If we or our regulators determine that this concentration is approaching or exceeds appropriate limits, we may need to reduce or cease the origination of additional commercial real estate loans, which could adversely affect our growth plans and profitability. In addition, we may be required to sell existing loans in our portfolio, but there can be no assurances that we would be able to do so at prices that are acceptable to us.

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

Real estate construction and land development loans, subsets of commercial real estate loans, comprised approximately \$167.9 million, or 6.9%, and \$50.8 million, or 2.1%, of our gross loan and lease portfolio, respectively, as of December 31, 2022. Such lending involves additional risks as these loans are underwritten using the as-completed value of the project, which is uncertain 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, it can be relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, construction 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 the appraisal of the completed project's value proves to be overstated or market values 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 and may incur 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.

A large portion of our loan and lease portfolio is comprised of commercial loans secured by various business assets, the deterioration in value of which could increase our exposure to future probable losses.

At December 31, 2022, approximately \$841.2 million, or 34.4%, of our loan and lease portfolio was comprised of commercial loans to businesses collateralized by general business assets, including accounts receivable, inventory, and equipment. Our commercial loans are typically larger in amount than loans to individual consumers and therefore, have the potential for larger losses on an individual loan basis. Additionally, some of our niche commercial lending clients are highly leveraged and/or have inconsistent historical earnings. Significant adverse changes in various industries could cause rapid declines in values and collectability associated with those business assets resulting in inadequate collateral coverage that may expose us to future losses. An increase in specific reserves and charge-offs may adversely affect our business, results of operations, and financial condition.

The success of our SBA lending program is dependent upon the continued availability of SBA loan programs, our status as a Preferred Lender under the SBA loan programs, our ability to effectively compete and originate new SBA loans, and our ability to comply with applicable SBA lending requirements.

SBA loans (excluding PPP loans), consisting of both commercial real estate and commercial loans, comprised approximately \$48.9 million, or 2.0%, of our gross loan and lease portfolio as of December 31, 2022.

As an SBA Preferred Lender, we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. When weaknesses are identified, the SBA may request corrective actions or impose other restrictions, including revocation of the lender's Preferred Lender status. If we lose our status as a Preferred Lender, we may lose our ability to compete effectively with other SBA Preferred Lenders, and as a result we could experience a material adverse effect to our financial results. Any changes to the SBA program, including changes to the level of guaranty provided by the federal government on SBA loans or changes to the level of funds appropriated by the federal government to the various SBA programs, may also have an adverse effect on our business, results of operations, and financial condition.

We often choose to sell the guaranteed portions of our SBA 7(a) loans in the secondary market. These sales result in earning premium income and create a stream of future servicing income. There can be no assurance that we will be able to continue originating these loans, that a secondary market will exist, or that we will continue to realize premiums upon the sale of the guaranteed portions of these loans. Whether or not we sell the guaranteed portion of an SBA loan, we retain credit risk on the non-guaranteed portion of the loan. We also have credit risk on the guaranteed portion if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded, or serviced by the Bank. The total outstanding balance of sold SBA loans as of December 31, 2022 was \$88.5 million.

In order for a borrower to be eligible to receive an SBA loan, it must be established that the borrower would not be able to secure a bank loan without the credit enhancements provided by a guaranty under the SBA program. Accordingly, the SBA loans in our portfolio generally have weaker credit characteristics than the rest of our portfolio, and may be at greater risk of default. In the event of a loss resulting from default and a determination by the SBA that there is a deficiency in the manner in which the loan was originated, funded, or serviced by the Bank, the SBA may require the Bank to repurchase the previously sold portion of the loan, deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of the principal loss related to the deficiency from the Bank. Management has estimated losses in the outstanding guaranteed portions of SBA loans and recorded an allowance for loan and lease losses and a SBA recourse reserve at a level determined to be appropriate. Significant increases to the allowance for loan and lease losses and the recourse reserve may materially decrease our net income, which may adversely affect our business, results of operations, and financial condition.

Non-performing assets take significant time to resolve, adversely affect our results of operations and financial condition, and could result in losses.

At December 31, 2022, our non-performing loans and leases totaled \$3.7 million, or 0.15% of our gross loan and lease portfolio, and our non-performing assets (which include non-performing loans and repossessed assets) totaled \$3.8 million, or 0.13% of total assets. Our non-performing assets adversely affect our net income in various ways. We do not record interest income on non-accrual loans, thereby adversely affecting our net income and returns on assets and equity, increasing our loan administration costs, and adversely affecting our efficiency ratio. When we take collateral in repossession and similar proceedings, we are required to mark the collateral to its then net realizable value, less estimated selling costs, which may result in a loss. These non-performing loans and repossessed assets also increase our risk profile and the capital our regulators believe is appropriate in light of such risks. The resolution of non-performing assets requires significant time commitments from management and can be detrimental to the performance of their other responsibilities. If we experience increases in non-performing loans and non-performing assets, our net interest income may be negatively impacted and our loan administration costs could increase, each of which may adversely affect our business, results of operations, and financial condition.

The FASB issued an accounting standard that may require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The FASB has issued a new accounting standard that will be effective for us beginning on January 1, 2023. This standard, referred to as CECL, requires financial institutions to determine periodic estimates of lifetime expected credit losses on loans and leases and recognize the expected credit losses as allowances for loan and lease losses. This will change the current method of providing allowances for loan and lease losses that are probable, which may require us to increase our allowance for loan and lease losses, and to greatly increase the types of data we will need to collect and review to determine the appropriate level of the allowance for loan and lease losses. Any increase in our allowance for loan and lease losses or expenses incurred to determine the appropriate level of the allowance for loan and lease losses may have a material adverse effect on our

financial condition and results of operations. See **Note 1 – Nature of Operations and Summary of Significant Accounting Policies** in the Consolidated Financial Statements for additional information.

Liquidity and Interest Rate Risks

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

Our ability to implement our business strategy will depend on our liquidity and ability to obtain funding for loan originations, working capital, and other general purposes. An inability to raise funds through deposits, borrowings, the sale of loans, and other sources could have a substantial negative effect on our liquidity. Our preferred source of funds consists of client deposits, which we supplement with other sources, such as wholesale deposits made up of brokered deposits and deposits gathered through internet listing services. Such account and deposit balances can decrease when clients perceive alternative investments as providing a better risk/return profile. If clients move money out of bank deposits and into other investments, we may increase our utilization of wholesale deposits, FHLB advances, and other wholesale funding sources necessary to fund desired growth levels. Because these funds generally are more sensitive to interest rate changes than our targeted in-market deposits, they are more likely to move to the highest rate available. In addition, the use of brokered deposits without regulatory approval is limited to banks that are “well capitalized” according to regulation. If the Bank is unable to maintain its capital levels at “well capitalized” minimums, we could lose a significant source of funding, which would force us to utilize different wholesale funding or potentially sell assets at a time when pricing may be unfavorable, increasing our funding costs and reducing our net interest income and net income.

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. Regional and community banks generally have less access to the capital markets than do national and super-regional banks because of their smaller size and limited analyst coverage. During periods of economic turmoil or decline, the financial services industry and the credit markets generally may be materially and adversely affected by declines in asset values and by diminished liquidity. Under such circumstances, the liquidity issues are often particularly acute for regional and community banks, as larger financial institutions may curtail their lending to regional and community banks to reduce their exposure to the risks of other banks. Correspondent lenders may also reduce or even eliminate federal funds lines for their correspondent clients in difficult economic times.

As a result, we rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans and investment securities to ensure that we have adequate liquidity to fund our operations. Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, pay dividends to our shareholders, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse effect on our business, results of operations, and financial condition.

The Corporation is a bank holding company and its sources of funds necessary to meet its obligations are limited.

The Corporation is a bank holding company and its operations are primarily conducted by the Bank, which is subject to significant federal and state regulation. Cash available to pay dividends to our shareholders, pay our obligations, and meet our debt service requirements is derived primarily from our existing cash flow sources, our third party line of credit, dividends received from the Bank, or a combination thereof. Future dividend payments by the Bank to us will require the generation of future earnings by the Bank and are subject to certain regulatory guidelines. If the Bank is unable to pay dividends to us, we may not have the resources or cash flow to pay or meet all of our obligations.

Interest rate shifts may reduce net interest income and otherwise negatively impact our financial condition and results of operations.

Shifts in short-term interest rates may reduce net interest income, which is the principal component of our earnings. Net interest income is the difference between the amounts received by us on our interest-earning assets and the interest paid by us on our interest-bearing liabilities. In certain scenarios, when interest rates rise, the rate of interest we pay on our liabilities may rise more quickly than the rate of interest that we receive on our interest-bearing assets, which could cause our profits to decrease. Similarly, when interest rates fall, the rate of interest we pay on our liabilities may not decrease as quickly as the rate of interest we receive on our interest-bearing assets, which could cause our profits to decrease. However, the structure of our balance sheet and resultant sensitivity to interest rates in various scenarios may change in the future.

Interest rate increases on variable rate loans often result in larger payment requirements for our borrowers, which increases the potential for default. At the same time, the marketability of underlying collateral may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on certain loans as borrowers refinance at lower rates.

Changes in interest rates also can affect the value of loans. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of

income recognized, which could have an adverse effect on our results of operations and cash flows. Further, when we place a loan on non-accrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. Subsequently, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of non-performing assets would have an adverse impact on net interest income.

Rising interest rates may also result in a decline in value of our fixed-rate debt securities. The unrealized losses resulting from holding these securities would be recognized in other comprehensive income and reduce total stockholders' equity. If debt securities in an unrealized loss position are sold, such losses become realized and will reduce our regulatory capital ratios.

The transition to an alternative reference rate could cause instability and have a negative effect on financial market conditions.

The London Interbank Offered Rate ("LIBOR") represents the interest rate at which banks offer to lend funds to one another in the international interbank market for short-term loans. Beginning in 2008, concerns were expressed that some of the member banks surveyed by the British Bankers' Association (the "BBA") in connection with the calculation of LIBOR rates may have been under-reporting or otherwise manipulating the interbank lending rates applicable to them. Regulators and law enforcement agencies from a number of governments have conducted investigations relating to the calculation of LIBOR across a range of maturities and currencies. If manipulation of LIBOR or another interbank lending rate occurred, it may have resulted in that rate being artificially lower (or higher) than it otherwise would have been. Responsibility for the calculation of LIBOR was transferred to Intercontinental Exchange Benchmark Administration Limited, as independent LIBOR administrator, effective February 1, 2014.

On July 27, 2017, the United Kingdom Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR rates after 2021 (the "July 27th Announcement"). The July 27th Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021.

The dissolution of the LIBOR impacts all borrowers and banks that use LIBOR as a base rate. LIBOR will continue to be published until June 30, 2023, however, banks are no longer allowed to issue new LIBOR-based products after December 31, 2021. FBB selected the Secured Overnight Financing Rate ("SOFR") as a replacement rate. Beginning on July 1, 2023, FBB will no longer be able to rely on LIBOR as a benchmark in any contract, and as a result, the Bank and its customers will need to replace all references to LIBOR in existing contracts that go past that date.

The Corporation has developed a LIBOR transition team to complete the transition away from LIBOR to an alternative reference rate such as SOFR or Prime. In addition to SOFR or Prime, FBB may also offer other benchmark rates as substitutions for LIBOR, including BSBY and Ameribor. The transition team has added language to new loan agreements regarding the use of alternative reference rates and the Corporation has evaluated existing loan agreements linked to LIBOR and will work with those parties to modify the agreements.

The Corporation does not expect the manner and impact of the transition from LIBOR to an alternative reference rate, as well as the effect of these developments on our compliance costs, funding costs, loan and security portfolios, derivatives, asset-liability management, and business, to have a material impact on the Consolidated Financial Statements.

Operational Risks

Information security risks for financial institutions like us continue to increase in part because of new technologies, the increased use of the internet and telecommunications technologies (including mobile devices and cloud computing) to conduct financial and other business transactions, political activism, and the increased sophistication and activities of organized crime, terrorist, hackers, and perpetrators of fraud. A successful cyber-attack or other breach of our information systems could adversely affect the Corporation's business, financial condition or results of operations and damage its reputation.

The methods of cyber-attacks change frequently or, in some cases, are not recognized until launch, we are not able to anticipate or implement effective preventive measures against all possible security breaches and the probability of a successful attack cannot be predicted. Although we employ detection and response mechanisms designed to detect and mitigate security incidents, early detection may be thwarted by persistent sophisticated attacks and malware designed to avoid detection. We also train employees and our business and consumer clients on fraud risks. We also face risks related to cyber-attacks and other security breaches that typically involve the transmission of sensitive information regarding our clients and monetary transactions through various third parties. Some of these parties have in the past been the target of security breaches and cyber-attacks, and because the transactions involve third parties and environments that we do not control or secure, future security breaches or cyber-attacks affecting any of these third parties could impact us through no fault of our own, and in some cases we may have exposure and suffer losses for breaches or attacks relating to them. We also rely on numerous other third-party

service providers to conduct other aspects of our business operations and face similar risks relating to them. While we conduct security assessments on our higher risk third party service providers, we cannot be sure that their information security protocols are sufficient to withstand a cyber-attack or other security breach.

The Corporation regularly evaluates its systems and controls and implements upgrades as necessary. The additional cost to the Corporation of our cyber security monitoring and protection systems and controls includes the cost of hardware and software, third party technology providers, consulting and forensic testing firms, and insurance premium costs, in addition to the incremental cost of our personnel who focus a substantial portion of their responsibilities on cyber security.

Any successful cyber-attack or other security breach involving the misappropriation, loss or other unauthorized disclosure of confidential customer information or funds or that compromises our ability to function could erode confidence in the security of our systems, products and services, result in monetary losses, potentially subject us to regulatory investigation with fines and penalties, expose us to litigation and liability, disrupt our operations and have a material adverse effect on our business, financial condition or results of operations and damage our reputation.

We are dependent upon third parties for certain information systems, data management and processing services, and key components of our business infrastructure, which are subject to operational, security, and other risks.

As with many other companies, we outsource certain information systems, data management, and processing functions to third-party providers, including key components of our business infrastructure like internet and network access, and core application processing. While we have selected these third-party vendors carefully, we do not control their actions, nor is any vendor due diligence perfect. These third-party service providers are sources of operational and informational security risk to us, including risks associated with operational errors, information system interruptions or outages, unauthorized access or disclosure of sensitive or confidential information. If our third-party service providers encounter any of these issues, or if we have difficulty exchanging information with or receiving services from them, we could be exposed to disruption of operations, an inability to provide products and services to our clients, a loss of service or connectivity, reputational damage, and litigation risk that could have a material adverse effect on our business, results of operations, and financial condition.

Our business continuity plans could prove to be inadequate, resulting in a material interruption in or disruption to our business and a negative impact on our results of operations.

We rely heavily on communications and information systems to conduct our business and our operations are dependent on our ability to protect our systems against damage from fire, power loss, telecommunication failure, or other emergencies. The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. These problems may arise in both our internally developed systems and the systems of our third-party service providers. Any failure or interruption of these systems could result in failures or disruptions in general ledger, core bank processing systems, client relationship management, and other systems. While we have a business continuity plan and other policies and procedures designed to prevent or limit the effect of a failure, interruption or security breach of our information systems, there can be no assurance that any of those events will not occur or, if they do occur, that they will be adequately remediated. The occurrence of any failure, interruption, or security breach of our information systems could damage our reputation, result in a loss of clients, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, results of operations, and financial condition.

New lines of business, products, and services are essential to our ability to compete but may subject us to additional risks.

Periodically, we implement new lines of business and/or offer new products and services within existing lines of business. There can be substantial risks and uncertainties associated with these efforts, particularly in instances where the markets for such services are still developing or due diligence is not fully vetted. In developing and marketing new lines of business and/or new products or services, we invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved, and price and profitability targets may not prove feasible. New technologies needed to support the new line of business or product may result in incremental operating costs and system defects. Compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. In instances of new lines of businesses offering credit services, weaknesses relating to underwriting and operations may impact credit and capital. Delinquency may negatively affect non-performing assets and increase the provision for loan and lease losses.

Any new line of business and/or new product or service could also 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 new products or services could have a material adverse effect on our business, results of operations, and financial condition.

Our framework for managing risks may not be effective in mitigating risk and loss to us.

Our risk management framework seeks to mitigate risk and loss to us. We have established processes and procedures intended to identify, measure, monitor, control, and analyze the types of risk to which we are subject, including liquidity risk, credit risk, market risk, interest rate risk, operational risk, information and cyber security risk, compensation risk, legal and compliance risk, and reputational risk, among others. However, as with any risk management framework, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. Our ability to successfully identify and manage risks facing us is an important factor that can significantly impact our results. If our risk management framework proves ineffective, we could suffer unexpected losses which could adversely affect our business, results of operations, and financial condition.

We are subject to changes in accounting principles, policies, or guidelines.

Our financial performance is impacted by accounting principles, policies, and guidelines. Some of these policies require the use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Some of our accounting policies are critical because they require management to make difficult, subjective, and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. If such estimates or assumptions underlying our financial statements are incorrect, we may experience material losses.

From time to time, the FASB and SEC change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our financial statements. These changes are beyond our control, can be difficult to predict, and could materially impact how we report our financial condition and results of operations. Changes in these standards are continuously occurring and more drastic changes may occur in the future. The implementation of such changes could have a material adverse effect on our business, results of operations, and financial condition.

Strategic and External Risks

The Corporation's business and financial results could be materially and adversely affected by widespread public health events.

The COVID-19 pandemic has negatively impacted the global economy, disrupting global supply chains and equity markets and creating significant volatility and disruption in financial and labor markets. In addition, the pandemic resulted in temporary closures of many businesses and the institution of social distancing and stay-at-home requirements in many states and communities, including Wisconsin, Kansas, and Missouri. The COVID-19 pandemic, including, in part, supply chain disruption and the effects of the extensive pandemic-related government stimulus, has caused inflationary pressure in the U.S. economy. We expect to be impacted by elevated levels of inflation and the corresponding upward pressure on interest rates.

The COVID-19 pandemic, widespread recurrences of COVID-19 or similar pandemics, or other future widespread public health epidemics could result in the continued and increased recognition of credit losses in the Corporation's loan portfolio and increases in the Corporation's allowance for credit losses, particularly to the extent that there is a significant negative impact on the global economy. Because of changing economic and market conditions affecting issuers, the Corporation may be required to recognize impairments on the securities it holds. Furthermore, the demand for the Corporation's products and services may be impacted, which could materially adversely affect the Corporation's revenue.

We cannot predict how further outbreaks, new variants, the efficacy of vaccines or future widespread public health epidemics, should they occur, might impact our financial condition and results of operation. The extent to which the COVID-19 pandemic, or any future pandemic, impacts the Corporation's business, results of operations, and financial condition, as well as the Corporation's regulatory capital, liquidity ratios, and stock price, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and any responsive actions taken by governmental authorities and other third parties.

Our business may be adversely affected by conditions in the financial markets and economic conditions generally.

Our operations and profitability are impacted by general business and economic conditions in the U.S. and, to some extent, abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity markets, broad trends in industry and finance, the strength of the U.S. economy and uncertainty in financial markets globally, all of which are beyond our control. A deterioration in economic conditions could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values, and a decrease in demand for our products and services, among other things, any of which could have a material adverse effect on our business, results of operations, and financial condition.

Our business is concentrated in and largely dependent upon the continued growth and welfare of the general geographical markets in which we operate.

Our operations are heavily concentrated in southern Wisconsin and, to a lesser extent, the Northeast regions of Wisconsin and the greater Kansas City Metro and, as a result, our financial condition, results of operations, and cash flows are significantly impacted by changes in the economic conditions in those areas. Our success depends to a significant extent upon the business activity, population, income levels, deposits, and real estate activity in these markets. Although our clients' business and financial interests may extend well beyond these markets, adverse economic conditions that affect these markets, including, without limitation, adverse conditions resulting from the COVID-19 pandemic, could reduce our growth rate, affect the ability of our clients to repay their loans to us, affect the value of collateral underlying loans, and generally affect our financial condition and results of operations. Because of our geographic concentration, we are less able than other regional or national financial institutions to diversify our credit risks across multiple markets.

Our financial condition and results of operations could be negatively affected if we fail to effectively execute our strategic plan or manage the growth called for in our strategic plan.

Our strategic plan calls for above average performance by focusing on four key strategies – talent, efficiency, deposits, and optimizing business line performance. While we believe we have the management resources and internal systems in place to successfully execute our strategic plan, we cannot guarantee that opportunities will be available and that the strategic plan will be successful or effectively executed.

Although we do not have any current definitive plans to do so, in implementing our strategic plan we may expand into additional communities or attempt to strengthen our position in our current markets through opportunistic acquisitions of similar or complementary financial services organizations. To the extent that we do so, we may experience higher operating expenses relative to operating income from the new operations or certain one-time expenses associated with the closure of offices, all of which may have an adverse effect on our business, results of operations, and financial condition. Other effects of engaging in such strategies may include potential diversion of our management's time and attention and general disruption to our business. To the extent that we grow through new locations, we cannot ensure that we will be able to adequately and profitably manage this growth. Acquiring other banks and businesses will involve similar risks to those commonly associated with branching, but may also involve additional risks, including potential exposure to unknown or contingent liabilities of banks and businesses we acquire and exposure to potential asset quality issues of the acquired bank or related business.

We could recognize impairment losses on securities held in our securities portfolio, goodwill, or other long-lived assets.

As of December 31, 2022, the fair value of our securities portfolio was approximately \$224.3 million. 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, 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 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 and/or unrealized losses in future periods, which could have an adverse effect on our business, results of operations, and financial condition.

As of December 31, 2022, the Corporation had goodwill of \$10.7 million. Goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis, and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. A decline in our stock price, decline in the performance of our acquired operations, or the occurrence of another triggering event could, under certain circumstances, result in an impairment charge being recorded. During 2021, our annual impairment test conducted August 1, 2021 indicated that the estimated fair value of the reporting unit exceeded the carrying value (including goodwill). Depending

on market conditions, economic forecasts, results of operations, additional adverse circumstances or other factors, the goodwill impairment analysis may require additional review of assumptions and outcomes prior to our next annual impairment testing date of August 1, 2022. In the event that we conclude that all or a portion of our goodwill may be impaired, a non-cash charge for the amount of such impairment would be recorded to earnings. Such a charge would have no impact on tangible capital or regulatory capital.

We could be required to establish a deferred tax asset valuation allowance and a corresponding charge against earnings if we experience a decrease in earnings.

Deferred tax assets are reported as assets on our balance sheet and represent the decrease in taxes expected to be paid in the future in connection with our allowance for loan and lease losses and other matters. If it becomes more likely than not that some portion or the entire deferred tax asset will not be realized, a valuation allowance must be recognized. The Corporation believes it will fully realize its deferred tax asset, and therefore, no valuation allowance was necessary as of December 31, 2022. This determination was based on the evaluation of several factors, including our recent earnings history, expected future earnings, and appropriate tax planning strategies. A decrease in earnings could adversely impact our ability to fully utilize our deferred tax assets. If we determine that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance will need to be recognized and this would result in a corresponding charge against our earnings.

Competition from other financial services providers could adversely affect our profitability.

We encounter heavy competition in attracting commercial loan, specialty finance, deposit, and private wealth management clients. We believe the principal factors that are used to attract quality clients and distinguish one financial institution from another include value-added relationships, interest rates and rates of return, types of accounts and product offerings, service fees, and quality of service.

Our competition includes banks, savings institutions, mortgage banking companies, credit unions, finance companies, equipment finance companies, mutual funds, insurance companies, brokerage firms, investment banking firms, and financial technology (“FinTech”) companies. We also compete with regional and national financial institutions that have a substantial presence in our market areas, many of which have greater liquidity, higher lending limits, greater access to capital, more established market recognition, and more resources and collective experience than we do. In addition, some larger financial institutions that have not historically competed with us directly have substantial excess liquidity and have sought, and may continue to seek, smaller lending relationships in our primary markets. Furthermore, tax-exempt credit unions operate in our market areas and aggressively price their products and services to a large portion of the market. Finally, technology has also lowered the barriers to entry and made it possible for non-bank financial service providers to offer products and services we have traditionally offered, such as automatic funds transfer and automatic payment systems. Our profitability depends, in part, upon our ability to successfully maintain and increase market share.

Consumers and businesses are increasingly using non-banks to complete their financial transactions, which could adversely affect our business and results of operations.

Technology and other changes are allowing consumers and businesses to complete financial transactions that historically have involved financial institutions through alternative methods. The wide acceptance of Internet-based and person-to-person commerce has resulted in a number of alternative payment processing systems and lending platforms in which banks play only minor roles. Businesses and consumers can now maintain funds in social payment applications, prepaid debit cards or digital currencies, and pay bills and transfer funds directly without the direct assistance of financial institutions. The diminishing role of financial institutions as financial intermediaries has resulted, and could continue to result, in the loss of fee income, as well as the loss of client deposits and the related income generated from those deposits. The loss of these revenue streams and the potential loss of lower cost deposits as a source of funds could have a material adverse effect on our business, financial condition, and results of operations.

If we are unable to keep pace with technological advances in our industry, our ability to attract and retain clients could be adversely affected.

The banking industry is constantly subject to technological changes with frequent introductions of new technology-driven products and services. In addition to better serving clients, the effective use of technology increases our efficiency and enables us to reduce costs. Our future success will depend in part on 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 create additional efficiencies in our operations. A number of our competitors have substantially greater resources to invest in technological improvements, as well as significant economies of scale. There can be no assurance that we will be able to implement and offer new technology-driven products and services to our clients. If we fail to do so, our ability to attract and retain clients may be adversely affected.

Our private wealth management results of operations may be negatively impacted by changes in economic and market conditions.

Our private wealth management results of operations may be negatively impacted by changes in general economic conditions and the conditions in the financial and securities markets, including the values of assets held under management, which are beyond our control. Our management contracts generally provide for fees payable for services based on the market value of trust assets under management; therefore, declines in securities prices will generally have an adverse effect on our results of operations from this business. Market declines and reductions in the value of our clients' private wealth management services accounts could result in us losing private wealth management services clients, including those who are also banking clients, and negatively affect our earnings.

Potential acquisitions may disrupt our business and dilute shareholder value.

While we remain committed to organic growth, we also may consider additional acquisition opportunities involving complementary financial service organizations if the right situation were to arise. Various risks commonly associated with acquisitions include, among other things:

- Potential exposure to unknown or contingent liabilities of the target company.
- Exposure to potential asset quality issues of the target company.
- Potential diversion of our management's time and attention.
- Possible loss of key employees and clients of the target company.
- Difficulty in estimating the value of the target company.
- Potential changes in banking or tax laws or regulations that may affect the target company.
- Difficulty in integrating operations, personnel, technologies, services, and products of acquired companies.

Acquisitions may involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our business, financial condition, and results of operations.

The investments we make in certain tax-advantaged projects may not generate returns as anticipated and may have an adverse impact on the Corporation's financial results.

We invest in certain tax-advantaged projects promoting community development. Investments in these projects are designed to generate a return primarily through the realization of federal and state income tax credits, and other tax benefits, over specified time periods. The Corporation is subject to the risk that previously recorded tax credits, which remain subject to recapture by taxing authorities based on compliance features required to be met at the project level, will fail to meet certain government compliance requirements and will not be able to be realized. The possible inability to realize these tax credit and other tax benefits could have a negative impact on the Corporation's financial results. The risk of not being able to realize the tax credits and other tax benefits depends on many factors outside of the Corporation's control, including changes in the applicable tax code and the ability of the projects to be completed.

A prolonged U.S. government shutdown or default by the U.S. on government obligations would harm our results of operations.

Our results of operations, including revenue, non-interest income, expenses and net interest income, would be adversely affected in the event of widespread financial and business disruption due to a default by the United States on U.S. government obligations or a prolonged failure to maintain significant U.S. government operations. Of particular impact to the Corporation are the operations regulated by the SBA or the FDIC. Any failure to maintain such U.S. government operations, and the after-effects of such shutdown, could impede our ability to originate SBA loans and sell such loans in the secondary market, and would materially adversely affect our business, results of operations, and financial condition.

In addition, many of our investment securities are issued by, and some of our loans are made to, the U.S. government and government agencies and sponsored entities. Uncertain domestic political conditions, including prior federal government shutdowns and potential future federal government shutdowns or other unresolved political issues, may pose credit default and liquidity risks with respect to investments in financial instruments issued or guaranteed by the federal government and loans to the federal government. Any downgrade in the sovereign credit rating of the United States, as well as sovereign debt issues facing the governments of other countries, could have a material adverse impact on financial markets and economic conditions in the United States and worldwide. Any such adverse impact could have a material adverse effect on our liquidity, financial condition, and results of operations.

Regulatory, Compliance, Legal and Reputational Risks

We operate in multiple states and in a highly regulated industry and the federal and state laws and regulations that govern our operations, corporate governance, executive compensation, and accounting principles, or changes in them, or our failure to comply with them, may adversely affect us.

We are subject to extensive regulation and supervision that govern almost all aspects of our operations. These laws and regulations, among other matters, prescribe minimum capital requirements, expose us to legal penalties, financial forfeiture and material loss if we fail to act in accordance with bank laws and regulations, impose limitations on our business activities and compensation practices, limit the dividends or distributions that we can pay, restrict the ability to guarantee our debt, and impose certain specific accounting requirements that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than generally accepted accounting principles. These regulations affect our lending practices, employment practices, privacy policies, operational controls, tax structure, and growth, among other things. Changes to federal and state laws, income and property tax regulations, or regulatory guidance, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, tax filing requirements, employment practices, and limit the types of financial services and products we may offer, among other things. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional compliance costs. Further, our failure to comply with these laws and regulations, even if the failure was inadvertent or reflects a difference in interpretation, could subject us to restrictions on our business activities, fines, and other penalties, any of which could adversely affect our business, results of operations, and financial condition.

The financial services industry, as well as the broader economy, may be subject to new legislation, regulation, and government policy.

From time to time, federal and state governments and bank regulatory agencies modify the laws and regulations that govern financial institutions and the financial system generally. Such laws and regulations can affect our operating environment in substantial and unpredictable ways. Among other effects, such laws and regulations can increase or decrease the cost of doing business, limit or expand the scope of permissible activities, or affect the competitive balance among banks and other financial institutions. In addition, any changes in monetary policy, fiscal policy, tax laws, and other policies can affect the broader economic environment, interest rates, and patterns of trade. Any of these changes could affect our company and the banking industry as a whole in ways that are difficult to predict, and could adversely impact our business, financial condition, or results of operations.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act (“BSA”) and other anti-money laundering (“AML”) statutes and regulations.

AML laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and file suspicious activity and currency transaction reports as appropriate. The Financial Crimes Enforcement Network (“FinCEN”), established by Treasury to administer the BSA, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and IRS. There is also increased scrutiny of compliance with the rules enforced by the FinCEN, Federal, and State regulators. Federal and state bank regulators also focus on compliance with AML laws.

If our policies, procedures, and systems are deemed deficient or the policies, procedures, and systems of the financial institutions that we may acquire in the future are deficient, we would be subject to liability, including fines and regulatory actions, such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan which would adversely affect our business, results of operations, and financial condition. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us.

We are periodically subject to examination and scrutiny by a number of banking agencies and, depending upon the findings and determinations of these agencies, we may be required to make adjustments to our business that could adversely affect us.

Federal and state banking agencies periodically conduct examinations of our business, including compliance with applicable laws and regulations. If, as a result of an examination, a federal banking agency was to determine that the financial condition, capital resources, asset quality, asset concentration, earnings prospects, management, liquidity, sensitivity to market risk, or other aspects of any of our operations has become unsatisfactory, or that we or our management is in violation of any law or regulation, it could take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin “unsafe or unsound” practices, to require affirmative actions 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 change the asset composition of our portfolio or balance sheet, to assess civil monetary penalties against our officers or directors, to 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. If we become subject to such regulatory actions, our business, results of operations, and financial condition may be adversely affected.

We are subject to claims and litigation pertaining to our fiduciary responsibilities.

Some of the services we provide, such as private wealth management services, require us to act as fiduciaries for our clients and others. From time to time, third parties could make claims and take legal action against us pertaining to the performance of our fiduciary responsibilities. If fiduciary investment decisions are not appropriately documented to justify action taken or trades are placed incorrectly, among other possible claims, and if these claims and legal actions are not resolved in a manner favorable to us, we may be exposed to significant financial liability and/or our reputation could be damaged. These results may adversely impact demand for our products and services or otherwise have an adverse effect on our business, results of operations, and financial condition.

Risks Related to Investing in Our Common Stock

Our stock is thinly traded and our stock price can fluctuate.

Although our common stock is listed for trading on the Nasdaq Global Select Market, low volume of trading activity and volatility in the price of our common stock may make it difficult for our shareholders to sell common stock when desired and at prices they find attractive. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in our quarterly results of operations;
- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns, and other issues in the financial services industry;
- perceptions in the marketplace regarding us or our competitors and other financial services companies;
- new technology used, or services offered, by competitors; and
- changes in government regulations.

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

To maintain adequate capital levels, we may be required to raise additional capital in the future, but that capital may not be available when it is needed and/or could be dilutive to our existing shareholders.

We are required by regulatory authorities to maintain adequate levels of capital to support our operations. In order to ensure our ability to support the operations of the Bank, we may need to limit or terminate cash dividends that can be paid to our shareholders. In addition, we may need to raise capital in the future. Our ability to raise capital, if needed, will depend in part on our financial performance and conditions in the capital markets at that time, and accordingly, we cannot guarantee our ability to raise capital on terms acceptable to us. If we decide to raise equity capital in the future, the interests of our shareholders could be diluted. Any issuance of common stock would dilute the ownership percentage of our current shareholders and any issuance of common stock at prices below tangible book value would dilute the tangible book value of each existing share of our common stock held by our current shareholders. The market price of our common stock could also decrease as a result of the sale of a large number of shares or similar securities, or the perception that such sales could occur. If we cannot raise capital when needed, our ability to serve as a source of strength to the Bank, pay dividends, maintain adequate capital levels and liquidity, or further expand our operations could be materially impaired.

If equity research analysts publish research or reports about our business with unfavorable commentary or downgrade our common stock, the price and trading volume of our common stock could decline.

The trading market for our common stock could be affected by whether equity research analysts publish research or reports about us and our business and what is included in such research or reports. If equity analysts publish research reports about us containing unfavorable commentary, downgrade our stock, or cease publishing reports about our business, the price of our stock could decline. If any analyst electing to cover us downgrades our stock, our stock price could decline rapidly. If any analyst electing to cover us ceases coverage of us, we could lose visibility in the market, which in turn could cause our common stock price or trading volume to decline and our common stock to be less liquid.

General Risk Factors

Our ability to attract and retain talented employees is critical to our success.

Our success depends on our ability to continue to recruit and retain talented employees. Competition for such employees is intense, which has led to an increase in compensation throughout the labor market, and accordingly, an increase in payroll costs for employers. Prospective employees are also placing an emphasis on flexible, including remote, work arrangements and other considerations, and such arrangements can provide employees with more employment options and

mobility, making them more difficult to retain. If we are unable to meet the expectations of employees and prospective employees, and thus, retain or attract employees, it could have a substantial adverse effect on our business.

We rely on our management and the loss of one or more of those managers may harm our business.

Our success has been and will be greatly influenced by our continuing ability to retain the services of our existing senior management and to attract and retain additional qualified senior and middle management. The unexpected loss of key management personnel or the inability to recruit and retain qualified personnel in the future could have an adverse effect on our business and financial results. In addition, our failure to develop and/or maintain an effective succession plan will impede our ability to quickly and effectively react to unexpected loss of key management, and in turn, may have an adverse effect on our business, results of operations, and financial condition.

Negative publicity could damage our reputation and adversely impact our business and financial results.

Reputation risk, or the risk to our earnings and capital due to negative publicity, is inherent in our business. Negative publicity can result from our actual or alleged conduct in a number of activities, including lending practices, fraud, information security, management actions, corporate governance, and actions taken by government regulators and community organizations in response to those activities. Negative publicity can adversely affect our ability to keep and attract clients, employees, and shareholders and can expose us to litigation and regulatory action, all of which could have a material adverse effect on our business, financial condition, and results of operations.

Our internal controls may be ineffective.

Management regularly reviews and updates its internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the controls are met. In addition, as we continue to grow the Corporation, our controls need to be updated to keep up with such growth. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could cause us to report a material weakness in internal control over financial reporting and conclude that our controls and procedures are not effective, which could have a material adverse effect on our business, results of operations, and financial condition.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table provides certain summary information with respect to the principal properties in which we conduct our operations, all of which were leased, as of December 31, 2022:

Location	Function	Expiration Date
401 Charmany Drive, Madison, WI	Full-service banking location of FBB - South Central Region and office of FBFS	2028
17335 Golf Parkway, Brookfield, WI	Full-service banking location of FBB - Southeast Region	2032
11300 Tomahawk Creek Pkwy, Leawood, KS	Full-service banking location of FBB - Kansas City Region	2023
3913 West Prospect Avenue, Appleton, WI	Full-service banking location of FBB - Northeast Region	2025

For the purpose of generating business development opportunities in our niche commercial lending and consulting businesses, as of December 31, 2022, office space was also leased in several states nationwide under shorter-term lease agreements, which generally have terms of one year or less.

Item 3. Legal Proceedings

We believe that no litigation is threatened or pending in which we face potential loss or exposure which could materially affect our consolidated financial position, consolidated results of operations, or consolidated cash flows. Since our subsidiaries act as depositories of funds, lenders, and fiduciaries, they are occasionally named as defendants in lawsuits involving a variety of claims. This and other litigation is ordinary, routine litigation incidental to our business.

Item 4. Mine Safety Disclosures

Not applicable.

PART II.

Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Holdings

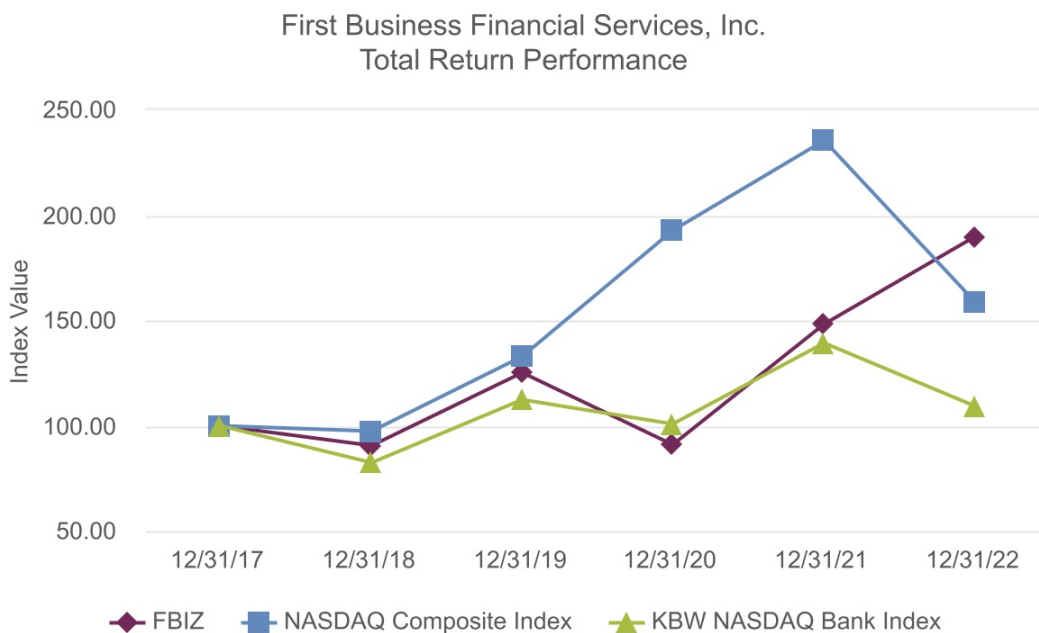
The common stock of the Corporation is traded on the Nasdaq Global Select Market under the symbol “FBIZ.” As of February 9, 2023, there were 371 registered shareholders of record of the Corporation’s common stock.

Dividend Policy

It has been our practice to pay a dividend to common shareholders. Dividends historically have been declared in the month following the end of each calendar quarter. However, the timing and amount of future dividends are at the discretion of the Board of Directors of the Corporation (the “Board”) and will depend upon the consolidated earnings, financial condition, liquidity, and capital requirements of the Corporation and the Bank, the amount of cash dividends paid to the Corporation by the Bank, applicable government regulations and policies, supervisory actions, and other factors considered relevant by the Board. Refer to **Item 1 - Business - Supervision and Regulation - Regulation and Supervision of the Bank - Dividend Payments** for additional discussion regarding the limitations on dividends and other capital contributions by the Bank to the Corporation. The Board anticipates it will continue to declare dividends as appropriate based on the above factors.

Stock Performance Graph

The chart shown below depicts total return to shareholders during the period beginning December 31, 2017 and ending December 31, 2022. The total return includes appreciation or depreciation in market value of the Corporation’s common stock as well as actual cash and stock dividends paid to common stockholders. Indices shown below, for comparison purposes only, are the Total Return Index for the Nasdaq Composite, which is a broad nationally recognized index of stock performance by publicly traded companies, and the SNL Bank Nasdaq, which is an index that contains securities of Nasdaq-listed companies classified according to the Industry Classification Benchmark as banks. The chart assumes that the value of the investment in FBIZ common stock and each of the three indices was \$100 on December 31, 2017 and that all dividends were reinvested in FBIZ common stock.



Index	As of December 31,					
	2017	2018	2019	2020	2021	2022
First Business Financial Services, Inc.	\$ 100.00	\$ 90.34	\$ 125.17	\$ 90.82	\$ 147.88	\$ 189.55
NASDAQ Composite Index	100.00	97.16	132.81	192.47	235.15	158.65
KBW NASDAQ Bank Index	100.00	82.29	112.01	100.46	138.97	109.23

Issuer Purchases of Securities

On March 4, 2022, the Board of Directors of the Corporation approved a share repurchase program. The program authorized the repurchase by the Corporation of up to \$5 million of its total outstanding shares of common stock over a period of approximately twelve months, ending March 4, 2023. As of December 16, 2022, the Corporation had completed the share repurchase program, repurchasing a total of 142,074 shares for approximately \$5.0 million at an average cost of \$35.12 per share.

Effective January 27, 2023, the Corporation's Board of Directors authorized a new share repurchase program with a maximum aggregate purchase price of \$5.0 million, in such quantities, at such prices, and on such other terms and conditions as the Corporation's Chief Executive Officer or Chief Financial Officer determine in their discretion to be in the best interests of the Corporation and its shareholders, any time from the effective date through January 31, 2024.

Under the new share repurchase program, the Corporation is authorized to repurchase shares from time to time in the open market or negotiated transactions at prevailing market rates, or by other means in accordance with federal securities laws. In connection with the share repurchase program, the Corporation has implemented a trading plan intended to satisfy the affirmative defense conditions of Rule 10b5-1 under the Securities Exchange Act. The trading plan allows the Corporation to repurchase shares of its common stock at times when it otherwise might have been prevented from doing so under insider trading laws by requiring that an agent selected by the Corporation repurchase shares of common stock on the Corporation's behalf on pre-determined terms.

The following table sets forth information about the Corporation's purchases of its common stock during the three months ended December 31, 2022.

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Total Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2022 - October 31, 2022	15,680	\$ 33.76	15,680	
November 1, 2022 - November 30, 2022	30,589	39.03	29,455	
December 1, 2022 - December 31, 2022	23,884	37.66	23,884	
Total	70,153		69,019	—

- (1) During the fourth quarter of 2022, the Corporation repurchased an aggregate 70,153 shares of the Corporation's common stock in open-market transactions, of which 69,019 shares were purchased pursuant to the repurchase program publicly announced on March 4, 2022, and of which 1,134 shares were surrendered to us to satisfy income tax withholding obligations in connection with the vesting of restricted awards.

Item 6. Selected Financial Data

[Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

When used in this report the words or phrases “may,” “could,” “should,” “hope,” “might,” “believe,” “expect,” “plan,” “assume,” “intend,” “estimate,” “anticipate,” “project,” “likely,” or similar expressions are intended to identify “forward-looking statements.” Such statements are subject to risks and uncertainties, including among other things:

- Adverse changes in the economy or business conditions, either nationally or in our markets, including, without limitation, inflation, supply chain issues, labor shortages, wage pressures, and the adverse effects of the COVID-19 pandemic on the global, national, and local economy.
- Competitive pressures among depository and other financial institutions nationally and in our markets.
- Increases in defaults by borrowers and other delinquencies.
- Our ability to manage growth effectively, including the successful expansion of our client support, administrative infrastructure, and internal management systems.
- Fluctuations in interest rates and market prices.
- Changes in legislative or regulatory requirements applicable to us and our subsidiaries.
- Changes in tax requirements, including tax rate changes, new tax laws, and revised tax law interpretations.
- Fraud, including client and system failure or breaches of our network security, including our internet banking activities.
- Failure to comply with the applicable SBA regulations in order to maintain the eligibility of the guaranteed portions of SBA loans.

These risks, together with the risks identified in **Item 1A — Risk Factors**, could cause actual results to differ materially from what we have anticipated or projected. These risk factors and uncertainties should be carefully considered by our stockholders and potential investors. Investors should not place undue reliance on any such forward-looking statements, which speak only as of the date made.

Where any such forward-looking statement includes a statement of the assumptions or bases underlying such forward-looking statement, we caution that, while our management believes such assumptions or bases are reasonable and are made in good faith, assumed facts or bases can vary from actual results, and the differences between assumed facts or bases and actual results can be material, depending on the circumstances. Where, in any forward-looking statement, an expectation or belief is expressed as to future results, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will be achieved or accomplished.

We do not intend to, and specifically disclaim any obligation to, update any forward-looking statements.

The following discussion and analysis is intended as a review of significant events and factors affecting our financial condition and results of operations for the periods indicated. The discussion should be read in conjunction with the Consolidated Financial Statements and the Notes thereto.

Overview

We are a registered bank holding company incorporated under the laws of the State of Wisconsin and are engaged in the commercial banking business through our wholly-owned banking subsidiary, FBB. All of our operations are conducted through FBB and First Business Specialty Finance, LLC (“FBSF”), a wholly-owned subsidiary of FBB. FBB operates as a business bank, delivering a full line of commercial banking products and services tailored to meet the specific needs of small and medium-sized businesses, business owners, executives, professionals, and high net worth individuals. Our products and services are focused on business banking, private wealth, and bank consulting. Within business banking, we offer commercial lending, asset-based lending, accounts receivable financing, equipment financing, floorplan financing, vendor financing, Small Business Administration (“SBA”) lending and servicing, treasury management solutions, and company retirement services. Our private wealth management services include trust and estate administration, financial planning, investment management, and private banking for executives and owners of our business banking clients and others. Our bank consulting experts provide investment portfolio administrative services, asset liability management services, and asset liability management process validation for other financial institutions. We do not utilize a branch network to attract retail clients. Our operating model is predicated on deep client relationships, financial expertise, and an efficient, centralized administration function delivering best in class client satisfaction. Our focused model allows experienced staff to provide the level of financial expertise needed to develop and maintain long-term relationships with our clients.

Long-Term Strategic Plan

In early 2019, management finalized the development of its five year strategic plan and began the implementation of strategies and initiatives that drive successful execution. Management’s objective over this five year period is to excel by building an expert team with diverse experiences who work together to impact client success more than any other financial partner. To meet this objective, we identified four key strategies which are linked to corporate financial goals, all business lines, and centralized administration functions to ensure communication and execution are consistent at all levels of the Corporation. These four strategies are described below:

- We will identify, attract, develop, and retain a diverse, high performing team to positively impact the overall performance and efficiency of the Corporation.
- We will increase internal efficiencies, deliver a differentiated client experience, and drive client experience utilizing technology where possible.
- We will diversify and grow our deposit base.
- We will optimize our business lines for diversification and performance.

Throughout 2023, the last year of the existing plan, management intends to undertake an extensive process to reassess its key strategies and performance indicators to create a new long-term strategic plan.

The table below shows the Corporation’s performance for the years ended December 31, 2022, 2021, and 2020 in comparison to the key performance indicators included in the Corporation’s 2019 strategic plan.

Key Performance Indicators	As of December 31,			Strategic Plan
	2020	2021	2022	
Return on average common equity (“ROACE”)	8.64%	16.21%	16.79%	13.50%
Return on average assets (“ROAA”)	0.70%	1.37%	1.46%	1.15%
Top line revenue growth	11.5%	8.4%	13.4%	≥ 10% per year
In-market deposits to total bank funding	74.8%	82.9%	76.1%	≥ 75%
Employee engagement ⁽¹⁾	91%	87%	87%	≥ 80%
Client satisfaction ⁽¹⁾	96%	93%	95%	≥ 90%

(1) Anonymous surveys conducted annually

Financial Performance Summary

Results as of and for the year ended December 31, 2022 include:

- Net income available to common shareholders for the year ended December 31, 2022 was \$40.2 million, increasing 12.4% compared to \$35.8 million for the year ended December 31, 2021.
- Diluted earnings per common share were \$4.75 for the year ended December 31, 2022, increasing 13.9% compared to \$4.17 in the prior year.
- Return on average assets (“ROA”) for the year ended December 31, 2022 was 1.46% compared to 1.37% for 2021.
- Return on average common equity (“ROACE”), which is defined as net income available to common shareholders divided by average equity reduced by average preferred stock, if any. ROACE was 16.79% for the year ended December 31, 2022, compared to 16.21% for the year ended December 31, 2021.
- Pre-tax, pre-provision (“PTPP”) adjusted earnings, which excludes certain one-time and discrete items, and PTPP ROA were \$47.9 million and 1.74%, respectively, for the year ended December 31, 2022, increasing \$6.7 million and 16 bps, from year ended December 31, 2021. Excluding PPP interest and fee income, PTPP adjusted earnings and ROA were \$47.3 million and 1.72%, respectively, for the year ended December 31, 2022, increasing \$15.0 million and 40 bps from December 31, 2021.
- Fees in lieu of interest, defined as prepayment fees, asset-based loan fees, non-accrual interest, and loan fee amortization, totaled \$5.3 million for the year ended December 31, 2022, decreasing 52.7% compared to \$11.2 million for the year ended December 31, 2021. PPP fee income, included in loan fee amortization, was \$509,000 and \$7.3 million for the years ended December 31, 2022 and December 31, 2021, respectively.
- Net interest margin was 3.82% for the year ended December 31, 2022, increasing 38 bps from 3.44% for the year ended December 31, 2021. Adjusted net interest margin, which excludes certain one-time and discrete items, was 3.64% for the year ended December 31, 2022, increasing 43 bps from 3.21% for the year ended December 31, 2021.
- Top line revenue, defined as net interest income plus non-interest income, grew 13.4% to \$127.9 million for the year ended December 31, 2022, compared to \$112.8 million for the year ended December 31, 2021. Excluding PPP interest income and fees, top line revenue increased 22.4% to \$127.2 million for the year ended December 31, 2022, compared to \$103.9 million for the year ended December 31, 2021.
- Effective tax rate was 21.79% for the year ended December 31, 2022 compared to 23.97% for the year ended December 31, 2021.
- Provision for loan and lease losses was a net benefit of \$3.9 million for the year ended December 31, 2022, compared to a net provision benefit of \$5.8 million for the year ended December 31, 2021. Net recoveries as a percentage of average loans and leases were 0.16% for the year ended December 31, 2022, compared to net recoveries of 0.07% for the year ended December 31, 2021.
- Total assets at December 31, 2022 increased \$323.7 million, or 12.2%, to \$2.977 billion from \$2.653 billion at December 31, 2021.
- Period-end gross loans and leases receivable at December 31, 2022 increased \$203.7 million, or 9.1%, to \$2.443 billion from \$2.239 billion as of December 31, 2021. Average gross loans and leases of \$2.305 billion increased \$125.8 million, or 5.8% for the year ended December 31, 2022, compared to \$2.179 billion for the same period in 2021.
- Period-end gross loans and leases receivable, excluding net PPP loans, at December 31, 2022 increased \$230.4 million, or 10.42%, to \$2.443 billion from \$2.212 billion as of December 31, 2021. Average gross loans and leases, excluding net PPP loans, of \$2.295 billion increased \$268.4 million, or 13.2% for the year ended December 31, 2022, compared to \$2.027 billion for the same period in 2021.
- PPP loans and PPP deferred processing fees were \$554,000 and \$48,000, respectively, at December 31, 2022, compared to \$27.9 million and \$557,000, respectively, at December 31, 2021. Average PPP loans, net of deferred processing fees, were \$9.7 million and \$152.3 million for the year ended December 31, 2022 and 2021, respectively.
- Non-performing assets decreased to \$3.8 million as of December 31, 2022, compared to \$6.5 million as of December 31, 2021. Non-performing assets to total assets, both including and excluding net PPP loans, improved to 0.13% as of December 31, 2022, from 0.25% as of December 31, 2021.
- The allowance for loan and lease losses as of December 31, 2022 decreased \$106,000, or 0.4%, to \$24.2 million, compared to \$24.3 million as of December 31, 2021. The allowance for loan and lease losses was 0.99% of total loans as of December 31, 2022, compared to 1.09% as of December 31, 2021.
- Period-end in-market deposits at December 31, 2022 increased \$37.7 million, or 2.0%, to \$1.966 billion from \$1.928 billion as of December 31, 2021. Average in-market deposits of \$1.929 billion increased \$144.5 million, or 8.1%, for the year ended December 31, 2022, compared to \$1.784 billion for the same period in 2021.
- Private wealth and trust assets under management and administration decreased by \$260.7 million, or 8.9%, to \$2.660 billion at December 31, 2022, compared to \$2.921 billion at December 31, 2021. Private wealth management service

fees increased \$97,000, or 0.90%, for the year ended December 31, 2022, compared to the year ended December 31, 2021.

The detailed financial discussion that follows focuses on 2022 results compared to 2021. Information pertaining to 2021 in comparison to 2020 was included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2021 on page 30 under Part II, Item 7, "Management's Discussion and Analysis of Financial and Results of Operations," which was filed with the SEC on February 23, 2022.

Results of Operations

Top Line Revenue

Top line revenue, comprised of net interest income and non-interest income, increased 13.4% for the year ended December 31, 2022 compared to the year ended December 31, 2021 primarily due to a \$13.8 million, or 16.3%, increase in net interest income and a \$1.3 million, or 4.7%, increase in non-interest income. The increase in net interest income was driven by net interest margin expansion combined with an increase in average loans and leases outstanding and related interest income, partially offset by a reduction in PPP loan fee income. The increase in non-interest income was primarily due to a \$1.0 million increase in other fee income, a \$504,000 increase in loan fee income, and a \$425,000 increase in swap fee income. These favorable variances were partially offset by a \$1.5 million decrease in gains on the sale of SBA loans during the year ended December 31, 2022.

The components of top line revenue were as follows:

	For the Year Ended December 31,			Change From Prior Year			
	2022	2021	2020	\$ Change 2022	% Change 2022	\$ Change 2021	% Change 2021
	(Dollars in Thousands)						
Net interest income	\$ 98,422	\$ 84,662	\$ 77,071	\$ 13,760	16.3 %	\$ 7,591	9.8 %
Non-interest income	29,428	28,100	26,940	1,328	4.7	1,160	4.3 %
Top line revenue	\$ 127,850	\$ 112,762	\$ 104,011	\$ 15,088	13.4	\$ 8,751	8.4 %

Return on Average Assets and Return on Average Common Equity

ROAA was 1.46% for the year ended December 31, 2022, compared to 1.37% for the year ended December 31, 2021 principally due to a \$13.8 million increase in net interest income partially offset by an increase in operating expenses. Please refer to the operating results analysis below for further discussion on the reasons driving the increase in profitability. We consider ROA a critical metric to measure the profitability of our organization and how efficiently our assets are deployed. ROA also allows us to better benchmark our profitability to our peers without the need to consider different degrees of leverage which can ultimately influence return on equity measures.

ROACE for the year ended December 31, 2022 was 16.79% compared to 16.21% for the year ended December 31, 2021. The primary reason for the change in ROACE is consistent with the net income variance explanation as discussed under **Return on Average Assets** above. We view ROACE as an important measurement for monitoring profitability and continue to focus on improving our return to our shareholders by enhancing the overall profitability of our client relationships, controlling our expenses, and minimizing our costs of credit.

Efficiency Ratio and Pre-Tax, Pre-Provision Adjusted Earnings

Efficiency ratio measured 62.31% and 63.49% for the years ended December 31, 2022 and 2021, respectively. Efficiency ratio is a non-GAAP measure representing operating expense divided by operating revenue. Operating expense is defined as non-interest expense excluding the effects of the SBA recourse benefit or provision, impairment of tax credit investments, net gains or losses on repossessed assets, amortization of other intangible assets, and other discrete items, if any. Operating revenue is defined as net interest income plus non-interest income less realized net gains or losses on securities, if any, and other discrete items.

PTPP adjusted earnings for the year ended December 31, 2022 was \$47.9 million, compared to \$41.2 million for the year ended December 31, 2021. PTPP adjusted earnings is a non-GAAP measure defined as operating revenue less operating expense. In the judgment of the Corporation's management, the adjustments made to non-interest expense and non-interest income allow investors and analysts to better assess the Corporation's operating expenses in relation to its core operating revenue by removing the volatility associated with certain one-time items and other discrete items. PTPP adjusted earnings allows management to benchmark performance of our model to our peers without the influence of the loan loss provision and

tax considerations, which will ultimately influence other traditional financial measurements, including ROA and ROACE. The information provided below reconciles the efficiency ratio to its most comparable GAAP measure.

Please refer to the **Non-Interest Income** and **Non-Interest Expense** sections below for discussion on additional drivers of the year-over-year change in the efficiency ratio and PTPP adjusted earnings.

	For the Year Ended December 31,			Change From Prior Year			
	2022	2021	2020	\$ Change 2022	% Change 2022	\$ Change 2021	% Change 2021
	(Dollars in Thousands)						
Total non-interest expense	\$ 79,474	\$ 71,535	\$ 68,898	\$ 7,939	11.1 %	\$ 2,637	3.8 %
Less:							
Net loss on repossessed assets	49	15	383	34	NM	(368)	(96.1)
Amortization of other intangible assets	—	25	35	(25)	NM	(10)	(28.6)
SBA recourse benefit	(188)	(76)	(278)	(112)	NM	202	(72.7)
Contribution to First Business Charitable Foundation	809	—	—	809	NM	—	NM
Impairment of tax credit investments	(351)	—	2,395	(351)	NM	(2,395)	NM
Loss on early extinguishment of debt	—	—	744	—	NM	(744)	NM
Total operating expense (a)	\$ 79,155	\$ 71,571	\$ 65,619	\$ 7,584	10.6	\$ 5,952	9.1
Net interest income	\$ 98,422	\$ 84,662	\$ 77,071	\$ 13,760	16.3	7,591	9.8
Total non-interest income	29,428	28,100	26,940	1,328	4.7	1,160	4.3
Less:							
Bank-owned life insurance claim	809	—	—	809	NM	—	NM
Net gain (loss) on sale of securities	—	29	(4)	(29)	NM	33	NM
Adjusted non-interest income	28,619	28,071	26,944	548	2.0	1,127	4.2
Total operating revenue (b)	\$ 127,041	\$ 112,733	\$ 104,015	\$ 14,308	12.7	\$ 8,718	8.4
Efficiency ratio	62.31 %	63.49 %	63.09 %				
Pre-tax, pre-provision adjusted earnings (b-a)	\$ 47,886	\$ 41,162	\$ 38,396	\$ 6,724	16.3	\$ 2,766	7.2
Average total assets	2,752,916	2,605,008	2,419,616	147,908	5.7	185,392	7.7
Pre-tax, pre-provision adjusted return on average assets	1.74 %	1.58 %	1.59 %				

NM = Not meaningful

PPP loans, related fees, and interest income had a material impact on the prior period comparisons in the table above. As this economic stimulus was non-recurring, we believe these key performance indicators are a better indicator of current operating performance of the Corporation, excluding PPP loans and related fee and interest income. The table below includes the efficiency ratio, and PTPP adjusted earnings and return on average assets, excluding average net PPP loans, fee income, and interest income.

	For the Year Ended December 31,			Change From Prior Year			
	2022	2021	2020	\$ Change 2022	% Change 2022	\$ Change 2021	% Change 2021
	(Dollars in Thousands)						
Total non-interest expense	\$ 79,474	\$ 71,535	\$ 68,898	\$ 7,939	11.1 %	\$ 2,637	3.8 %
Less:							
Net loss on repossessed assets	49	15	383	34	NM	(368)	(96.1)
Amortization of other intangible assets	—	25	35	(25)	NM	(10)	(28.6)
SBA recourse benefit	(188)	(76)	(278)	(112)	NM	202	(72.7)
Contribution to First Business Charitable Foundation	809	—	—	809	NM	—	NM
Impairment of tax credit investments	(351)	—	2,395	(351)	NM	(2,395)	NM
Loss on early extinguishment of debt	—	—	744	—	NM	(744)	NM
Total operating expense (a)	\$ 79,155	\$ 71,571	\$ 65,619	\$ 7,584	10.6	\$ 5,952	9.1
Net interest income	\$ 98,422	\$ 84,662	\$ 77,071	\$ 13,760	16.3	7,591	9.8
Less:							
PPP interest income	97	1,524	2,198	(1,427)	(93.6)	(674)	(30.7)
PPP loan fee amortization	509	7,312	5,283	(6,803)	(93.0)	2,029	38.4
Adjusted net interest income	97,816	75,826	69,590	21,990	29.0	6,236	9.0
Total non-interest income	29,428	28,100	26,940	1,328	4.7	1,160	4.3
Less:							
Bank-owned life insurance claim	809	—	—	809	NM	—	NM
Net gain (loss) on sale of securities	—	29	(4)	(29)	NM	33	NM
Adjusted non-interest income	28,619	28,071	26,944	548	2.0	1,127	4.2
Total operating revenue (b)	\$ 126,435	\$ 103,897	\$ 96,534	\$ 22,538	21.7	\$ 7,363	7.6
Efficiency ratio	62.61 %	68.89 %	67.98 %				
Pre-tax, pre-provision adjusted earnings (b-a)	\$ 47,280	\$ 32,326	\$ 30,915	\$ 14,954	46.3	\$ 1,411	4.6
Average total assets	2,752,916	2,605,008	2,419,616	147,908	5.7	185,392	7.7
Average PPP loans, net	9,740	152,264	215,025	(142,524)	(93.6)	(62,761)	(29.2)
Adjusted average total assets	\$ 2,743,176	\$ 2,452,744	\$ 2,204,591	\$ 290,432	11.8	\$ 248,153	11.3
Pre-tax, pre-provision adjusted return on average assets	1.72 %	1.32 %	1.40 %				

NM = Not meaningful

Net Interest Income

Net interest income levels depend on the amount of and yield on interest-earning assets as compared to the amount of and rate paid on interest-bearing liabilities. Net interest income is sensitive to changes in market rates of interest and the asset/liability management processes to prepare for and respond to such changes.

The table below shows average balances, interest, average rates, net interest margin and the spread between combined average rates earned on our interest-earning assets and cost of interest-bearing liabilities for the periods indicated. The average balances are derived from average daily balances.

	For the Year Ended December 31,								
	2022			2021			2020		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
(Dollars in Thousands)									
Interest-earning assets									
Commercial real estate and other mortgage loans ⁽¹⁾	\$ 1,484,239	\$ 66,917	4.51 %	\$ 1,387,434	\$ 51,930	3.74 %	\$ 1,245,886	\$ 51,188	4.11 %
Commercial and industrial loans ⁽¹⁾	755,837	45,893	6.07 %	727,923	37,470	5.15 %	701,328	35,487	5.06 %
Direct financing leases ⁽¹⁾	15,219	682	4.48 %	19,591	872	4.45 %	26,564	1,039	3.91 %
Consumer and other loans ⁽¹⁾	49,695	1,876	3.78 %	44,206	1,572	3.56 %	37,544	1,446	3.85 %
Total loans and leases receivable ⁽¹⁾	2,304,990	115,368	5.01 %	2,179,154	91,844	4.21 %	2,011,322	89,160	4.43 %
Mortgage-related securities ⁽²⁾	173,495	3,486	2.01 %	159,242	2,633	1.65 %	173,084	3,548	2.05 %
Other investment securities ⁽³⁾	51,700	986	1.91 %	44,739	777	1.74 %	31,809	639	2.01 %
FHLB stock	16,462	989	6.01 %	13,066	651	4.98 %	11,576	671	5.80 %
Short-term investments	30,845	542	1.76 %	64,308	90	0.14 %	37,314	161	0.43 %
Total interest-earning assets	2,577,492	121,371	4.71 %	2,460,509	95,995	3.90 %	2,265,105	94,179	4.16 %
Non-interest-earning assets	175,424			144,499			154,511		
Total assets	\$ 2,752,916			\$ 2,605,008			\$ 2,419,616		
Interest-bearing liabilities									
Transaction accounts	\$ 503,668	3,963	0.79 %	\$ 506,693	988	0.19 %	\$ 392,577	1,448	0.37 %
Money market accounts	761,469	6,241	0.82 %	693,608	1,183	0.17 %	651,402	2,842	0.44 %
Certificates of deposit	97,448	1,358	1.39 %	47,020	396	0.84 %	111,698	2,198	1.97 %
Wholesale deposits	48,825	1,616	3.31 %	119,831	986	0.82 %	142,591	2,434	1.71 %
Total interest-bearing deposits	1,411,410	13,178	0.93 %	1,367,152	3,553	0.26 %	1,298,268	8,922	0.69 %
FHLB advances	414,191	7,024	1.70 %	376,781	4,908	1.30 %	379,891	5,507	1.45 %
Other borrowings	43,818	2,243	5.12 %	31,935	1,759	5.51 %	24,472	1,509	6.17 %
Junior subordinated notes	2,429	504	20.75 %	10,068	1,113	11.05 %	10,054	1,116	11.10 %
Total interest-bearing liabilities	1,871,848	22,949	1.23 %	1,785,936	11,333	0.63 %	1,727,892	17,108	0.99 %
Non-interest-bearing demand deposit accounts	566,230			536,981			412,825		
Other non-interest-bearing liabilities	65,611			61,580			82,337		
Total liabilities	2,503,689			2,384,497			2,223,054		
Stockholders' equity	249,227			220,511			196,562		
Total liabilities and stockholders' equity	\$ 2,752,916			\$ 2,605,008			\$ 2,419,616		
Net interest income		\$ 98,422			\$ 84,662			\$ 77,071	
Net interest spread			3.48 %			3.27 %			3.17 %
Net interest-earning assets	\$ 705,644			\$ 674,573			\$ 537,213		
Net interest margin			3.82 %			3.44 %			3.40 %
Average interest-earning assets to average interest-bearing liabilities	137.70 %			137.77 %			131.09 %		
Return on average assets	1.46 %			1.37 %			0.70 %		
Return on average equity	16.79 %			16.21 %			8.64 %		
Average equity to average assets	9.05 %			8.46 %			8.12 %		
Non-interest expense to average assets	2.89 %			2.75 %			2.85 %		

(1) The average balances of loans and leases include non-accrual loans and leases and loans held for sale. Interest income related to non-accrual loans and leases is recognized when collected. Interest income includes net loan fees in lieu of interest.

(2) Includes amortized cost basis of assets available-for-sale and held-to-maturity.

(3) Yields on tax-exempt municipal securities are not presented on a tax-equivalent basis in this table.

The following table provides information with respect to: (1) the change in net interest income attributable to changes in rate (changes in rate multiplied by prior volume); and (2) the change in net interest income attributable to changes in volume (changes in volume multiplied by prior rate) for the year ended December 31, 2022 compared to the year ended December 31, 2021. The change in net interest income attributable to changes in rate and volume (changes in rate multiplied by changes in volume) has been allocated to the rate and volume changes in proportion to the relationship of the absolute dollar amounts of the change in each.

Rate/Volume Analysis

	Increase (Decrease) for the Year Ended December 31,					
	2022 Compared to 2021			2021 Compared to 2020		
	Rate	Volume	Net	Rate	Volume	Net
	(In Thousands)					
Interest-earning assets						
Commercial real estate and other mortgage loans ⁽¹⁾	\$ 11,176	\$ 3,811	\$ 14,987	\$ (4,784)	\$ 5,526	\$ 742
Commercial and industrial loans ⁽¹⁾	6,941	1,482	8,423	621	1,362	1,983
Direct financing leases ⁽¹⁾	6	(196)	(190)	130	(297)	(167)
Consumer and other loans ⁽¹⁾	101	203	304	(117)	243	126
Total loans and leases receivable ⁽¹⁾	18,224	5,300	23,524	(4,150)	6,834	2,684
Mortgage-related securities ⁽²⁾	602	251	853	(647)	(268)	(915)
Other investment securities	81	128	209	(96)	234	138
FHLB Stock	149	189	338	(100)	80	(20)
Short-term investments	522	(70)	452	(147)	76	(71)
Total net change in income on interest-earning assets	19,578	5,798	25,376	(5,140)	6,956	1,816
Interest-bearing liabilities						
Transaction accounts	2,981	(6)	2,975	(805)	345	(460)
Money market	4,931	127	5,058	(1,832)	173	(1,659)
Certificates of deposit	364	598	962	(895)	(907)	(1,802)
Wholesale deposits	1,503	(873)	630	(1,107)	(341)	(1,448)
Total deposits	9,779	(154)	9,625	(4,639)	(730)	(5,369)
FHLB advances	1,593	523	2,116	(554)	(45)	(599)
Federal reserve PPPLF	—	—	—	—	(54)	(54)
Other borrowings	(131)	615	484	(174)	424	250
Junior subordinated notes	579	(1,188)	(609)	(5)	2	(3)
Total net change in expense on interest-bearing liabilities	11,820	(204)	11,616	(5,372)	(403)	(5,775)
Net change in net interest income	\$ 7,758	\$ 6,002	\$ 13,760	\$ 232	\$ 7,359	\$ 7,591

(1) The average balances of loans and leases include non-accrual loans and leases and loans held for sale. Interest income related to non-accrual loans and leases is recognized when collected. Interest income includes net loan fees collected in lieu of interest.

(2) Includes amortized cost basis of assets available-for-sale and held-to-maturity.

The change in yield of the respective interest-earning asset or the rate paid on interest-bearing liability compared to the change in short-term market rates is commonly referred to as a beta. The table below displays the beta calculations for loans and leases, total interest earning assets, in-market deposits, interest-bearing deposits and total interest-bearing liabilities for the year ended December 31, 2022 and 2021. Additionally, adjusted total loans and leases and total interest-earning assets excludes the volatile impact of fees in lieu of interest.

Asset and Liability Beta Analysis

	For the Year Ended December 31,			2022 Compared to 2021	2021 Compared to 2020
	2022	2021	2020		
	Average Yield/Rate ⁽⁴⁾			Increase (Decrease)	
Total loans and leases receivable ^(a)	5.01 %	4.21 %	4.43 %	0.80 %	(0.22)
Total interest-earning assets ^(b)	4.71 %	3.90	4.16 %	0.81	(0.26)
Adjusted total loans and leases receivable ^{(1)(c)}	4.79 %	3.91	4.32 %	0.88	(0.41)
Adjusted total interest-earning assets ^{(1)(d)}	4.52 %	3.61	4.03 %	0.91	(0.42)
Total in-market deposits ^(e)	0.60 %	0.14	0.56 %	0.46	(0.42)
Total bank funding ^{(2)(f)}	0.84 %	0.37	0.86 %	0.47	(0.49)
Net interest margin ^(g)	3.82 %	3.44	3.40 %	0.38	0.04
Adjusted net interest margin ^(h)	3.64	3.21	3.28	0.43	(0.07)
Effective fed funds rate ⁽³⁾⁽ⁱ⁾	1.69 %	0.08 %	0.37 %	1.61 %	(0.29)%
Beta Calculations:					
Total loans and leases receivable ^{(a)(i)}				49.69 %	75.86 %
Total interest-earning assets ^{(b)(i)}				50.15 %	89.66 %
Adjusted total loans and leases receivable ^{(1)(c)(i)}				54.66 %	141.38 %
Adjusted total interest-earning assets ^{(1)(d)(i)}				56.39 %	144.83 %
Total in-market deposits ^{(e)(i)}				28.57 %	144.83 %
Total bank funding ^{(2)(f)(i)}				29.19 %	168.97 %
Net interest margin ^{(g)(i)}				23.60 %	NM
Adjusted net interest margin ^{(h)(i)}				26.71 %	24.14 %

NM = Not meaningful

- (1) Excluding average net PPP loans, PPP loan interest income, and fees in lieu of interest.
- (2) Total bank funding represents total deposits, plus FHLB advances, and Federal Reserve PPPLF advances.
- (3) Board of Governors of the Federal Reserve System (US), Effective Federal Funds Rates [DFF]. retrieved from FRED, Federal Reserve Bank of St. Louis.
- (4) Represents annualized yields/rates.

Net interest income increased by \$13.8 million, or 16.3%, for the year ended December 31, 2022, compared to the year ended December 31, 2021. The increase was principally due to net interest margin expansion combined with an increase in average loans and leases outstanding, which was partially offset by a decrease in PPP loan processing fees. Average gross loans and leases of \$2.305 billion increased by \$125.8 million, or 5.8% for the year ended December 31, 2022, compared to \$2.179 billion for the same period in 2021. Excluding net PPP loans, average gross loans and leases for the year ended December 31, 2022 increased \$268.4 million, or 13.2%, compared to the year ended December 31, 2021. Loan fees collected in lieu of interest decreased 52.7% to \$5.3 million, compared to \$11.2 million during the same period of comparison. Excluding PPP fee amortization, loan fees collected in lieu of interest increased 24.1% to \$4.8 million, compared to \$3.8 million during the same period of comparison. Excluding fees in lieu of interest and interest income from PPP loans, net interest income increased \$21.1 million, or 29.3%.

The yield on average earning assets for the year ended December 31, 2022 was 4.71%, an increase of 81 basis points compared to 3.90% for the year ended December 31, 2021. This increase was principally due to the rising interest rates on variable-rate loans and investment in securities at higher interest rates. These increases were partially offset by the decrease in PPP loan processing fees. Excluding the impact of recurring loan fees in lieu of interest and PPP fees in both 2022 and 2021, the yield on average earning assets for the year ended December 31, 2022 was 4.52%, an increase of 91 basis points compared to 3.61% for the year ended December 31, 2021.

The average rate paid on interest-bearing liabilities was 1.23% for the year ended December 31, 2022, an increase of 60 basis points from 0.63% for the year ended December 31, 2021. The average rate paid increased as the Corporation increased deposit rates and secured wholesale funding, which consists of wholesale deposits and FHLB advances, at elevated fixed rates. Partially offset the increase in deposit and wholesale funding rates, average wholesale funding decreased \$33.6 million, or 6.8%, which is typically a higher cost funding source than in-market deposits, .

Net interest margin increased 38 basis points to 3.82% for the year ended December 31, 2022, compared to 3.44% for the year ended December 31, 2021. Adjusted net interest margin measured 3.64% for the year ended December 31, 2022, compared to 3.21% for the year ended December 31, 2021. Adjusted net interest margin is a non-GAAP measure representing net interest income excluding the fees in lieu of interest and other recurring but volatile components of net interest margin divided by average interest-earning assets less average net PPP loans, if any, and other recurring but volatile components of average interest-earning assets. The increase in adjusted net interest margin was primarily due to the increase in average yield on loans and leases receivable and investment securities, partially offset by an increase in the average rate paid total bank funding.

(Dollars in thousands)	For the Year Ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Interest income	\$ 121,371	\$ 95,995	\$ 94,179
Interest expense	22,949	11,333	17,108
Net interest income ^(a)	98,422	84,662	77,071
Less:			
Fees in lieu of interest	5,283	11,160	9,315
PPP loan interest income	97	1,524	2,198
FRB interest income and FHLB dividend income	1,525	741	789
Add:			
FRB PPPLF interest expense	—	—	54
Adjusted net interest income ^(b)	\$ 91,517	\$ 71,237	\$ 64,823
Average interest-earning assets ^(c)	\$ 2,577,492	\$ 2,460,509	\$ 2,265,105
Less:			
Average net PPP loans	9,740	152,264	215,025
Average FRB cash and FHLB stock	46,708	76,880	46,595
Average non-accrual loans and leases	5,011	14,172	27,656
Adjusted average interest-earning assets ^(d)	\$ 2,516,033	\$ 2,217,193	\$ 1,975,829
Net interest margin ^(a/c)	3.82 %	3.44 %	3.40 %
Adjusted net interest margin ^(b/d)	3.64 %	3.21 %	3.28 %

Management believes its success in growing in-market deposits, disciplined loan pricing, and increased production in existing higher-yielding commercial lending products will allow the Corporation to achieve a net interest margin that supports our long-term profitability goals. However, the collection of loan fees in lieu of interest is an expected source of volatility to quarterly net interest income and net interest margin. In addition, net interest margin may also experience volatility due to events such as the collection of interest on loans previously in non-accrual status or the accumulation of significant short-term deposit inflows.

Provision for Loan and Lease Losses

We determined our provision for loan and lease losses pursuant to our allowance for loan and lease loss methodology, which is based on the magnitude of current and historical net charge-offs recorded throughout the established look-back period, the evaluation of several qualitative factors for each portfolio category, and the amount of specific reserves established for impaired loans that present collateral shortfall positions. Refer to **Allowance for Loan and Lease Losses**, below, for further information regarding our allowance for loan and lease loss methodology.

The Corporation recognized a \$3.9 million provision benefit for the year ended December 31, 2022, compared to \$5.8 million provision benefit for the year ended December 31, 2021. The provision benefit for the year ended December 31, 2022 was primarily due to a net recovery of \$3.8 million and a \$2.0 million reduction in the general reserve from improving historical loss rates. These decreases were partially offset by a \$2.1 million increase in the general reserve due to loan growth. The net recovery for the year ended December 31, 2022 included a \$4.1 million principal recovery relating to a legacy SBA relationship originated in May 2016 and fully charged-off in December 2020.

The following table shows the components of the provision for loan and lease losses.

(Dollars in thousands)	For the Year Ended December 31,		
	2022	2021	2020
Change in general reserve due to subjective factor changes	\$ (384)	\$ (426)	\$ 5,460
Change in general reserve due to historical loss factor changes	(2,012)	(4,456)	949
Charge-offs	979	3,508	8,139
Recoveries	(4,741)	(5,126)	(332)
Change in specific reserves on impaired loans, net	146	(2,175)	316
Change due to loan growth, net	2,144	2,872	2,276
Total provision for loan and lease losses	\$ (3,868)	\$ (5,803)	\$ 16,808

The addition of specific reserves on impaired loans represents new specific reserves established when collateral shortfalls or government guaranty deficiencies are present, while conversely the release of specific reserves represents the reduction of previously established reserves that are no longer required. Changes in the allowance for loan and lease losses due to subjective factor changes reflect management's evaluation of the level of risk within the portfolio based upon several factors for each portfolio segment. Charge-offs in excess of previously established specific reserves require an additional provision for loan and lease losses to maintain the allowance for loan and lease losses at a level deemed appropriate by management. This amount is net of the release of any specific reserve that may have already been provided. Change in the inherent risk of the portfolio is primarily influenced by the overall growth in gross loans and leases and an analysis of loans previously charged off, as well as movement of existing loans and leases in and out of an impaired loan classification where a specific evaluation of a particular credit may be required rather than the application of a general reserve loss rate. Refer to **Asset Quality**, below, for further information regarding the overall credit quality of our loan and lease portfolio.

Non-Interest Income

Non-interest income increased by \$1.3 million, or 4.7%, to \$29.4 million for the year ended December 31, 2022, from \$28.1 million for the year ended December 31, 2021. Management continues to focus on revenue growth from multiple non-interest income sources in order to maintain a diversified revenue stream through greater contributions from fee-based revenues. Total non-interest income accounted for 23.0% of our total revenues in 2022 compared to 24.9% in 2021. The increase in total non-interest income for the year ended December 31, 2022 primarily reflected an increase in other non-interest income, led by mezzanine fund investment income and gains recognized on end-of-term buyout agreements, an increase in loan fee income, and commercial loan swap fee income. Additionally, a bank-owned life insurance claim was recognized during the year ended December 31, 2022. These increases were partially offset by a decrease in gains on the sale of SBA loans.

The components of non-interest income were as follows:

	For the Year Ended December 31,			Change From Prior Year			
	2022	2021	2020	\$ Change 2022	% Change 2022	\$ Change 2021	% Change 2021
(Dollars in Thousands)							
Private wealth management services fee income	\$ 10,881	\$ 10,784	\$ 8,611	\$ 97	0.9 %	\$ 2,173	25.2
Gain on sale of SBA loans	2,537	4,044	2,899	(1,507)	(37.3)	1,145	39.5
Service charges on deposits	3,849	3,837	3,415	12	0.3	422	12.4
Loan fees	3,010	2,506	1,826	504	20.1	680	37.2
Bank-owned life insurance income	2,227	1,413	1,402	814	57.6	11	0.8
Net gain (loss) on sale of securities	—	29	(4)	(29)	NM	33	(825.0)
Swap fees	1,793	1,368	6,860	425	31.1	(5,492)	(80.1)
Other non-interest income	5,131	4,119	1,931	1,012	24.6	2,188	113.3
Total non-interest income	\$ 29,428	\$ 28,100	\$ 26,940	\$ 1,328	4.7	\$ 1,160	4.3
Fee income ratio ⁽¹⁾	23.0 %	24.9 %	25.9 %				

(1) Fee income ratio is fee income, per the above table, divided by top line revenue (defined as net interest income plus non-interest income).

Private wealth management services fee income increased by \$97,000, or 0.9%, to a record \$10.9 million for the year ended December 31, 2022 compared to the previous record of \$10.8 million for the year ended December 31, 2021. Private

wealth management services fee income is primarily driven by the amount of trust assets under management and administration, as well as the mix of business at different fee structures, and can be positively or negatively influenced by the timing and magnitude of volatility within the equity and fixed income markets. This increase was driven by an increase in average trust assets under management and administration, which is attributable to both new client relationships and new money from existing client relationships. At December 31, 2022, our trust assets under management and administration were \$2.660 billion, or 8.9% less than trust assets under management and administration of \$2.921 billion at December 31, 2021. During 2022, the equity and fixed income market values decreased and more than offset the new money received during the year. We expect to continue to increase our revenue from trust assets under management and administration as we deepen existing and grow new client relationships in our less mature commercial bank markets, but market volatility may also affect the actual change in revenue.

Other non-interest income increased by \$1.0 million to \$5.1 million for the year ended December 31, 2022, compared to \$4.1 million for the year ended December 31, 2021. The increase was primarily due to strong returns from the Corporation's investments in mezzanine funds and gains recognized on end-of-term buyout agreements related to the Corporation's equipment financing business line.

Loan fees increased \$504,000, or 20.1%, to \$3.0 million for the year ended December 31, 2022, compared to \$2.5 million for the same period in 2021. The increase was driven by an increase in equipment finance lending, floorplan finance lending, and conventional lending activity generating additional service fee income.

Bank-owned life insurance income increased by \$814,000, or 57.6%, to \$2.2 million for the year ended December 31, 2022, compared to \$1.4 million for the year ended December 31, 2021. The increase was due to the recognition of a \$809,000 insurance claim.

Commercial loan interest rate swap fee income was \$1.8 million for the year ended December 31, 2022, compared to \$1.4 million for the year ended December 31, 2021. We originate commercial real estate loans in which we offer clients a floating rate and an interest rate swap. The client's swap is then offset with a counter-party dealer. The execution of these transactions generates swap fee income. The aggregate amortizing notional value of interest rate swaps with various borrowers was \$744.2 million as of December 31, 2022, compared to \$640.6 million as of December 31, 2021. Interest rate swaps can be an attractive product for our commercial borrowers, although associated fee income can be variable from period to period based on client demand and the interest rate environment in any given quarter.

Gain on sale of SBA loans for the year ended December 31, 2022 totaled \$2.5 million, a decrease of \$1.5 million, or 37.3%, from the same period in 2021. Reduced premiums was the primary factor for the lower income. Given current premium levels, the Bank may reduce sales activity and retain the guaranteed portion on the balance sheet.

Non-Interest Expense

Non-interest expense increased by \$7.9 million, or 11.1%, to \$79.5 million for the year ended December 31, 2022 from \$71.5 million for the year ended December 31, 2021. Operating expense, which excludes certain one-time and discrete items as defined in the Efficiency Ratio table above, increased \$7.6 million, or 10.6%, to \$79.2 million for the year ended December 31, 2022 compared to \$71.6 million for the year ended December 31, 2021. The increase in operating expense was primarily due to an increase in compensation, professional fees, marketing, and occupancy.

The components of non-interest expense were as follows:

	For the Year Ended December 31,			Change From Prior Year			
	2022	2021	2020	\$ Change 2022	% Change 2022	\$ Change 2021	% Change 2021
	(Dollars in Thousands)						
Compensation	\$ 57,742	\$ 51,710	\$ 45,850	\$ 6,032	11.7 %	\$ 5,860	12.8
Occupancy	2,358	2,180	2,252	178	8.2	(72)	(3.2)
Professional fees	4,881	3,736	3,530	1,145	30.6	206	5.8
Data processing	3,197	3,087	2,734	110	3.6	353	12.9
Marketing	2,354	2,022	1,580	332	16.4	442	28.0
Equipment	1,091	990	1,199	101	10.2	(209)	(17.4)
Computer software	4,416	4,260	3,900	156	3.7	360	9.2
FDIC insurance	1,042	1,143	1,238	(101)	(8.8)	(95)	(7.7)
Other non-interest expense	2,393	2,407	3,911	(14)	(0.6)	(1,504)	(38.5)
Total non-interest expense	<u>\$ 79,474</u>	<u>\$ 71,535</u>	<u>\$ 68,589</u>	<u>\$ 7,939</u>	11.1	<u>\$ 2,946</u>	4.3
Total operating expense ⁽¹⁾	<u>\$ 79,155</u>	<u>\$ 71,571</u>	<u>\$ 65,619</u>	<u>\$ 7,584</u>	10.6	<u>\$ 5,952</u>	9.1
Full-time equivalent employees	337	304	301	33	10.9	3	1.0

NM = Not meaningful

(1) Total operating expense represents total non-interest expense, adjusted to exclude the impact of discrete items as previously defined in the non-GAAP efficiency ratio calculation above.

Compensation expense increased by \$6.0 million, or 11.7%, to \$57.7 million for the year ended December 31, 2022 from \$51.7 million for the year ended December 31, 2021 principally due to an increase in average FTEs, annual merit increases, growth in employee benefit costs and increase in incentive compensation. The increase reflects a \$3.4 million, or 10.7%, increase in employee salaries and a \$1.4 million, or 16.3%, increase in individual and corporate performance-based incentive compensation accruals reflecting strong company performance relative to bonus criteria. The Bank's compensation philosophy is to provide base salaries competitive with the market. Average FTEs were 325 for the year ended December 31, 2022, increasing by 18, or 5.9%, from 307 for the year ended December 31, 2021. Performance-based incentive compensation accruals will reset to target performance at the start of 2023 and will be evaluated quarterly and increased or decreased based on management's forecast of full year performance for the Corporation.

Professional fees increased \$1.1 million, or 30.6%, for the year ended December 31, 2022 compared to the year ended December 31, 2021. The increase was primarily due to an increase in recruiting expense, audit expenses, legal expense, and a general increase in other professional consulting services for various projects.

Marketing expense increased by \$332,000, or 16.4%, to \$2.4 million for the year ended December 31, 2022 from \$2.0 million for the year ended December 31, 2021. The increase was primarily due to an increase in business development efforts as the Corporation returns to pre-pandemic activity levels.

Occupancy expense increased by \$178,000, or 8.2%, to \$2.4 million for the year ended December 31, 2022 from \$2.2 million for the year ended December 31, 2021. During November 2022, the Corporation relocated the Southeast Wisconsin office location to accommodate growth in the number of employees.

Income Taxes

Income tax expense was \$11.4 million for the year ended December 31, 2022, compared to \$11.3 million for the year ended December 31, 2021. The income tax expense included a \$338,000 net benefit from tax credit investments. The effective tax rate for the year ended December 31, 2022 was 21.8% compared to 24.0% for the year ended December 31, 2021. For 2023, the Corporation expects to report an effective tax rate of 21%-22% as management anticipates increased tax credit activity.

FINANCIAL CONDITION

General

Total assets increased by \$323.7 million, or 12.2%, to \$2.977 billion as of December 31, 2022 compared to \$2.653 billion at December 31, 2021. The increase in total assets was primarily driven by an increase in loans and leases receivable, cash and cash equivalents, derivatives, and other assets. Total liabilities increased by \$295.5 million, or 12.2%, to \$2.716 billion as of December 31, 2022 compared to \$2.420 billion at December 31, 2021. The increase in total liabilities was principally due to an increase in deposits, FHLB advances, and interest rate swap derivatives.

Cash and cash equivalents

Cash and cash equivalents include short-term investments and cash and due from banks. Short-term investments increased by \$29.5 million to \$76.9 million at December 31, 2022 from \$47.4 million at December 31, 2021. Both short-term investments and cash and due from banks increased during 2022. Short-term investments primarily consist of interest-bearing deposits held at the Federal Reserve Bank (“FRB”). We value the safety and soundness provided by the FRB, and therefore, we incorporate short-term investments in our on-balance sheet liquidity program. As of December 31, 2022 and 2021, interest-bearing deposits held at the FRB were \$76.5 million and \$47.0 million, respectively. In general, the level of our cash and short-term investments will be influenced by the timing of deposit gathering, scheduled maturities of wholesale deposits, funding of loan and lease growth when opportunities are presented, and the level of our securities portfolio. Please refer to the section entitled **Liquidity and Capital Resources** for further discussion.

Securities

Total securities, including available-for-sale and held-to-maturity, decreased by \$789,000 to \$224.7 million at December 31, 2022 from \$225.4 million at December 31, 2021. As of December 31, 2022 and 2021, our total securities portfolio had a weighted average estimated maturity of approximately 6.3 years and 5.7 years, respectively. The investment portfolio primarily consists of mortgage-backed securities and is used to provide a source of liquidity, including the ability to pledge securities for possible future cash advances, while contributing to the earnings potential of the Bank. The overall duration of the securities portfolio is established and maintained to further mitigate interest rate risk present within our balance sheet as identified through asset/liability simulations. We purchase investment securities intended to protect net interest margin while maintaining an acceptable risk profile. In addition, we will purchase investment securities to utilize our cash position effectively within appropriate policy guidelines and estimates of future cash demands. While mortgage-backed securities present prepayment risk and extension risk, we believe the overall credit risk associated with these investments is minimal, as the majority of the securities we hold are guaranteed by the United States Treasury, the Federal National Mortgage Association (“FNMA”), the Federal Home Loan Mortgage Corporation (“FHLMC”), or the Government National Mortgage Association (“GNMA”), a U.S. government agency. The estimated repayment streams associated with this portfolio also allow us to better match short-term liabilities. The Bank’s investment policies allow for various types of investments, including tax-exempt municipal securities. The ability to invest in tax-exempt municipal securities provides for further opportunity to improve our overall yield on the securities portfolio. We evaluate the credit risk of the municipal securities prior to purchase and generally limit exposure to general obligation issuances from municipalities, primarily in Wisconsin.

The majority of the securities we hold have active trading markets; therefore, we have not experienced difficulties in pricing our securities. We use a third-party pricing service as our primary source of market prices for the securities portfolio. On a quarterly basis, we validate the reasonableness of prices received from this source through independent verification of the portfolio, data integrity validation through comparison of current price to prior period prices, and an expectation-based analysis of movement in prices based upon the changes in the related yield curves and other market factors. On a periodic basis, we review the third-party pricing vendor’s methodology for pricing relevant securities and the results of its internal control assessments. Our securities portfolio is sensitive to fluctuations in the interest rate environment and has limited sensitivity to credit risk due to the nature of the issuers and guarantors of the securities as previously discussed. If interest rates decline and the credit quality of the securities remains constant or improves, the fair value of our debt securities portfolio would likely improve, thereby increasing total comprehensive income. If interest rates increase and the credit quality of the securities remains constant or deteriorates, the fair value of our debt securities portfolio would likely decline and therefore decrease total comprehensive income. The magnitude of the fair value change will be based upon the duration of the portfolio. A securities portfolio with a longer average duration will exhibit greater market price volatility than a securities portfolio with a shorter average duration in a changing rate environment. During the year ended December 31, 2022, we recognized unrealized holding losses of \$27.7 million before income taxes through other comprehensive income. These losses were the result of an increase in interest rates. No securities within our portfolio were deemed to be other-than-temporarily impaired as of December 31, 2022, and we sold no securities during the year ended December 31, 2022. As of December 31, 2022 no securities were classified as trading securities. At December 31, 2022, \$35.9 million of our securities were pledged to secure various obligations, including interest rate swap contracts and municipal deposits.

The tables below set forth information regarding the amortized cost and fair values of our securities.

	As of December 31,			
	2022		2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Available-for-sale:				
U.S. Treasuries	\$ 4,977	\$ 4,445	\$ 4,971	\$ 4,914
U.S. government agency securities - government-sponsored enterprises	13,666	13,205	19,797	19,935
Municipal securities	45,088	39,311	30,828	30,957
Residential mortgage-backed securities - government issued	21,790	19,431	19,563	19,661
Residential mortgage-backed securities - government-sponsored enterprises	119,265	106,323	85,748	85,705
Commercial mortgage-backed securities - government issued	3,450	2,932	5,801	5,771
Commercial mortgage-backed securities - government-sponsored enterprises	31,515	26,377	36,786	36,531
Other securities	—	—	2,205	2,228
	<u>\$ 239,751</u>	<u>\$ 212,024</u>	<u>\$ 205,699</u>	<u>\$ 205,702</u>

	As of December 31,			
	2022		2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Held-to-maturity:				
Municipal securities	\$ 7,467	\$ 7,404	\$ 13,009	\$ 13,228
Residential mortgage-backed securities - government issued	1,625	1,518	2,226	2,266
Residential mortgage-backed securities - government-sponsored issued	1,537	1,444	2,502	2,578
Commercial mortgage-backed securities - government-sponsored enterprises	2,006	1,904	2,009	2,204
	<u>\$ 12,635</u>	<u>\$ 12,270</u>	<u>\$ 19,746</u>	<u>\$ 20,276</u>

U.S. Treasuries represent treasury bonds issued by the United States Treasury. U.S. government agency securities - government-sponsored enterprises represent securities issued by FNMA and the SBA. Municipal securities include securities issued by various municipalities located primarily within Wisconsin and are primarily general obligation bonds that are tax-exempt in nature. Residential and commercial mortgage-backed securities - government issued represent securities guaranteed by GNMA. Residential and commercial mortgage-backed securities - government-sponsored enterprises include securities guaranteed by FHLMC, FNMA, and the FHLB. Other securities represent certificates of deposit of insured banks and savings institutions with an original maturity greater than three months. As of December 31, 2022, no issuer's securities exceeded 10% of our total stockholders' equity.

The following table sets forth the contractual maturity and weighted average yield characteristics of the fair value of our available-for-sale securities and the amortized cost of our held-to-maturity securities at December 31, 2022, classified by remaining contractual maturity. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay securities without call or prepayment penalties. Yields on tax-exempt securities have not been computed on a tax equivalent basis.

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	Less than One Year		One to Five Years		Five to Ten Years		Over Ten Years		Total
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	
(Dollars in Thousands)									
Available-for-sale:									
U.S. treasuries	\$ —	— %	\$ 4,445	1.00 %	\$ —	— %	\$ —	— %	\$ 4,445
U.S. government agency securities - government-sponsored enterprises	—	—	904	0.56	3,942	2.22	8,359	3.73	13,205
Municipal securities	491	0.36	5,853	1.35	8,231	1.75	24,736	2.19	39,311
Residential mortgage-backed securities - government issued	—	—	542	2.68	—	—	18,889	2.64	19,431
Residential mortgage-backed securities - government-sponsored enterprises	102	2.55	1,739	2.39	15,592	1.94	88,890	2.52	106,323
Commercial mortgage-backed securities - government issued	—	—	—	—	—	—	2,932	1.58	2,932
Commercial mortgage-backed securities - government-sponsored enterprises	—	—	401	2.25	20,376	1.68	5,600	1.65	26,377
	<u>\$ 593</u>		<u>\$ 13,884</u>		<u>\$ 48,141</u>		<u>\$ 149,406</u>		<u>\$ 212,024</u>

	Less than One Year		One to Five Years		Five to Ten Years		Over Ten Years		Total
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	
(Dollars in Thousands)									
Held-to-maturity:									
Municipal securities	\$ 2,146	2.11 %	\$ 4,403	2.46 %	\$ 918	2.79 %	\$ —	— %	\$ 7,467
Residential mortgage-backed securities - government issued	—	—	1,095	2.02	—	—	530	2.14	1,625
Residential mortgage-backed securities - government-sponsored enterprises	—	—	308	1.49	899	1.78	330	3.35	1,537
Commercial mortgage-backed securities - government-sponsored enterprises	—	—	—	—	2,006	3.29	—	—	2,006
	<u>\$ 2,146</u>		<u>\$ 5,806</u>		<u>\$ 3,823</u>		<u>\$ 860</u>		<u>\$ 12,635</u>

Derivatives

The Board approved Bank policies allow the Bank to participate in hedging strategies or to use financial futures, options, forward commitments, or interest rate swaps. The Bank utilizes, from time to time, derivative instruments in the course of its asset/liability management. The Corporation's derivative financial instruments, under which the Corporation is required to either receive cash from or pay cash to counterparties depending on changes in interest rates applied to notional amounts, are carried at fair value on the consolidated balance sheets.

As of December 31, 2022, the aggregate amortizing notional value of interest rate swaps with various commercial borrowers was approximately \$744.2 million, compared to \$640.6 million as of December 31, 2021. We receive fixed rates and pay floating rates based upon designated benchmark interest rates on the swaps with commercial borrowers. These swaps mature between May 2024 and June 2039. Commercial borrower swaps are completed independently with each borrower and are not subject to master netting arrangements. As of December 31, 2022, the commercial borrower swaps were reported on the Consolidated Balance Sheet as a derivative liability and asset of \$61.4 million and \$1.0 million, respectively, compared to a derivative asset and liability of \$26.3 million and \$6.6 million, respectively, as of December 31, 2021. On the offsetting swap contracts with dealer counterparties, we pay fixed rates and receive floating rates based upon designated benchmark interest rates. These interest rate swaps also have maturity dates between May 2024 and June 2039. Dealer counterparty swaps are subject to master netting agreements among the contracts within our Bank and were reported on the Consolidated Balance Sheet as a net derivative asset of \$60.4 million as of December 31, 2022, compared to a net derivative liability of \$19.7 million as of December 31, 2021. The gross amount of dealer counterparty swaps as of December 31, 2022, without regard to the enforceable master netting agreement, was a gross derivative asset and liability of \$61.4 million and \$1.0 million, compared to a gross derivative liability of \$26.3 million and gross derivative asset of \$6.6 million as of December 31, 2021.

The Corporation also enters into interest rate swaps to manage interest rate risk and reduce the cost of match-funding certain long-term fixed rate loans. These derivative contracts involve the receipt of floating rate interest from a counterparty in exchange for the Corporation making fixed-rate payments over the life of the agreement, without the exchange of the underlying notional value. The instruments are designated as cash flow hedges as the receipt of floating rate interest from the counterparty is used to manage interest rate risk associated with forecasted issuances of short-term FHLB advances. The change in the fair value of these hedging instruments is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged transactions affects earnings. As of December 31, 2022, the aggregate notional value of interest rate swaps designated as cash flow hedges was \$116.4 million compared to \$106.0 million as of December 31, 2021. These interest rate swaps mature between December 2022 and March 2034. As of December 31, 2022, the interest rate swaps were reported on the Consolidated Balance Sheet as a derivative asset of \$6.6 million, compared to a derivative liability of \$1.9 million as of December 31, 2021. Pre-tax unrealized gains of \$8.5 million and \$3.6 million were recognized in other comprehensive income for the years ended December 31, 2022 and 2021, respectively, and there were no ineffective portion of these hedges.

The Corporation also enters into interest rate swaps to mitigate market value volatility on certain long-term fixed-rate securities. The objective of the hedge is to protect the Corporation against changes in fair value due to changes in benchmark interest rates. The instruments are designated as fair value hedges as the changes in the fair value of the interest rate swap are expected to offset changes in the fair value of the hedged item attributable to changes in the SOFR swap rate, the designated benchmark interest rate. These derivative contracts involve the receipt of floating rate interest from a counterparty in exchange for the Corporation making fixed-rate payments over the life of the agreement, without the exchange of the underlying notional value. The change in the fair value of these hedging instruments is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged transactions affects earnings. As of December 31, 2022, the aggregate notional value of interest rate swaps designated as fair value hedges was \$12.5 million and there were no fair value hedges as of December 31, 2021. These interest rate swaps mature between February 2031 and October 2034. A pre-tax unrealized gain of \$602,000 was recognized in other comprehensive income for the year ended December 31, 2022 and there was no ineffective portion of these hedges. No pre-tax unrealized gain or loss was recognized in other comprehensive income for the years ended December 31, 2021 and 2020.

For further information and discussion of our derivatives, see **Note 17 — Derivative Financial Instruments** of the Consolidated Financial Statements.

Loans and Leases Receivable

Loans and leases receivable, net of allowance for loan and lease losses, increased by \$203.8 million, or 9.2%, to \$2.419 billion at December 31, 2022 from \$2.215 billion at December 31, 2021. Excluding net PPP loans, loans and leases receivable, net of allowance for loan and lease losses, increased by \$230.6 million, or 10.5%, to \$2.418 billion at December 31,

2022 from \$2.188 billion at December 31, 2021. Excluding PPP loans, loan growth was across all categories with the highest growth in commercial and industrial (“C&I”) loans increasing \$137.2 million from December 31, 2021.

There continues to be a concentration in CRE loans which represented 63.1% and 65.7% of our total loans, excluding net PPP loans, as of December 31, 2022 and December 31, 2021, respectively. As of December 31, 2022, approximately 17.4% of the CRE loans were owner-occupied CRE, compared to 16.2% as of December 31, 2021. We consider owner-occupied CRE more characteristic of the Corporation’s C&I portfolio as, in general, the client’s primary source of repayment is the cash flow from the operating entity occupying the commercial real estate property.

Our C&I portfolio increased \$110.4 million, or 15.1%, to \$841.2 million at December 31, 2022 from \$730.8 million at December 31, 2021. Excluding net PPP loans, C&I loans increased \$137.2 million, or 19.5%, to \$840.7 million from \$703.5 million at December 31, 2021. The Corporation experienced significant C&I loan growth in 2022, due to growth across products and geographies. Management believes the investment in the Corporation’s C&I product lines has positioned the Corporation for strong and sustainable growth in 2023 and beyond.

We continue to actively pursue C&I loans across the Corporation as this segment of our loan and lease portfolio provides an attractive yield commensurate with an appropriate level of credit risk and creates opportunities for in-market deposit, treasury management, and private wealth management relationships which generate additional fee revenue.

Underwriting of new credit is primarily through approval from a serial sign-off or committee process and is a key component of our operating philosophy. Business development officers have no individual lending authority limits, and thus, a significant portion of our new credit extensions require approval from a loan approval committee regardless of the type of loan or lease, amount of the credit, or the related complexities of each proposal. To monitor the ongoing credit quality of our loans and leases, each credit is evaluated for proper risk rating using a nine grade risk rating system at the time of origination, subsequent renewal, evaluation of updated financial information from our borrowers, or as other circumstances dictate.

While we continue to experience significant competition from banks operating in our primary geographic areas, we remain committed to our underwriting standards and will not deviate from those standards for the sole purpose of growing our loan and lease portfolio. We continue to expect our new loan and lease activity to be adequate to replace normal amortization, allowing us to continue growing in future years.

The following table presents information concerning the composition of the Bank's consolidated loans and leases receivable.

	As of December 31,			
	2022		2021	
	Amount Outstanding	% of Total Loans and Leases	Amount Outstanding	% of Total Loans and Leases
(Dollars in Thousands)				
Commercial real estate:				
Commercial real estate — owner occupied	\$ 268,354	11.0 %	\$ 235,589	10.5 %
Commercial real estate — non-owner occupied	687,091	28.1	661,423	29.5
Land development	50,803	2.1	42,792	1.9
Construction	167,948	6.9	179,841	8.0
Multi-family	350,026	14.3	320,072	14.3
1-4 family	17,728	0.7	14,911	0.7
Total commercial real estate	1,541,950	63.1	1,454,628	64.9
Commercial and industrial	841,178	34.4	730,819	32.6
Direct financing leases, net	12,149	0.5	15,743	0.7
Consumer and other:				
Home equity and second mortgage	6,761	0.3	4,223	0.2
Other	41,177	1.7	35,518	1.6
Total consumer and other	47,938	2.0	39,741	1.8
Total gross loans and leases receivable	2,443,215	100.0 %	2,240,931	100.0 %
Less:				
Allowance for loan and lease losses	24,230		24,336	
Deferred loan fees	149		1,523	
Loans and leases receivable, net	\$ 2,418,836		\$ 2,215,072	

The following table shows the scheduled contractual maturities of the Bank's consolidated gross loans and leases receivable, as well as the dollar amount of such loans and leases which are scheduled to mature after one year and have fixed or adjustable interest rates, as of December 31, 2022.

	Amounts Due				Interest Terms On Amounts Due after One Year	
	In One Year or Less	After One Year through Five Years	After Five Years	Total	Fixed Rate	Variable Rate
(In Thousands)						
Commercial real estate:						
Owner-occupied	\$ 11,476	\$ 151,768	\$ 105,110	\$ 268,354	\$ 184,822	\$ 72,056
Non-owner occupied	64,200	355,273	267,618	687,091	316,145	306,746
Land development	34,245	16,250	308	50,803	8,521	8,037
Construction	24,988	41,474	101,486	167,948	58,705	84,255
Multi-family	32,355	143,392	174,279	350,026	85,089	232,582
1-4 family	2,407	8,474	6,847	17,728	15,066	255
Commercial and industrial	234,699	503,782	102,697	841,178	188,154	418,325
Direct financing leases	2,462	7,808	1,879	12,149	9,687	—
Consumer and other	6,836	36,794	4,308	47,938	31,440	9,662
	<u>\$ 413,668</u>	<u>\$ 1,265,015</u>	<u>\$ 764,532</u>	<u>\$ 2,443,215</u>	<u>\$ 897,629</u>	<u>\$ 1,131,918</u>

Commercial Real Estate. The Bank originates owner-occupied and non-owner-occupied commercial real estate loans which have fixed or adjustable rates and generally terms of three to 10 years and amortizations of up to 30 years on existing commercial real estate. The Bank also originates loans to construct commercial properties and complete land development projects. The Bank's construction loans generally have terms of six to 24 months with fixed or adjustable interest rates and fees that are due at the time of origination. Loan proceeds are disbursed in increments as construction progresses and as project inspections warrant.

The repayment of commercial real estate loans generally is dependent on sufficient income from the occupants of properties securing the loans to cover operating expenses and debt service. Payments on commercial real estate loans are often dependent on external market conditions impacting the successful operation or development of the property or business involved. Therefore, repayment of such loans is often sensitive to conditions in the real estate market or the general economy, which are outside the borrower's control. In the event that the cash flow from the property is reduced, the borrower's ability to repay the loan could be negatively impacted. The deterioration of one or a few of these loans could cause a material increase in our level of nonperforming loans, which would result in a loss of revenue from these loans and could result in an increase in the provision for loan and lease losses and an increase in charge-offs, all of which could have a material adverse impact on our net income. Additionally, many of these loans have real estate as a primary or secondary component of collateral. The market value of real estate can fluctuate significantly in a short period of time as a result of economic conditions. Adverse developments affecting real estate values in one or more of our markets could impact collateral coverage associated with the commercial real estate segment of our portfolio, possibly leading to increased specific reserves or charge-offs, which would adversely affect profitability. Of the \$1.542 billion of commercial real estate loans outstanding as of December 31, 2022, \$26.8 million were originated by the FBSF subsidiary, as part of a larger asset-based lending relationship.

Commercial and Industrial. The Bank's commercial and industrial loan portfolio is comprised of loans for a variety of purposes which principally are secured by inventory, accounts receivable, equipment, machinery, and other corporate assets and are advanced within limits prescribed by our loan policy. The majority of such loans are secured and typically backed by personal guarantees of the owners of the borrowing business. Of the \$841.2 million of C&I loans outstanding as of December 31, 2022, \$373.6 million were conventional C&I loans and \$467.6 million were originated by the FBSF subsidiary. FBSF products consists of equipment financing, asset-based lending, accounts receivable financing, SBA lending, and floorplan financing.

Direct Financing Leases. Direct financing leases initiated through FBSF are originated with a fixed implicit rate and typically a term of seven years or less. It is customary in the leasing industry to provide 100% financing; however, FBSF will, from time-to-time, require a down payment or lease deposit to provide a credit enhancement. As of December 31, 2022, the Bank had \$12.1 million in net direct financing receivables outstanding.

FBSF leases machinery and equipment to clients under leases which qualify as direct financing leases for financial reporting and as operating leases for income tax purposes. Under the direct financing method of accounting, the minimum lease payments to be received under the lease contract, together with the estimated unguaranteed residual value (approximating 3% to 20% of the cost of the related equipment), are recorded as lease receivables when the lease is signed and the lease property is delivered to the client. The excess of the minimum lease payments and residual values over the cost of the equipment is recorded as unearned lease income. Unearned lease income is recognized over the term of the lease on a basis which results in a level rate of return on the unrecovered lease investment. Lease payments are recorded when due under the lease contract. Residual value is the estimated fair market value of the equipment on lease at lease termination and was estimated to be \$2.8 million as of December 31, 2022. In estimating the equipment's fair value, FBSF relies on historical experience by equipment type and manufacturer, published sources of used equipment pricing, internal evaluations and, when available, valuations by independent appraisers, adjusted for known trends.

Consumer and Other. The Bank originates a small amount of consumer loans consisting of home equity, first and second mortgages, and other personal loans for professional and executive clients of the Bank.

Asset Quality

Non-accrual loans and leases decreased \$2.7 million, or 42.5%, to \$3.7 million at December 31, 2022 compared to \$6.4 million at December 31, 2021.

Our total impaired assets consisted of the following:

	As of December 31,	
	2022	2021
	(Dollars in Thousands)	
Non-accrual loans and leases		
Commercial real estate:		
Commercial real estate – owner occupied	\$ —	\$ 348
Commercial real estate – non-owner occupied	—	—
Land development	—	—
Construction	—	—
Multi-family	—	—
1-4 family	30	339
Total non-accrual commercial real estate	30	687
Commercial and industrial	3,629	5,572
Direct financing leases, net	—	99
Consumer and other:		
Home equity and second mortgage	—	—
Other	—	—
Total non-accrual consumer and other loans	—	—
Total non-accrual loans and leases	3,659	6,358
Repossessed assets, net	95	164
Total non-performing assets	3,754	6,522
Performing troubled debt restructurings	156	217
Total impaired assets	\$ 3,910	\$ 6,739
Total non-accrual loans and leases to gross loans and leases	0.15 %	0.28 %
Total non-performing assets to gross loans and leases plus repossessed assets, net	0.15 %	0.29 %
Total non-performing assets to total assets	0.13 %	0.25 %
Allowance for loan and lease losses to gross loans and leases	0.99 %	1.09 %
Allowance for loan and lease losses to non-accrual loans and leases	662.20 %	382.76 %

As of December 31, 2022 and 2021, \$30,000 and \$627,000 of the non-accrual loans were considered troubled debt restructurings, respectively. As noted in the table above, non-performing assets consisted of non-accrual loans and leases and repossessed assets totaling \$3.8 million, or 0.13% of total assets, as of December 31, 2022, a decrease in non-performing assets

of \$2.8 million, or 42.4%, from December 31, 2021. Impaired loans and leases as of December 31, 2022 and 2021 also included \$156,000 and \$217,000, respectively, of loans classified as performing troubled debt restructurings, which are considered impaired due to the concession in terms, but are meeting the restructured payment terms and therefore are not on non-accrual status.

The following asset quality ratios exclude net PPP loans as they are fully guaranteed by the SBA:

	As of December 31,	
	2022	2021
	(In Thousands)	
Total non-accrual loans and leases to gross loans and leases	0.15 %	0.29 %
Total non-performing assets to gross loans and leases plus repossessed assets, net	0.15	0.29
Total non-performing assets to total assets	0.13	0.25
Allowance for loan and lease losses to gross loans and leases	0.99	1.10

We use a wide variety of available metrics to assess the overall asset quality of the portfolio and no one metric is used independently to make a final conclusion as to the asset quality of the portfolio. Non-performing assets as a percentage of total assets decreased to 0.13% at December 31, 2022 from 0.25% at December 31, 2021. As of December 31, 2022, the payment performance of our loans and leases did not point to any new areas of concern, as approximately 99.8% of the total portfolio was in a current payment status, similar to December 31, 2021. We also monitor asset quality through our established categories as defined in **Note 4 – Loan and Lease Receivables, Impaired Loans and Leases and Allowance for Loan and Lease Losses** of the Consolidated Financial Statements. As we continue to actively monitor the credit quality of our loan and lease portfolios, we may identify additional loans and leases for which the borrowers or lessees are having difficulties making the required principal and interest payments based upon factors including, but not limited to, the inability to sell the underlying collateral, inadequate cash flow from the operations of the underlying businesses, liquidation events, or bankruptcy filings. We are proactively working with our impaired loan borrowers to find meaningful solutions to difficult situations that are in the best interests of the Bank.

In 2022, as well as in all previous reporting periods, there were no loans over 90 days past due and still accruing interest. Loans and leases greater than 90 days past due are considered impaired and are placed on non-accrual status. Cash received while a loan or a lease is on non-accrual status is generally applied solely against the outstanding principal. If collectability of the contractual principal and interest is not in doubt, payments received may be applied to both interest due on a cash basis and principal.

Additional information about impaired loans is as follows:

	As of December 31,	
	2022	2021
	(In Thousands)	
Impaired loans and leases with no impairment reserves	\$ 1,223	\$ 4,419
Impaired loans and leases with impairment reserves required	2,592	2,156
Total impaired loans and leases	3,815	6,575
Less: Impairment reserve (included in allowance for loan and lease losses)	1,650	1,505
Net impaired loans and leases	\$ 2,165	\$ 5,070
Average impaired loans and leases	\$ 5,084	\$ 14,260

	For the years ended December 31,	
	2022	2021
	(In Thousands)	
Interest income attributable to impaired loans and leases	\$ 400	\$ 1,104
Less: Interest income recognized on impaired loans and leases	1,436	454
Net foregone interest income on impaired loans and leases	\$ (1,036)	\$ 650

Loans and leases with no impairment reserves represent impaired loans where the collateral, based upon current information, is deemed to be sufficient or that have been partially charged-off to reflect our net realizable value of the loan.

When analyzing the adequacy of collateral, we obtain external appraisals as appropriate. Our policy regarding commercial real estate appraisals requires the utilization of appraisers from our approved list, the performance of independent reviews to monitor the quality of such appraisals, and receipt of new appraisals for impaired loans at least annually, or more frequently as circumstances warrant. We make adjustments to the appraised values for appropriate selling costs. In addition, the ordering of appraisals and review of the appraisals are performed by individuals who are independent of the business development process. Based on the specific evaluation of the collateral of each impaired loan, we believe the reserve for impaired loans was appropriate at December 31, 2022. However, we cannot provide assurance that the facts and circumstances surrounding each individual impaired loan will not change and that the specific reserve or current carrying value will not be different in the future, which may require additional charge-offs or specific reserves to be recorded.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses decreased \$106,000, or 0.4%, to \$24.2 million as of December 31, 2022 from \$24.3 million as of December 31, 2021. The allowance for loan and lease losses as a percentage of gross loans and leases also decreased to 0.99% as of December 31, 2022 from 1.09% as of December 31, 2021. The allowance for loan and lease losses as a percentage of gross loans and leases, excluding net PPP loans, was 0.99% as of December 31, 2022 from 1.10% as of December 31, 2021. The decrease in allowance for loan and lease losses as a percent of gross loans and leases was principally driven by significant commercial real estate loan recoveries, and the related impact it had on our commercial real estate historical loss factors. In addition to the commercial real estate recovery, all other loan segments experienced a reduction in historical loss factors as the look-back period began to roll off the Corporation's higher loss rates from the Great Recession. These general releases were partially offset by an increase in general reserve commensurate with loan growth. The Corporation will adopt ASU No. 2016-13, "*Financial Instruments- Credit Losses (Topic 326)*", on January 1st, 2023 and anticipates an initial increase in reserves, including unfunded commitments reserves, of approximately \$1.0 million to \$4.0 million.

During the year ended December 31, 2022, we recorded net recoveries on impaired loans and leases of approximately \$3.8 million, which included \$979,000 of charge-offs and \$4.7 million of recoveries. During the year ended December 31, 2021, we recorded net recoveries on impaired loans and leases of approximately \$1.6 million, which included \$3.5 million of charge-offs and \$5.1 million of recoveries.

As of December 31, 2022 and 2021, our allowance for loan and lease losses to total non-accrual loans and leases was 662.20% and 382.76%, respectively. This ratio increased primarily due to the substantial decrease in non-accrual loans and leases discussed above, in comparison to the decrease in the allowance for loan and leases losses. Impaired loans and leases exhibit weaknesses that inhibit repayment in compliance with the original terms of the note or lease. However, the measurement of impairment on loans and leases may not always result in a specific reserve included in the allowance for loan and lease losses. As part of the underwriting process, as well as our ongoing monitoring efforts, we try to ensure that we have sufficient collateral to protect our interest in the related loan or lease. As a result of this practice, a significant portion of our outstanding balance of non-performing loans or leases may not require additional specific reserves or require only a minimal amount of required specific reserve. Management is proactive in recording charge-offs to bring loans to their net realizable value in situations where it is determined with certainty that we will not recover the entire amount of our principal. This practice may lead to a lower allowance for loan and lease loss to non-accrual loans and leases ratio as compared to our peers or industry expectations. As asset quality strengthens, our allowance for loan and lease losses is measured more through general characteristics, including historical loss experience, of our portfolio rather than through specific identification and we would therefore expect this ratio to rise. Conversely, if we identify further impaired loans, this ratio could fall if the impaired loans are adequately collateralized and therefore require no specific or general reserve. Given our business practices and evaluation of our existing loan and lease portfolio, we believe this coverage ratio is appropriate for the probable losses inherent in our loan and lease portfolio as of December 31, 2022.

To determine the level and composition of the allowance for loan and lease losses, we break out the portfolio by segments with similar risk characteristics. First, we evaluate loans and leases for potential impairment classification. We analyze each loan and lease identified as impaired on an individual basis to determine a specific reserve based upon the estimated value of the underlying collateral for collateral-dependent loans, or alternatively, the present value of expected cash flows. For each segment of loans and leases that has not been individually evaluated, management segregates the Bank's loss factors into a quantitative general reserve component based on historical loss rates throughout the defined look back period. The quantitative general reserve component also considers an estimate of the historical loss emergence period, which is the period of time between the event that triggers the loss to the charge-off of that loss. The methodology also focuses on evaluation of several qualitative factors for each portfolio category, including but not limited to: management's ongoing review and grading of the loan and lease portfolios, consideration of delinquency experience, changes in the size of the loan and lease portfolios, existing economic conditions, level of loans and leases subject to more frequent review by management, changes in underlying collateral, concentrations of loans to specific industries, and other qualitative factors that could affect credit losses.

When it is determined that we will not receive our entire contractual principal or the loss is confirmed, we record a charge against the allowance for loan and lease loss reserve to bring the loan or lease to its net realizable value. Many of the impaired loans as of December 31, 2022 are collateral dependent. It is typically part of our process to obtain appraisals on impaired loans and leases that are primarily secured by real estate or equipment annually, or more frequently as circumstances warrant. As we have completed new appraisals and/or market evaluations, in specific situations current fair values collateralizing certain impaired loans were inadequate to support the entire amount of the outstanding debt. .

As a result of our review process, we have concluded an appropriate allowance for loan and lease losses for the existing loan and lease portfolio was \$24.2 million, or 0.99% of gross loans and leases, at December 31, 2022. However, given ongoing complexities with current workout situations and the uncertainty surrounding future economic conditions, further charge-offs, and increased provisions for loan and lease losses may be recorded if additional facts and circumstances lead us to a different conclusion. In addition, various federal and state regulatory agencies review the allowance for loan and lease losses. These agencies could require certain loan and lease balances to be classified differently or charged off when their credit evaluations differ from those of management, based on their judgments about information available to them at the time of their examination.

A summary of the activity in the allowance for loan and lease losses follows:

	Year Ended December 31,	
	2022	2021
	(Dollars in Thousands)	
Allowance at beginning of period	\$ 24,336	\$ 28,521
Charge-offs:		
Commercial real estate		
Commercial real estate — owner occupied	—	(11)
Commercial real estate — non-owner occupied	—	—
Construction and land development	—	—
Multi-family	—	—
1-4 family	—	(245)
Commercial and industrial	(909)	(3,227)
Direct financing leases	(49)	—
Consumer and other		
Home equity and second mortgage	—	—
Other	(21)	(25)
Total charge-offs	(979)	(3,508)
Recoveries:		
Commercial real estate		
Commercial real estate — owner occupied	4,260	435
Commercial real estate — non-owner occupied	2	1,422
Construction and land development	—	2,078
Multi-family	—	—
1-4 family	—	—
Commercial and industrial	437	1,168
Direct financing leases	—	—
Consumer and other		
Home equity and second mortgage	—	2
Other	42	21
Total recoveries	4,741	5,126
Net charge-offs	3,762	1,618
Provision for loan and lease losses	(3,868)	(5,803)
Allowance at end of period	\$ 24,230	\$ 24,336
Net charge-offs as a percent of average gross loans and leases	(0.16)%	(0.07)%

We review our methodology and periodically adjust allocation percentages of the allowance by segment, as reflected in the following table. Within the specific categories, certain loans or leases have been identified for specific reserve allocations as well as the whole category of that loan type or lease being reviewed for a general reserve based on the foregoing analysis of trends and overall balance growth within that category.

The table below shows our allocation of the allowance for loan and lease losses by loan portfolio segments. The allocation of the allowance by segment is management's best estimate of the inherent risk in the respective loan segments. Despite the specific allocation noted in the table below, the entire allowance is available to cover any loss.

	As of December 31,			
	2022		2021	
	Balance	(a)	Balance	(a)
	(Dollars in Thousands)			
Loan and lease segments:				
Commercial real estate	\$ 12,560	0.81 %	\$ 15,110	1.04 %
Commercial and industrial	11,128	1.30	8,413	1.13
Consumer and other	542	1.13	813	2.05
Total allowance for loan and lease losses	\$ 24,230	0.99 %	\$ 24,336	1.09 %

(a) Allowance for loan losses category as a percentage of total loans by category.

Although we believe the allowance for loan and lease losses was appropriate based on the current level of loan and lease delinquencies, non-accrual loans and leases, trends in charge-offs, economic conditions, and other factors as of December 31, 2022, there can be no assurance that future adjustments to the allowance will not be necessary.

Deposits

As of December 31, 2022, deposits increased by \$210.3 million to \$2.168 billion from \$1.958 billion at December 31, 2021. The increase in deposits was primarily due to an increase in wholesale deposits and certificates of deposit of \$172.6 million and \$99.7 million, respectively, partially offset by a decrease of \$55.9 million and \$6.1 million in money market accounts and transaction accounts, respectively. The large increase in wholesale deposits is primarily driven by a shift from FHLB advances to wholesale deposits to manage interest rate risk and liquidity by utilizing the most efficient and cost-effective source of wholesale funds to match-fund our fixed-rate loan portfolio. Additionally, certificate of deposit accounts saw an increase primarily due to an increase in interest rates.

The following table presents the composition of the Bank's consolidated deposits.

	As of December 31,			
	2022		2021	
	Balance	% of Total Deposits	Balance	% of Total Deposits
	(Dollars in Thousands)			
Non-interest-bearing transaction accounts	\$ 537,107	24.8 %	\$ 589,559	30.1 %
Interest-bearing transaction accounts	576,601	26.6	530,225	27.1
Money market accounts	698,505	32.2	754,410	38.5
Certificates of deposit	153,757	7.1	54,091	2.8
Wholesale deposits	202,236	9.3	29,638	1.5
Total deposits	\$ 2,168,206	100.0 %	\$ 1,957,923	100.0 %

Period-end deposit balances associated with in-market relationships will fluctuate based upon maturity of time deposits, client demands for the use of their cash, and our ability to service and maintain existing and new client relationships. Deposits continue to be the primary source of the Bank's funding for lending and other investment activities. A variety of accounts are designed to attract both short- and long-term deposits. These accounts include non-interest-bearing transaction accounts, interest-bearing transaction accounts, money market accounts, and certificates of deposit. Deposit terms offered by the Bank vary according to the minimum balance required, the time period the funds must remain on deposit, the rates and products offered by competitors, and the interest rates charged on other sources of funds, among other factors. Our Bank's in-market deposits are obtained primarily from the South Central, Northeast and Southeast regions of Wisconsin and the greater Kansas City Metro.

We measure the success of in-market deposit gathering efforts based on the average balances of our deposit accounts as compared to ending balances due to the volatility of some of our larger relationships. Average in-market deposits for the year

ended December 31, 2022 were approximately \$1.929 billion, or 80.6% of total bank funding. Total bank funding is defined as total deposits plus FHLB advances. This compares to average in-market deposits of \$1.784 billion, or 78.2% of total bank funding, for 2021. Refer to **Note 9 - Deposits** in the Consolidated Financial Statements for additional information regarding our deposit composition.

The following table sets forth the amount and maturities of the Bank's certificates of deposit and term wholesale deposits at December 31, 2022.

Interest Rate	Three Months and Less	Over Three Months Through Six Months	Over Six Months Through Twelve Months		Over Twelve Months	Total
(In Thousands)						
0.00% to 0.99%	\$ 4,812	\$ 7,554	\$ 1,998	\$ 2,240	\$ 16,604	
1.00% to 1.99%	11,042	845	2,775	2,529	17,191	
2.00% to 2.99%	4,056	1,512	8,767	10,302	24,637	
3.00% to 3.99%	55,049	7,594	3,231	1,706	67,580	
4.00% to 4.99%	80,770	9,678	35,067	89,466	214,981	
	<u>\$ 155,729</u>	<u>\$ 27,183</u>	<u>\$ 51,838</u>	<u>\$ 106,243</u>	<u>\$ 340,993</u>	

At December 31, 2022, time deposits included \$81.6 million of certificates of deposit and wholesale deposits in denominations greater than or equal to \$250,000. Of these certificates, \$31.3 million are scheduled to mature in three months or less, \$9.7 million in greater than three through six months, \$38.6 million in greater than six through twelve months and \$2.0 million in greater than twelve months.

Of the total time deposits outstanding as of December 31, 2022, \$234.8 million are scheduled to mature in 2023, \$12.8 million in 2024, \$14.4 million in 2025, \$25.5 million in 2026, and \$51.4 million in 2027. As of December 31, 2022, we have no wholesale certificates of deposit which the Bank has the right to call prior to the scheduled maturity.

Borrowings

We had total borrowings of \$456.8 million as of December 31, 2022, an increase of \$43.3 million, or 10.5%, from \$413.5 million at December 31, 2021. Total wholesale funding as a percentage of total bank funding has increased due to significant wholesale deposit growth as part of the Bank's strategy to mitigate interest rate risk by match-funding fixed rate loans with the most cost effective form of wholesale funding. Total bank funding is defined as total deposits plus FHLB advances.

As of December 31, 2022 and December 31, 2021, the Corporation had other borrowings of \$6.1 million and \$10.4 million, respectively, which consisted of sold loans accounted for as secured borrowings because they did not qualify for true sale accounting, as well as borrowings associated with our investment in a community development entity.

Consistent with our funding philosophy to manage interest rate risk, we will use the most efficient and cost effective source of wholesale funds. We utilize FHLB advances to the extent we maintain an adequate level of excess borrowing capacity for liquidity and contingency funding purposes and pricing remains favorable in comparison to the wholesale deposit alternative. We will use FHLB advances and/or brokered certificates of deposit in specific maturity periods needed, typically three to five years, to match-fund fixed rate loans and effectively mitigate the interest rate risk measured through our asset/liability management process and to support asset growth initiatives while taking into consideration our operating goals and desired level of usage of wholesale funds. Please refer to the section titled **Liquidity and Capital Resources**, below, for further information regarding our use and monitoring of wholesale funds.

The following table sets forth the outstanding balances, weighted average balances, and weighted average interest rates for our borrowings (short-term and long-term) as indicated.

	December 31, 2022			December 31, 2021		
	Balance	Weighted Average Balance	Weighted Average Rate	Balance	Weighted Average Balance	Weighted Average Rate
(Dollars in Thousands)						
Federal funds purchased	\$ —	\$ 14	7.42 %	\$ —	\$ —	— %
FHLB advances	416,380	414,191	1.70	368,800	376,781	1.30
Line of credit	—	85	2.78	500	78	2.90
Other borrowings	6,088	8,624	5.23	10,363	8,090	4.11
Subordinated notes payable	34,340	35,095	5.06	23,788	23,766	5.94
Junior subordinated notes ⁽¹⁾	—	2,429	20.75	10,076	10,068	11.05
	<u>\$ 456,808</u>	<u>\$ 460,438</u>	2.12	<u>\$ 413,527</u>	<u>\$ 418,783</u>	1.86

(1) Weighted average rate of junior subordinated notes reflects the accelerated amortization of subordinated debt issuance costs as a result of the early redemption of the junior subordinated notes during the first quarter of 2022.

A summary of annual maturities of borrowings at December 31, 2022 is as follows:

(In Thousands)

Maturities during the year ended December 31,	
2023	\$ 236,880
2024	35,500
2025	56,000
2026	60,000
2027	28,000
Thereafter	40,428
	<u>\$ 456,808</u>

On March 4, 2022, the Corporation completed a private placement of \$20.0 million in new subordinated debt to one institutional investor. Management used a portion of the proceeds during the second quarter of 2022 to redeem \$9.1 million of subordinated notes bearing a fixed interest rate of 6.00%. The remainder of the proceeds were designed to be used for general corporate purposes, including to support the Bank's growth strategy, and to fund share repurchases. The subordinated note bears a fixed interest rate of 3.50% with a maturity date of March 15, 2032 and has certain financial performance covenants

with which the Corporation was in compliance as of September 30, 2022. The Corporation may, at its option, redeem the note, in whole or part, after the fifth anniversary of issuance. Additionally, at December 31, 2022, subordinated notes included a \$15.0 million note which bore a fixed interest rate of 5.50% with a maturity date of August 15, 2029. The Corporation may, at its option, redeem the 5.50% notes, in whole or part, at any time after August 15, 2024. The 5.50% notes will begin to lose Tier II capital treatment at a rate of 20% per year effective August 15, 2024.

Refer to **Note 10 – FHLB Advances, Other Borrowings and Junior Subordinated Notes** in the Consolidated Financial Statements for additional information on the terms of Corporation’s current debt instruments.

Stockholders’ Equity

As of December 31, 2022, stockholders’ equity was \$260.6 million, or 8.8% of total assets, compared to stockholders’ equity of \$232.4 million, or 8.8% of total assets, as of December 31, 2021. Stockholders’ equity increased by \$28.2 million during the year ended December 31, 2022 attributable to net income of \$40.9 million for the year ended December 31, 2022, partially offset by preferred and common stock dividend declarations of \$683,000 and \$6.7 million, respectively, and stock repurchases of \$5.0 million authorized under the repurchase program discussed below.

On March 4, 2022, the Corporation issued 12,500 shares, or \$12.5 million in aggregate liquidation preference, of 7.0% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A, par value \$0.01 per share, with a liquidation preference of \$1,000 per share (the “Series A Preferred Stock”) in a private placement to institutional investors. The net proceeds received from the issuance of the Series A Preferred Stock were \$12.0 million. The proceeds were used to redeem \$10.1 million of junior subordinated notes in the first quarter of 2022.

The Corporation expects to pay dividends on the Series A Preferred Stock when and if declared by its Board, at a fixed rate of 7.0% per annum, payable quarterly, in arrears, on March 15, June 15, September 15 and December 15 of each year up to, but excluding, March 15, 2027. For each dividend period from and including March 15, 2027, dividends will be paid at a floating rate of Three-Month Term SOFR plus a spread of 539 basis points per annum. During the year ended December 31, 2022, the Corporation paid \$683,000 in preferred cash dividends. The Series A Preferred Stock is perpetual and has no stated maturity. The Corporation may redeem the Series A Preferred Stock at its option at a redemption price equal to \$1,000 per share, plus any declared and unpaid dividends (without regard to any undeclared dividends), subject to regulatory approval, on or after March 15, 2027 or within 90 days following a regulatory capital treatment event, in accordance with the terms of the Series A Preferred Stock.

On March 4, 2022, the Corporation’s Board approved a share repurchase program. The program authorized the repurchase by the Corporation of up to \$5 million of its total outstanding shares of common stock over a period of approximately twelve months, ending March 4, 2023. As of December 16, 2022, the Corporation had completed the share repurchase program, purchasing a total of 142,074 shares for approximately \$5.0 million at an average cost of \$35.14 per share.

On January 27, 2023, the Board of Directors of the Corporation approved a new share repurchase program. The program authorized the repurchase by the Corporation of up to \$5 million of its total outstanding shares of common stock over a period of approximately twelve months, ending January 31, 2024.

Under the new share repurchase program, shares are repurchased from time to time in the open market or negotiated transactions at prevailing market rates, or by other means in accordance with federal securities laws. In connection with the share repurchase program, the Corporation has implemented a trading plan intended to satisfy the affirmative defense conditions of Rule 10b5-1 under the Securities Exchange Act. The trading plan allows the Corporation to repurchase shares of its common stock at times when it otherwise might have been prevented from doing so under insider trading laws by requiring that an agent selected by the Corporation repurchase shares of common stock on the Corporation’s behalf on pre-determined terms.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation expects to meet its liquidity needs through existing cash on hand, established cash flow sources, its third party senior line of credit, and dividends received from the Bank. While the Bank is subject to certain generally applicable regulatory limitations regarding its ability to pay dividends to the Corporation, we do not believe that the Corporation will be adversely affected by these dividend limitations. The Corporation's principal liquidity requirements at December 31, 2022 were the interest payments due on subordinated notes and cash dividends payable to both common and preferred stockholders. During 2022 and 2021, FBB declared and paid dividends totaling \$2.0 million and \$8.5 million, respectively. The capital ratios of the Bank met all applicable regulatory capital adequacy requirements in effect on December 31, 2022, and continue to meet the heightened requirements imposed by Basel III, including the capital conservation buffer. The Corporation's Board and management teams adhere to the appropriate regulatory guidelines on decisions which affect their capital positions, including but not limited to, decisions relating to the payment of dividends and increasing indebtedness.

The Bank maintains liquidity by obtaining funds from several sources. The Bank's primary source of funds are principal and interest payments on loans receivable and mortgage-related securities, deposits, and other borrowings, such as federal funds and FHLB advances. The scheduled payments of loans and mortgage-related securities are generally a predictable source of funds. Deposit flows and loan prepayments, however, are greatly influenced by general interest rates, economic conditions, and competition.

We view readily accessible liquidity as a critical element to meet our cash and collateral obligations. We define our readily accessible liquidity as the total of our short-term investments, our unencumbered securities available-for-sale, and our unencumbered pledged loans. As of December 31, 2022 and 2021, our readily accessible liquidity was \$449.6 million and \$529.5 million, respectively. At December 31, 2022 and 2021, the Bank had \$76.5 million and \$47.0 million on deposit with the FRB recorded in short-term investments, respectively. Any excess funds not used for loan funding or satisfying other cash obligations were maintained as part of our readily accessible liquidity in our interest-bearing accounts with the FRB, as we value the safety and soundness provided by the FRB. We plan to utilize excess liquidity to fund loan and lease portfolio growth, pay down maturing debt, pay down FHLB advances, allow run off of maturing wholesale certificates of deposit or to invest in securities to maintain adequate liquidity at an improved margin.

We had \$618.6 million of outstanding wholesale funds at December 31, 2022, compared to \$398.4 million of wholesale funds as of December 31, 2021, which represented 23.9% and 17.1%, respectively, of period end total bank funding. Wholesale funds include FHLB advances, brokered certificates of deposit, and deposits gathered from internet listing services. Total bank funding is defined as total deposits plus FHLB advances. We are committed to raising in-market deposits while utilizing wholesale funds to match-fund our loan portfolio and mitigate interest rate risk. Wholesale funds continue to be an efficient and cost effective source of funding for the Bank and allows it to gather funds across a larger geographic base at price levels and maturities that are more attractive than local time deposits when required to raise a similar level of in-market deposits within a short time period. Access to such deposits and borrowings allows us the flexibility to refrain from pursuing less desirable deposit relationships. In addition, the administrative costs associated with wholesale funds are considerably lower than those that would be incurred to administer a similar level of local deposits with a similar maturity structure. During the time frames necessary to accumulate wholesale funds in an orderly manner, we will use short-term FHLB advances to meet our temporary funding needs. The short-term FHLB advances will typically have terms of one week to one month to cover the overall expected funding demands.

Period-end in-market deposits increased \$37.7 million, or 2.0%, to \$1.966 billion at December 31, 2022 from \$1.928 billion at December 31, 2021 as in-market deposit balances increased due to successful business development efforts, partially offset by deposit movement from money market accounts to, alternative investment options, and clients funding their normal course of business. In addition, in-market deposit balances were negatively impacted by the outflow of client funds previously accumulated as part of their participation in the Paycheck Protection Program. Our in-market relationships continue to grow; however, deposit balances associated with those relationships will fluctuate. We expect to establish new client relationships and continue marketing efforts aimed at increasing the balances in existing clients' deposit accounts. Nonetheless, we will continue to use wholesale funds in specific maturity periods, typically three to five years, needed to effectively mitigate the interest rate risk measured through our asset/liability management process or in shorter time periods if in-market deposit balances decline. In order to provide for ongoing liquidity and funding, all of our wholesale funds are certificates of deposit which do not allow for withdrawal at the option of the depositor before the stated maturity (with the exception of deposits accumulated through the internet listing service which have the same early withdrawal privileges and fees as do our other in-market deposits) and FHLB advances with contractual maturity terms and no call provisions. The Bank limits the percentage of wholesale funds to total bank funds in accordance with liquidity policies approved by its Board. The Bank was in compliance with its policy limits as of December 31, 2022.

The Bank was able to access the wholesale funding market as needed at rates and terms comparable to market standards during the year ended December 31, 2022. In the event that there is a disruption in the availability of wholesale funds

at maturity, the Bank has managed the maturity structure, in compliance with our approved liquidity policy, so at least one year of maturities could be funded through readily available liquidity. These potential funding sources include deposits maintained at the FRB or Federal Reserve Discount Window utilizing currently unencumbered securities and acceptable loans as collateral. As of December 31, 2022, the available liquidity was in excess of the stated policy minimum. We believe the Bank will also have access to the unused federal funds lines, cash flows from borrower repayments, and cash flows from security maturities. The Bank also has the ability to raise local market deposits by offering attractive rates to generate the level required to fulfill its liquidity needs.

The Corporation has filed a shelf registration with the Securities and Exchange Commission that would allow the Corporation to offer and sell, from time to time and in one or more offerings, up to \$75.0 million in aggregate initial offering price of common and preferred stock, debt securities, warrants, subscription rights, units, or depository shares, or any combination thereof.

The Bank is required by federal regulation to maintain sufficient liquidity to ensure safe and sound operations. We believe that the Bank has sufficient liquidity to match the balance of net withdrawable deposits and short-term borrowings in light of present economic conditions and deposit flows.

During the year ended December 31, 2022, operating activities resulted in a net cash inflow of \$38.6 million driven by net income of \$40.9 million. Net cash used in investing activities for the year ended December 31, 2022 was \$245.3 million which consisted of \$199.5 million in cash outflows to fund net loan growth and \$27.8 million in net cash outflows to purchase available-for-sale securities. Net cash provided by financing activities for the year ended December 31, 2022 was \$252.2 million. Financing cash flows included a \$210.3 million net increase in deposits and a \$47.6 million net increase in FHLB advances, partially offset by cash dividends paid of \$6.7 million, and authorized share repurchases of \$5.0 million, respectively.

Refer to **Note 11 - Regulatory Capital** for additional information regarding the Corporation's and the Bank's capital ratios and the ratios required by their federal regulators at December 31, 2022 and 2021.

2021 COMPARED TO 2020

Information pertaining to 2021 in comparison to 2020 was included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2021 on page 30 under Part II, Item 7, "Management's Discussion and Analysis of Financial and Results of Operations," which was filed with the SEC on February 23, 2022.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, changes in these assumptions and estimates could significantly affect the Corporation's financial position or results of operations. Actual results could differ from those estimates. Discussed below are certain policies that are critical to the Corporation. We view critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements.

Allowance for Loan and Lease Losses. The allowance for loan and lease losses represents our recognition of the risks of extending credit and our evaluation of the quality of the loan and lease portfolio and as such, requires the use of judgment as well as other systematic objective and quantitative methods which may include additional assumptions and estimates. The risks of extending credit and the accuracy of our evaluation of the quality of the loan and lease portfolio are neither static nor mutually exclusive and could result in a material impact on our Consolidated Financial Statements. We may over-estimate the quality of the loan and lease portfolio, resulting in a lower allowance for loan and lease losses than necessary, overstating net income and equity. Conversely, we may under-estimate the quality of the loan and lease portfolio, resulting in a higher allowance for loan and lease losses than necessary, understating net income and equity. The allowance for loan and lease losses is a valuation allowance for probable credit losses, increased by the provision for loan and lease losses and decreased by charge-offs, net of recoveries. We estimate the allowance reserve balance required and the related provision for loan and lease losses based on quarterly evaluations of the loan and lease portfolio, with particular attention paid to loans and leases that have been specifically identified as needing additional management analysis because of the potential for further problems. During these evaluations, consideration is also given to such factors as the level and composition of impaired and other non-performing loans and leases, historical loss experience, results of examinations by regulatory agencies, independent loan and lease reviews, our

estimate of the fair value of the underlying collateral taking into consideration various valuation techniques and qualitative adjustments to inputs to those estimates of fair value, the strength and availability of guarantees, concentration of credits, and other factors. Allocations of the allowance may be made for specific loans or leases, but the entire allowance is available for any loan or lease that, in our judgment, should be charged off. Loan and lease losses are charged against the allowance when we believe that the uncollectability of a loan or lease balance is confirmed. See **Note 1 – Nature of Operations and Summary of Significant Accounting Policies** and **Note 4 – Loan and Lease Receivables, Impaired Loans and Leases and Allowance for Loan and Lease Losses** in the Consolidated Financial Statements for further discussion of the allowance for loan and lease losses.

We also continue to exercise our legal rights and remedies as appropriate in the collection and disposal of non-performing assets, and adhere to rigorous underwriting standards in our origination process in order to achieve strong asset quality. Although we believe that the allowance for loan and lease losses was appropriate as of December 31, 2022 based upon the evaluation of loan and lease delinquencies, non-performing assets, charge-off trends, economic conditions, and other factors, there can be no assurance that future adjustments to the allowance will not be necessary. If the quality of loans or leases deteriorates, then the allowance for loan and lease losses would generally be expected to increase relative to total loans and leases. If loan or lease quality improves, then the allowance would generally be expected to decrease relative to total loans and leases.

Goodwill Impairment Assessment. Goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis, and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount, including goodwill. The Corporation conducted its annual impairment test as of July 1, 2022, utilizing a qualitative assessment, and concluded that it was more likely than not the estimated fair value of the reporting unit exceeded its carrying value, resulting in no impairment. Although no goodwill impairment was noted, there can be no assurances that future goodwill impairment will not occur. See **Note 1 – Nature of Operations and Summary of Significant Accounting Policies** for the Corporation's accounting policy on goodwill and see **Note 7 – Goodwill and Other Intangible Assets** in the Consolidated Financial Statements for a detailed discussion of the factors considered by management in the assessment.

Income Taxes. The Corporation and its wholly owned subsidiaries file a consolidated federal income tax return and a combined Wisconsin state tax return. Deferred income taxes 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 bases. The determination of current and deferred income taxes is based on complex analysis of many factors, including the interpretation of federal and state income tax laws, the difference between the tax and financial reporting basis of assets and liabilities (temporary differences), estimates of amounts currently due or owed, such as the timing of reversals of temporary differences, and current accounting standards. We apply a more likely than not approach to each of our tax positions when determining the amount of tax benefit to record in our Consolidated Financial Statements. 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.

We have made our best estimate of valuation allowances utilizing available evidence and evaluation of sources of taxable income including tax planning strategies and expected reversals of timing differences to determine if valuation allowances were needed for deferred tax assets. Realization of deferred tax assets over time is dependent on our ability to generate sufficient taxable earnings in future periods and a valuation allowance may be necessary if management determines that it is more likely than not that the deferred asset will not be utilized. These estimates and assumptions are subject to change. Changes in these estimates and assumptions could adversely affect future consolidated results of operations. The Corporation believes the tax assets and liabilities are properly recorded in the Consolidated Financial Statements. See also **Note 16 – Income Taxes** in the Consolidated Financial Statements.

The Corporation also invests in certain development entities that generate federal and state historic and low income housing tax credits. The tax benefits associated with these investments are accounted for either under the flow-through method, equity method, or proportional amortization method and are recognized when the respective project is placed in service or over the investment term.

The federal and state taxing authorities who make assessments based on their determination of tax laws may periodically review our interpretation of federal and state income tax laws. Tax liabilities could differ significantly from the estimates and interpretations used in determining the current and deferred income tax liabilities based on the completion of examinations by taxing authorities.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Our primary market risk is interest rate risk, which arises from exposure of our financial position to changes in interest rates. It is our strategy to reduce the impact of interest rate risk on net interest margin by maintaining a match-funded position between the maturities and repricing dates of interest-earning assets and interest-bearing liabilities. This strategy is monitored by the Bank's Asset/Liability Management Committee, in accordance with policies approved by the Bank's Board. The committee meets regularly to review the sensitivity of the Bank's assets and liabilities to changes in interest rates, liquidity needs and sources, and pricing and funding strategies.

The primary technique we use to measure interest rate risk is simulation of earnings. In this measurement technique the balance sheet is modeled as an ongoing entity whereby future growth, pricing, and funding assumptions are implemented. These assumptions are modeled under different rate scenarios that include a simultaneous, instant and sustained change in interest rates.

The following table illustrates the potential impact of changes in market rates on our net interest income for the next twelve months.

Instantaneous Rate Change in Basis Points	Impact on Net Interest Income as of December 31,	
	2022	2021
Down 300	(9.90)%	N/A
Down 200	(0.88)	N/A
Down 100	0.79	2.48
No Change	—	—
Up 100	2.26	0.77
Up 200	4.48	5.64
Up 300	6.65	10.67

We manage the structure of interest-earning assets and interest-bearing liabilities by adjusting their mix, yield, maturity and/or repricing characteristics based on market conditions. FHLB advances and, to a lesser extent, wholesale certificates of deposit are a significant source of funds. We use a variety of maturities to augment our management of interest rate exposure. Currently, we do not employ any derivatives to assist in managing our interest rate risk exposure; however, management has the authorization, as permitted within applicable approved policies, and ability to utilize such instruments should they be appropriate to manage interest rate exposure. We maintained our historically neutral balance sheet throughout 2022 and believe we ended the year appropriately positioned for net interest income to benefit modestly from additional rate increases in 2023.

Item 8. Financial Statements and Supplementary Data

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First Business Financial Services, Inc.
Consolidated Balance Sheets

	December 31, 2022	December 31, 2021
(In Thousands, Except Share Data)		
Assets		
Cash and due from banks	\$ 25,811	\$ 9,697
Short-term investments	76,871	47,413
Cash and cash equivalents	102,682	57,110
Securities available-for-sale, at fair value	212,024	205,702
Securities held-to-maturity, at amortized cost	12,635	19,746
Loans held for sale	2,632	3,570
Loans and leases receivable, net of allowance for loan and lease losses of \$24,230 and \$24,336, respectively	2,418,836	2,215,072
Premises and equipment, net	4,340	1,694
Repossessed assets	95	164
Right-of-use assets, net	7,690	4,910
Bank-owned life insurance	54,018	53,600
Federal Home Loan Bank stock, at cost	17,812	13,336
Goodwill and other intangible assets	12,159	12,268
Derivatives	68,581	26,343
Accrued interest receivable and other assets	63,107	39,390
Total assets	\$ 2,976,611	\$ 2,652,905
Liabilities and Stockholders' Equity		
Deposits	\$ 2,168,206	\$ 1,957,923
Federal Home Loan Bank advances and other borrowings	456,808	403,451
Junior subordinated notes	—	10,076
Lease liabilities	10,175	5,406
Derivatives	61,419	28,283
Accrued interest payable and other liabilities	19,363	15,344
Total liabilities	2,715,971	2,420,483
Stockholders' equity:		
Preferred stock, Series A; \$0.01 par value, 7% non-cumulative perpetual preferred stock liquidation preference \$1,000 per share, 2,500,000 shares authorized, 12,500 and no shares issued or outstanding at December 31, 2022 and 2021, respectively	11,992	—
Common stock, \$0.01 par value, 25,000,000 shares authorized, 9,371,078 and 9,326,361 shares issued, 8,362,085 and 8,457,564 shares outstanding at December 31, 2022 and 2021, respectively	94	93
Additional paid-in capital	87,512	85,797
Retained earnings	203,507	170,020
Accumulated other comprehensive loss	(15,310)	(1,457)
Treasury stock, 1,008,993 and 868,797 shares at December 31, 2022 and 2021, respectively, at cost	(27,155)	(22,031)
Total stockholders' equity	260,640	232,422
Total liabilities and stockholders' equity	\$ 2,976,611	\$ 2,652,905

See accompanying Notes to Consolidated Financial Statements.

First Business Financial Services, Inc.
Consolidated Statements of Income

	For the Year Ended December 31,		
	2022	2021	2020
	(In Thousands, Except Share Data)		
Interest income			
Loans and leases	\$ 115,368	\$ 91,844	\$ 89,160
Securities	4,472	3,410	4,187
Short-term investments	1,531	741	832
Total interest income	<u>121,371</u>	<u>95,995</u>	<u>94,179</u>
Interest expense			
Deposits	13,178	3,553	8,922
Federal Home Loan Bank advances and other borrowings	9,267	6,667	7,070
Junior subordinated notes	504	1,113	1,116
Total interest expense	<u>22,949</u>	<u>11,333</u>	<u>17,108</u>
Net interest income	98,422	84,662	77,071
Provision for loan and lease losses	<u>(3,868)</u>	<u>(5,803)</u>	<u>16,808</u>
Net interest income after provision for loan and lease losses	102,290	90,465	60,263
Non-interest income			
Private wealth management service fees	10,881	10,784	8,611
Gain on sale of Small Business Administration loans	2,537	4,044	2,899
Service charges on deposits	3,849	3,837	3,415
Loan fees	3,010	2,506	1,826
Bank-owned life insurance income	2,227	1,413	1,402
Net gain (loss) on sale of securities	—	29	(4)
Swap fees	1,793	1,368	6,860
Other non-interest income	5,131	4,119	1,931
Total non-interest income	<u>29,428</u>	<u>28,100</u>	<u>26,940</u>
Non-interest expense			
Compensation	57,742	51,710	45,850
Occupancy	2,358	2,180	2,252
Professional fees	4,881	3,736	3,530
Data processing	3,197	3,087	2,734
Marketing	2,354	2,022	1,580
Equipment	1,091	990	1,199
Computer software	4,416	4,260	3,900
FDIC insurance	1,042	1,143	1,238
Impairment of tax credit investments	—	—	2,395
Other non-interest expense	2,393	2,407	4,220
Total non-interest expense	<u>79,474</u>	<u>71,535</u>	<u>68,898</u>
Income before income tax expense	52,244	47,030	18,305
Income tax expense	<u>11,386</u>	<u>11,275</u>	<u>1,327</u>
Net income	\$ 40,858	\$ 35,755	\$ 16,978
Preferred stock dividend	683	—	—
Income available to common shareholders	<u>\$ 40,175</u>	<u>\$ 35,755</u>	<u>\$ 16,978</u>
Earnings per common share:			
Basic	\$ 4.75	\$ 4.17	\$ 1.97
Diluted	4.75	4.17	1.97
Dividends declared per share	0.79	0.72	0.66

See accompanying Notes to Consolidated Financial Statements.

First Business Financial Services, Inc.
Consolidated Statements of Comprehensive Income

	For the Year Ended December 31,		
	2022	2021	2020
	(In Thousands)		
Net income	\$ 40,858	\$ 35,755	\$ 16,978
Other comprehensive (loss) income			
Securities available-for-sale:			
Unrealized securities (losses) gains arising during the period	(27,730)	(4,312)	3,526
Reclassification adjustment for net (gain) loss realized in net income	—	(29)	4
Securities held-to-maturity:			
Amortization of net unrealized losses transferred from available-for-sale	14	26	39
Interest rate swaps:			
Unrealized gains (losses) on interest rate swaps arising during the period	9,102	3,610	(3,011)
Income tax benefit (expense)	4,761	181	(143)
Total other comprehensive (loss) income	(13,853)	(524)	415
Comprehensive income	<u>\$ 27,005</u>	<u>\$ 35,231</u>	<u>\$ 17,393</u>

See accompanying Notes to Consolidated Financial Statements.

First Business Financial Services, Inc.
Consolidated Statements of Changes in Stockholders' Equity

	Common Shares Outstanding	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
(In Thousands, Except Share Data)								
Balance at January 1, 2020	8,566,044	—	\$ 92	\$ 81,188	\$ 129,105	\$ (1,348)	\$ (14,881)	\$ 194,156
Net income	—	—	—	—	16,978	—	—	16,978
Other comprehensive income	—	—	—	—	—	415	—	415
Share-based compensation - restricted shares and employee stock purchase plan	67,773	—	—	1,871	—	—	—	1,871
Issuance of common stock under the employee stock purchase plan	3,967	—	—	66	—	—	—	66
Cash dividends (\$0.66 per share)	—	—	—	—	(5,652)	—	—	(5,652)
Treasury stock purchased	(70,824)	—	—	—	—	—	(1,672)	(1,672)
Balance at December 31, 2020	8,566,960	—	92	83,125	140,431	(933)	(16,553)	206,162
Net income	—	—	—	—	35,755	—	—	35,755
Other comprehensive loss	—	—	—	—	—	(524)	—	(524)
Share-based compensation - restricted shares and employee stock purchase plan	85,370	—	1	2,512	—	—	—	2,513
Issuance of common stock under the employee stock purchase plan	6,531	—	—	160	—	—	—	160
Cash dividends (\$0.72 per share)	—	—	—	—	(6,166)	—	—	(6,166)
Treasury stock purchased	(201,297)	—	—	—	—	—	(5,478)	(5,478)
Balance at December 31, 2021	8,457,564	—	93	85,797	170,020	(1,457)	(22,031)	232,422
Net income	—	—	—	—	40,858	—	—	40,858
Other comprehensive loss	—	—	—	—	—	(13,853)	—	(13,853)
Issuance of preferred stock, net of issuance costs	—	11,992	—	—	—	—	—	11,992
Share-based compensation - restricted shares and employee stock purchase plan	75,564	—	1	2,583	—	—	—	2,584
Issuance of common stock under the employee stock purchase plan	4,535	—	—	134	—	—	—	134
Treasury stock re-issued	—	—	—	(1,002)	—	—	1,002	—
Preferred stock dividends	—	—	—	—	(683)	—	—	(683)
Cash dividends (\$0.79 per share)	—	—	—	—	(6,688)	—	—	(6,688)
Treasury stock purchased	(175,578)	—	—	—	—	—	(6,126)	(6,126)
Balance at December 31, 2022	8,362,085	11,992	\$ 94	\$ 87,512	\$ 203,507	\$ (15,310)	\$ (27,155)	\$ 260,640

See accompanying Notes to Consolidated Financial Statements.

First Business Financial Services, Inc.
Consolidated Statements of Cash Flows

	For the Year Ended December 31,		
	2022	2021	2020
	(In Thousands)		
Operating activities			
Net income	\$ 40,858	\$ 35,755	\$ 16,978
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes, net	(775)	1,223	(2,007)
Tax credit investments (recovery) impairment	(351)	—	2,395
Provision for loan and lease losses	(3,868)	(5,803)	16,808
Depreciation, amortization and accretion, net	4,066	3,554	3,465
Share-based compensation	2,584	2,513	1,871
Net loss on disposal of fixed assets	—	78	—
Net (gain) loss on sale of securities	—	(29)	4
Amortization of tax credit investments	1,035	—	—
Gain on sale of tax credits	—	—	(275)
Bank-owned life insurance policy income	(2,227)	(1,413)	(1,402)
Origination of loans for sale	(124,915)	(99,266)	(81,609)
Sale of SBA loans originated for sale	128,391	108,435	81,018
Gain on sale of loans originated for sale	(2,537)	(4,044)	(2,899)
Net loss on repossessed assets, including impairment valuation	(429)	15	383
Return on investment in limited partnerships	721	371	—
Excess tax benefit (expense) from share-based compensation	264	48	(32)
Net payments on operating lease liabilities	(1,470)	(1,431)	(1,444)
Net increase in accrued interest receivable and other assets	(7,728)	(6,745)	(11,131)
Net increase in accrued interest payable and other liabilities	5,026	2,731	4,512
Net cash provided by operating activities	<u>38,645</u>	<u>35,992</u>	<u>26,635</u>
Investing activities			
Proceeds from maturities, redemptions and paydowns of available-for-sale securities	40,835	51,166	58,290
Proceeds from maturities, redemptions and paydowns of held-to-maturity securities	7,080	6,586	6,268
Proceeds from sale of available-for-sale securities	—	14,955	839
Purchases of available-for-sale securities	(75,740)	(93,019)	(66,879)
Proceeds from sale of repossessed assets	71	—	2,582
Net increase in loans and leases	(199,467)	(86,660)	(439,223)
Investments in limited partnerships	(1,508)	(1,059)	(1,986)
Returns of investments in limited partnerships	17	32	211
Investment in tax credit investments	(11,454)	(2,964)	(3,254)
Distribution from tax credit investments	474	57	30
Proceeds from the sale of tax credits	—	—	2,529
Investment in Federal Home Loan Bank and Federal Reserve Bank Stock	(45,660)	(7,439)	(20,509)
Proceeds from the sale of Federal Home Loan Bank Stock	41,184	7,680	14,884
Purchases of leasehold improvements and equipment, net	(3,223)	(391)	(264)
Proceeds from sale of leasehold improvements and equipment, net	—	44	—
Purchases of bank owned life insurance policies	—	—	(8,000)
Premium payment on bank owned life insurance policies	(50)	—	(25)
Proceeds from bank owned life insurance claim	1,859	—	—
Proceeds from redemption of Trust II stock	315	—	—
Net cash used in investing activities	<u>(245,267)</u>	<u>(111,012)</u>	<u>(454,507)</u>
Financing activities			
Net increase in deposits	210,283	102,407	325,137
Repayment of Federal Home Loan Bank advances	(2,374,849)	(814,000)	(1,219,944)
Proceeds from Federal Home Loan Bank advances	2,422,429	788,300	1,318,700
Loss on early extinguishment of debt	—	—	744

	For the Year Ended December 31,		
	2022	2021	2020
	(In Thousands)		
Proceeds from issuance of subordinated notes payable	20,000	—	—
Repayment of subordinated notes payable	(9,090)	—	—
Repayment of junior subordinated debt	(10,076)	—	—
Repayment of the Federal Reserve Paycheck Protection Program Lending Facility	—	—	(29,605)
Proceeds from the Federal Reserve Paycheck Protection Program Lending Facility	—	—	29,605
Net (decrease) increase in long-term borrowed funds	(5,132)	9,998	300
Cash dividends paid	(6,688)	(6,166)	(5,652)
Preferred stock dividends paid	(683)	—	—
Proceeds from issuance of common stock under ESPP	134	160	66
Proceeds from issuance of preferred stock	11,992	—	—
Purchase of treasury stock	(6,126)	(5,478)	(1,672)
Net cash provided by financing activities	252,194	75,221	417,679
Net increase (decrease) in cash and cash equivalents	45,572	201	(10,193)
Cash and cash equivalents at the beginning of the period	57,110	56,909	67,102
Cash and cash equivalents at the end of the period	\$ 102,682	\$ 57,110	\$ 56,909
Supplementary cash flow information			
Cash paid during the period for:			
Interest paid on deposits and borrowings	\$ 20,110	\$ 13,206	\$ 18,412
Net income taxes paid	8,038	14,519	3,451
Non-cash investing and financing activities:			
Transfer of loans to repossessed assets	50	146	80
Lease liability in exchange for right-of-use-asset	6,265	316	190

See accompanying Notes to Consolidated Financial Statements.

First Business Financial Services, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations. The accounting and reporting practices of First Business Financial Services, Inc. (“FBFS” or the “Corporation”), through our wholly-owned subsidiary, First Business Bank (“FBB” or the “Bank”), have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). FBB operates as a commercial banking institution primarily in Wisconsin and the greater Kansas City metropolitan area. The Bank provides a full range of financial services to businesses, business owners, executives, professionals, and high net worth individuals. FBB also offers bank consulting services to community banks. The Bank is subject to competition from other financial institutions and service providers, and is also subject to state and federal regulations. As of December 31, 2022, FBB had the following wholly-owned subsidiaries: First Business Specialty Finance, LLC (“FBSF”), First Madison Investment Corp. (“FMIC”), ABKC Real Estate, LLC (“ABKC”), FBB Real Estate 2, LLC (“FBB RE 2”), Mitchell Street Apartments Investment, LLC (“Mitchell Street”), and FBB Tax Credit Investment LLC (“FBB Tax Credit”).

Basis of Presentation. The Consolidated Financial Statements include the accounts of the Corporation and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. In accordance with the provisions of Accounting Standards Codification (“ASC”) Topic 810, the Corporation’s ownership interest in FBFS Statutory Trust II (“Trust II”) was not consolidated into the financial statements. As of March 30, 2022, the Bank’s trust preferred securities were redeemed and Trust II was subsequently dissolved.

Management of the Corporation is required to make estimates and assumptions which affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that could significantly change in the near-term include the value of securities and interest rate swaps, level of the allowance for loan and lease losses, lease residuals, property under operating leases, goodwill, and income taxes. Certain amounts in prior periods may have been reclassified to conform to the current presentation. Subsequent events have been evaluated through the date of the issuance of the Consolidated Financial Statements. No significant subsequent events have occurred through this date requiring adjustment to the financial statements or disclosures.

Cash and Cash Equivalents. The Corporation considers federal funds sold, interest-bearing deposits, and short-term investments that have original maturities of three months or less to be cash equivalents.

Securities. The Corporation classifies its investment and mortgage-related securities as available-for-sale, held-to-maturity, and trading. Debt securities that the Corporation has the positive intent and ability to hold to maturity are classified as held-to-maturity and are stated at amortized cost. Debt securities bought expressly for the purpose of selling in the near term are classified as trading securities and are measured at fair value with unrealized gains and losses reported in earnings. Debt securities not classified as held-to-maturity or as trading are classified as available-for-sale. Available-for-sale securities are measured at fair value with unrealized gains and losses reported as a separate component of stockholders’ equity, net of tax. Realized gains and losses, and declines in value deemed to be other than temporary, are included in the Consolidated Statements of Income as a component of non-interest income. The cost of securities sold is based on the specific identification method. The Corporation did not hold any trading securities at December 31, 2022 or 2021.

Discounts and premiums on securities are accreted and amortized into interest income using the effective yield method over the estimated life (based on maturity date, call date, or weighted average life) of the related security.

Declines in the fair value of investment securities (with certain exceptions for debt securities noted below) that are deemed to be other-than-temporary are charged to earnings as a realized loss and a new cost basis for the securities is established. In evaluating other-than-temporary impairment, management considers the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value in the near term. Declines in the fair value of debt securities below amortized cost are deemed to be other-than-temporary in circumstances where: (1) the Corporation has the intent to sell a security; (2) it is more likely than not that the Corporation will be required to sell the security before recovery of its amortized cost basis; or (3) the Corporation does not expect to recover the entire amortized cost basis of the security. If the Corporation intends to sell a security or if it is more likely than not that the Corporation will be required to sell the security before recovery, an other-than-temporary impairment write-down is recognized in earnings equal to the difference between the security’s amortized cost basis and its fair value. If the Corporation does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the other-than-temporary impairment write-down is separated into an amount representing credit loss, which is recognized in earnings, and an amount related to all other factors, which is recognized in other comprehensive income.

Loans Held for Sale. The guaranteed portions of SBA loans which are originated and intended for sale in the secondary market are classified as held for sale. These loans are carried at the lower of cost or fair value in the aggregate. Unrealized losses on such loans are recognized through a valuation allowance by a charge to other non-interest income. Gains and losses on the sale of loans are also included in other non-interest income. As assets specifically originated for sale, the origination of, disposition of, and gain/loss on these loans are classified as operating activities in the Consolidated Statement of Cash Flows. Fees received from the borrower and direct costs to originate the loans are deferred and recognized as part of the gain or loss on sale. There was \$2.6 million and \$3.6 million in loans held for sale outstanding at December 31, 2022 and 2021, respectively.

Loans and Leases. Loans and leases which management has the intent and ability to hold for the foreseeable future or until maturity are reported at their outstanding principal balance with adjustments for partial charge-offs, the allowance for loan and lease losses, deferred fees or costs on originated loans and leases, and unamortized premiums or discounts on any purchased loans.

A loan or a lease is accounted for as a troubled debt restructuring (“TDRs”) if the Corporation, for economic or legal reasons related to the borrower’s financial condition, grants a concession to the borrower that it would not otherwise consider. A troubled debt restructuring may involve the receipt of assets from the debtor in partial or full satisfaction of the loan or lease or a modification of terms, such as a reduction of the stated interest rate or face amount of the loan or lease, a reduction of accrued interest, an extension of the maturity date at a stated interest rate lower than the current market rate for a new loan or lease with similar risk, or some combination of these concessions. Restructured loans can involve loans remaining on non-accrual, moving to non-accrual, or continuing on accrual status, depending on individual facts and circumstances. Non-accrual restructured loans are included and treated with all other non-accrual loans. In addition, all accruing restructured loans are reported as troubled debt restructurings which are considered and accounted for as impaired loans. Generally, restructured loans remain on non-accrual until the borrower has attained a sustained period of repayment performance under the modified loan terms (generally a minimum of six months). However, performance prior to the restructuring, or significant events that coincide with the restructuring, are considered in assessing whether the borrower can meet the new terms and whether the loan should be returned to or maintained on accrual status. If the borrower’s ability to meet the revised payment schedule is not reasonably assured, the loan remains on non-accrual. The CARES Act (as modified by the Consolidated Appropriations Act, 2021) permitted banks to suspend requirements under GAAP for loan modifications to borrowers affected by COVID-19 that would otherwise be characterized as TDRs if the loan was not more than 30 days delinquent as of December 31, 2019 and the modification was made before January 1, 2022. Interagency guidance from the federal bank regulatory agencies regarding TDRs has also been issued in response to COVID-19 and is generally consistent with the relief granted under the CARES Act. The Corporation is applying this statutory and regulatory guidance to qualifying loan modifications.

Interest on non-impaired loans and leases is accrued and credited to income on a daily basis based on the unpaid principal balance and is calculated using the effective interest method. Per policy, a loan or a lease is considered impaired and placed on non-accrual status when it becomes 90 days past due or it is doubtful that contractual principal and interest will be collected in accordance with the terms of the contract. A loan or lease is determined to be past due if the borrower fails to meet a contractual payment and will continue to be considered past due until all contractual payments are received. When a loan or lease is placed on non-accrual, the interest accrual is discontinued and previously accrued but uncollected interest is deducted from interest income. If collectability of the contractual principal and interest is in doubt, payments received are first applied to reduce the loan principal. If collectability of the contractual payments is not in doubt, payments may be applied to interest for interest amounts due on a cash basis. As soon as it is determined with certainty that the principal of an impaired loan or lease is uncollectable, either through collections from the borrower or disposition of the underlying collateral, the portion of the carrying balance that exceeds the estimated measurement value of the loan or lease is charged off. Loans or leases are returned to accrual status when they are brought current in terms of both principal and accrued interest due, have performed in accordance with contractual terms for a reasonable period of time, and when the ultimate collectability of total contractual principal and interest is no longer doubtful.

Transfers of assets, including but not limited to the guaranteed portions of SBA loans and participation interests in other, non-SBA originated loans, that upon completion of the transfer satisfy the conditions to be reported as a sale, including legal isolation, are derecognized from the Consolidated Financial Statements. Transfers of assets that upon completion of the transfer do not meet the conditions of a sale are recorded on a gross basis with a secured borrowing identified to reflect the amount of the transferred interest.

Loan and lease origination fees as well as certain direct origination costs are deferred and amortized as an adjustment to loan yields over the stated term of the loan or lease. Loans or leases that result from a refinance or restructuring, other than a TDRs, where terms are at least as favorable to the Corporation as the terms for comparable loans to other borrowers with similar collection risks and result in an essentially new loan or lease, are accounted for as a new loan or lease. Any unamortized net fees, costs, or penalties are recognized when the new loan or lease is originated. Unamortized net loan or lease fees or costs for loans and leases that result from a refinance or restructure with only minor modifications to the original loan or lease contract

are carried forward as a part of the net investment in the new loan or lease. For TDRs, all fees received in connection with a modification of terms are applied as a reduction of the loan or lease and any related costs, including direct loan origination costs, are charged to expense as incurred.

Allowance for Loan and Lease Losses. The allowance for loan and lease losses is maintained at a level that management deems appropriate to absorb probable and estimable losses inherent in the loan and lease portfolios. The methodology applied for determining inherent losses stems from current risk characteristics of the loan and lease portfolio, an assessment of individual impaired loans and leases, actual loss experience, and adverse situations that may affect the borrower's ability to repay. The methodology also focuses on evaluation of several factors for each portfolio category, including but not limited to: management's ongoing review and grading of the loan and lease portfolios, consideration of delinquency experience, changes in the size of the loan and lease portfolios, existing economic conditions, level of loans and leases subject to more frequent review by management, changes in underlying collateral, concentrations of loans to specific industries, and other qualitative and quantitative factors that could affect credit losses. Impaired and other loans and leases have risk characteristics that are unique to an individual borrower and the loss must be estimated on an individual basis. Loans and leases that are not individually reviewed and measured for impairment are aggregated and historical loss statistics are primarily used to determine the risk of loss.

The measurement of the estimate of loss is reliant upon historical experience, information about the ability of the individual debtor to pay, and the appraisal of loan collateral in light of current economic conditions. An estimate of loss is an approximation of what portion of all amounts receivable, according to the contractual terms of that receivable, is deemed uncollectible. Determination of the allowance is inherently subjective because it requires estimation of amounts and timing of expected future cash flows on impaired loans and leases, estimation of losses on types of loans and leases based on historical losses, and consideration of current economic trends, both local and national. Based on management's periodic review using all previously mentioned pertinent factors, a provision for loan and lease losses is charged to expense when it is determined an increase in the allowance for loan and lease losses is appropriate. A negative provision for loan and lease losses may be recognized if management determines a reduction in the level of allowance for loan and lease losses is appropriate. Loan and lease losses are charged against the allowance and recoveries are credited to the allowance.

The allowance for loan and lease losses contains specific allowances established for expected losses on impaired loans and leases. Impaired loans and leases are defined as loans and leases for which, based on current information and events, it is probable that the Corporation will be unable to collect scheduled principal and interest payments according to the contractual terms of the loan or lease agreement. Loans and leases subject to impairment are defined as non-accrual and restructured loans and leases.

Impaired loans and leases are evaluated on an individual basis to determine the amount of specific reserve or charge-off required, if any. The measurement value of impaired loans and leases is determined based on the present value of expected future cash flows discounted at the loan's effective interest rate (the contractual interest rate adjusted for any net deferred loan fees or costs, premium or discount existing at the origination or acquisition of the loan), the market price of the loan or lease, or the fair value of the underlying collateral less costs to sell, if the loan or lease is collateral dependent. A loan or lease is collateral dependent if repayment is expected to be provided principally by the underlying collateral. A loan's effective interest rate may change over the life of the loan based on subsequent changes in rates or indices, or may be fixed at the rate in effect at the date the loan was determined to be impaired.

Subsequent to the initial impairment, any significant change in the amount or timing of an impaired loan or lease's future cash flows will result in a reassessment of the valuation allowance to determine if an adjustment is necessary. Measurements based on observable market price or fair value of the collateral may change over time and require a reassessment of the allowance if there is a significant change in either measurement base. Any increase in the present value of expected future cash flows attributable to the passage of time is recorded as interest income accrued on the net carrying amount of the loan or lease at the effective interest rate used to discount the impaired loan or lease's estimated future cash flows. Any change in present value attributable to changes in the amount or timing of expected future cash flows is recorded as loan loss expense in the same manner in which impairment was initially recognized or as a reduction of loan loss expense that otherwise would be reported. Where the level of loan or lease impairment is measured using observable market price or fair value of collateral, any decrease in the observable market price of an impaired loan or lease or fair value of the collateral of an impaired collateral-dependent loan or lease is recorded as loan loss expense in the same manner in which impairment was initially recognized. Any increase in the observable market value of the impaired loan or lease or fair value of the collateral of an impaired collateral-dependent loan or lease is recorded as a reduction in the amount of loan loss expense that otherwise would be reported.

Net Investment in Direct Financing Leases. The net investment in direct financing lease agreements represents total undiscounted payments plus estimated unguaranteed residual value (approximating 3% to 20% of the cost of the related equipment) and is recorded as lease receivables when the lease is signed and the leased property is delivered to the client. The excess of the minimum lease payments and residual values over the cost of the equipment is recorded as unearned lease income.

Unearned lease income is recognized over the term of the lease on a basis which results in an approximate level rate of return on the unrecovered lease investment. Lease payments are recorded when due under the lease contract. Residual values are established at lease inception equal to the estimated value to be received from the equipment following termination of the initial lease and such estimated value considers all relevant information and circumstances regarding the equipment. In estimating the equipment's fair value at lease termination, the Corporation relies on internally or externally prepared appraisals, published sources of used equipment prices, and historical experience adjusted for known current industry and economic trends. The Corporation's estimates are periodically reviewed to ensure reasonableness; however, the amounts the Corporation will ultimately realize could differ from the estimated amounts. When there are other than temporary declines in the Corporation's carrying amount of the unguaranteed residual value, the carrying value is reduced and charged to non-interest expense.

Premises and Equipment, net. The cost of capitalized leasehold improvements is amortized on the straight-line method over the lesser of the term of the respective lease or estimated economic life. Equipment is stated at cost less accumulated depreciation and amortization which is calculated by the straight-line method over the estimated useful lives of three to ten years. Maintenance and repair costs are charged to expense as incurred. Improvements which extend the useful life are capitalized and depreciated over the remaining useful life of the assets.

Repossessed Assets. Property acquired by repossession, foreclosure, or by deed in lieu of foreclosure is recorded at the fair value of the underlying property, less costs to sell. This fair value becomes the new cost basis for the repossessed asset. Any write-down in the carrying value of a loan or lease at the time of acquisition is charged to the allowance for loan and lease losses. Any subsequent write-downs to reflect current fair value, as well as gains and losses on disposition and revenues are recorded in non-interest expense. Costs relating to the development and improvement of the property are capitalized while holding period costs are charged to other non-interest expense.

Leases. At contract inception, the Corporation determines whether the arrangement is or contains a lease and determines the lease classification. The lease term is determined based on the non-cancellable term of the lease adjusted to the extent optional renewal terms and termination rights are reasonably certain. Lease expense is recognized evenly over the lease term. Variable lease payments are recognized as period costs. The present value of remaining lease payments is recognized as a liability on the balance sheet with a corresponding right-of-use asset adjusted for prepaid or accrued lease payments. The Corporation uses the Federal Home Loan Bank fixed advance rate as of the lease inception date that most closely resembles the remaining term of the lease as the incremental borrowing rate, unless the interest rate implicit in the lease contract is readily determinable. The Corporation has elected to exclude short-term leases as well as all non-lease items, such as common area maintenance, from being included in the lease liability on the Consolidated Balance Sheets.

Bank-Owned Life Insurance. Bank-owned life insurance ("BOLI") is reported at the amount that would be realized if the life insurance policies were surrendered on the balance sheet date. BOLI policies owned by the Bank are purchased with the objective to fund certain future employee benefit costs with the death benefit proceeds. The cash surrender value of such policies is recorded in bank-owned life insurance on the Consolidated Balance Sheets and changes in the value are recorded in non-interest income. The total death benefit of all BOLI policies was \$133.8 million and \$135.9 million as of December 31, 2022 and 2021, respectively. There are no restrictions on the use of BOLI proceeds nor are there any contractual restrictions on the ability to surrender the policy. As of December 31, 2022 and 2021, there were no borrowings against the cash surrender value of the BOLI policies.

Federal Home Loan Bank Stock. The Bank is required to maintain Federal Home Loan Bank ("FHLB") stock as members of the FHLB, and in amounts as required by the FHLB. This equity security is "restricted" in that it can only be sold back to the FHLB or another member institution at par. Therefore, it is less liquid than other marketable equity securities and the fair value is equal to cost. At December 31, 2022 and 2021, the Bank had FHLB stock of \$17.8 million and \$13.3 million, respectively. The Corporation periodically evaluates its holding in FHLB stock for impairment. Should the stock be impaired, it would be written down to its estimated fair value. There were no impairments recorded on FHLB stock during the years ended December 31, 2022 or 2021.

Goodwill and Other Intangible Assets. Goodwill and other intangible assets consist primarily of goodwill and loan servicing rights. Core deposit intangibles have estimated finite lives and are amortized on an accelerated basis to expense over a period of seven years. Loan servicing rights, when originated, are initially recorded at fair value and subsequently amortized in proportion to and over the period of estimated net servicing income. The Corporation reviews other intangible assets for impairment at least annually, or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, in which case an impairment charge would be recorded.

Goodwill is not amortized but is subject to impairment tests on at least an annual basis, and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount (including goodwill). An initial qualitative evaluation is made to assess the likelihood of impairment and determine whether further quantitative testing to calculate the fair value is necessary. When the qualitative evaluation indicates that impairment is

more likely than not, quantitative testing is required whereby the fair value of each reporting unit is calculated and compared to the recorded book value. If the calculated fair value of the reporting unit exceeds its carrying value, goodwill is not considered impaired. If the carrying value of a reporting unit exceeds its calculated fair value, an impairment charge is recognized in earnings in an amount equal to the difference.

Other Investments. The Corporation owns certain equity investments in other corporate organizations which are not consolidated because the Corporation does not own more than a 50% interest or exercise control over the organization. Investments in corporations representing at least a 20% interest are generally accounted for using the equity method and investments in corporations representing less than 20% interest are generally accounted for at cost. Investments in limited partnerships representing from at least a 3% up to a 50% interest in the entity are generally accounted for using the equity method and investments in limited partnerships representing less than 3% are generally accounted for at cost. All of these investments are periodically evaluated for impairment. Should an investment be impaired, it would be written down to its estimated fair value. The equity investments are reported in other assets and the income and expense from such investments, if any, is reported in non-interest income and non-interest expense.

Derivative Instruments. The Corporation uses derivative instruments to protect against the risk of adverse price or interest rate movements on the value of certain assets, liabilities, future cash flows, and economic hedges for written client derivative contracts. Derivative instruments represent contracts between parties that usually require little or no initial net investment and result in one party delivering cash to the other party based on a notional amount and an underlying variable, as specified in the contract, and may be subject to master netting agreements.

Market risk is the risk of loss arising from an adverse change in interest rates, exchange rates, or equity prices. The Corporation's primary market risk is interest rate risk. Instruments designed to manage interest rate risk include interest rate swaps, interest rate options, and interest rate caps and floors with indices that relate to the pricing of specific assets and liabilities. The nature and volume of the derivative instruments used to manage interest rate risk depend on the level and type of assets and liabilities on the balance sheet and the risk management strategies for the current and anticipated rate environments. Counterparty risk with respect to derivative instruments occurs when a counterparty to a derivative contract with an unrealized gain fails to perform according to the terms of the agreement. Counterparty risk is managed by limiting the counterparties to highly rated dealers, requiring collateral postings when values are in deficit positions, applying uniform credit standards to all activities with credit risk, and monitoring the size and the maturity structure of the derivative portfolio.

All derivative instruments are to be carried at fair value on the Consolidated Balance Sheets. The accounting for the gain or loss due to changes in the fair value of a derivative instrument depends on whether the derivative instrument qualifies as a hedge. If the derivative instrument does not qualify as a hedge, the gains or losses are reported in earnings when they occur. However, if the derivative instrument qualifies as a hedge, the accounting varies based on the type of risk being hedged. The Corporation utilizes interest rate swaps offered directly to qualified commercial borrowers, which do not qualify for hedge accounting, and therefore, all changes in fair value and gains and losses on these instruments are reported in earnings as they occur. The effects of netting arrangements are disclosed within the Notes of the Consolidated Financial Statements. The Corporation offers interest rate swap products directly to qualified commercial borrowers. The Corporation economically hedges client derivative transactions by entering into offsetting interest rate swap contracts executed with a third party. Derivative transactions executed as part of this program are not considered hedging instruments and are marked-to-market through earnings each period. The derivative contracts have mirror-image terms, which results in the positions' changes in fair value offsetting through earnings each period. The credit risk and risk of non-performance embedded in the fair value calculations is different between the dealer counterparties and the commercial borrowers which may result in a difference in the changes in the fair value of the mirror-image swaps. The Corporation incorporates credit valuation adjustments to appropriately reflect both its own non-performance risk and the counterparty's risk in the fair value measurements. When evaluating the fair value of its derivative contracts for the effects of non-performance and credit risk, the Corporation considers the impact of netting and any applicable credit enhancements such as collateral postings, thresholds and guarantees.

The Corporation also enters into interest rate swaps to manage interest rate risk and reduce the cost of match-funding certain long-term fixed rate loans. These derivative contracts are designated as a cash flow hedge as the receipt of floating interest from the counterparty is used to manage interest rate risk associated with forecasted issuances of short-term FHLB advances. The change in fair value of the hedging instrument is recorded in accumulated other comprehensive income.

SBA Recourse Reserve. The Corporation establishes SBA recourse reserves on the guaranteed portions of sold SBA loans. The recourse reserve is reported in accrued interest payable and other liabilities on the Consolidated Balance Sheets. A reserve is established for loans that present a collateral shortfall and it is probable that the guaranty associated with the sold portion of the SBA loan is ineligible.

In the ordinary course of business, the Corporation sells the guaranteed portions of SBA loans to third parties. The Corporation has a continuing involvement in each of the transferred lending arrangements by way of relationship management, servicing the

loans, as well as being subject to normal and customary requirements of the SBA loan program; however, there are no further obligations to the third-party participant required of the Corporation, other than standard representations and warranties related to sold amounts. In the event of a loss resulting from default and a determination by the SBA that there is a deficiency in the manner in which the loan was originated, funded, or serviced by the Corporation, the SBA may require the Corporation to repurchase the loan, deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of the principal loss related to the deficiency from the Corporation. The Corporation must comply with applicable SBA regulations in order to maintain the guaranty. In addition, the Corporation retains the option to repurchase the sold guaranteed portion of an SBA loan if the loan defaults.

Income Taxes. Deferred income tax assets and liabilities are computed for temporary differences in timing between the financial statement and tax basis of assets and liabilities that result in taxable or deductible amounts in the future based on enacted tax law and rates applicable to periods in which the differences are expected to affect taxable income. The effect of a change in tax rates on deferred taxes is recognized in income in the period that includes the enactment date. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversals of deferred tax liabilities, appropriate tax planning strategies, and projections for future taxable income over the period which the deferred tax assets are deductible. When necessary, valuation allowances are established to reduce deferred tax assets to the realizable amount. Management believes it is more likely than not that the Corporation will realize the benefits of these deductible differences, net of the existing valuation allowances.

Income tax expense or benefit represents the tax payable or tax refundable for a period, adjusted by the applicable change in deferred tax assets and liabilities for that period. The Corporation also invests in certain development entities that generate federal and state historic tax credits. The tax benefits associated with these investments are accounted for under the flow-through method and are recognized when the respective project is placed in service. The Corporation and its subsidiaries file a consolidated federal income tax return and separate state income tax returns. Tax sharing agreements allocate taxes to each legal entity for the settlement of intercompany taxes. The Corporation applies a more likely than not standard to each of its tax positions when determining the amount of tax expense or benefit to record in its financial statements. Unrecognized tax benefits are recorded in other liabilities. The Corporation recognizes accrued interest relating to unrecognized tax benefits in income tax expense and penalties in other non-interest expense.

Other Comprehensive Income or Loss. Comprehensive income or loss, shown as a separate financial statement, includes net income or loss, changes in unrealized gains and losses on available-for-sale securities, changes in deferred gains and losses on investment securities transferred from available-for-sale to held-to-maturity, if any, changes in unrealized gains and losses associated with cash flow hedging instruments, if any, and the amortization of deferred gains and losses associated with terminated cash flow hedges, if any. For the year ended December 31, 2022, no realized securities gains or losses were recognized, and for the year ended December 31, 2021, realized securities gains of \$29,000, and was reclassified out of accumulated other comprehensive loss.

Earnings Per Common Share. Earnings per common share (“EPS”) is computed using the two-class method. Basic EPS is computed by dividing net income allocated to common shares by the weighted average number of common shares outstanding for the period, excluding any participating securities. Participating securities include unvested restricted shares. Unvested restricted shares are considered participating securities because holders of these securities receive non-forfeitable dividends at the same rate as the holders of the Corporation’s common stock. Diluted EPS is computed by dividing net income allocated to common shares adjusted for reallocation of undistributed earnings of unvested restricted shares by the weighted average number of common shares determined for the basic EPS plus the dilutive effect of common stock equivalents using the treasury stock method based on the average market price for the period.

Segments and Related Information. The Corporation is required to report each operating segment based on materiality thresholds of ten percent or more of certain amounts, such as revenue. Additionally, the Corporation is required to report separate operating segments until the revenue attributable to such segments is at least 75 percent of total consolidated revenue. The Corporation provides a broad range of financial services to individuals and companies. These services include demand, time, and savings products, the sale of certain non-deposit financial products, and commercial and retail lending, leasing and private wealth management services. While the Corporation’s chief decision-maker monitors the revenue streams of the various products, services, and locations, operations are managed and financial performance is evaluated on a corporate-wide basis. The Corporation’s business units have similar basic characteristics in the nature of the products, production processes and type or class of client for products or services; therefore, these business units are considered one operating segment.

Share-Based Compensation. The Corporation may grant restricted stock awards, restricted stock units, and other stock based awards to plan participants, subject to forfeiture upon the occurrence of certain events until the dates specified in the participant’s award agreement. The Corporation accounts for forfeitures as they occur. While restricted stock is subject to forfeiture, restricted stock award participants may exercise full voting rights and will receive all dividends and other

distributions paid with respect to the restricted shares. Dividend equivalent units with respect to restricted stock grants made after January 2023 will be deferred at paid at the time of vesting. Restricted stock units do not have voting rights and are provided dividend equivalents. The restricted stock granted under the 2019 Equity Incentive Plan (the “Plan”) is typically subject to a three or four year vesting period. Compensation expense for restricted stock is recognized over the requisite service period of three or four years for the entire award on a straight-line basis. Upon vesting of restricted stock, the benefit of tax deductions in excess of recognized compensation expense is reflected as an income tax benefit in the Consolidated Statements of Income.

The Corporation issues a combination of performance-based restricted stock units and restricted stock awards to plan participants. Vesting of the performance-based restricted stock units will be measured on Total Shareholder Return (“TSR”) and Return on Average Equity (“ROAE”) and will cliff-vest after a three-year measurement period based on the Corporation’s performance relative to a custom peer group. At the end of the performance period, the number of actual shares to be awarded varies between 0% and 200% of target amounts. Compensation expense is recognized for performance-based restricted stock units over the requisite service and performance period of generally three years for the entire expected award on a straight-line basis. The compensation expense for the awards expected to vest for the percentage of performance-based restricted stock units subject to the ROAE metric will be adjusted if there is a change in the expectation of ROAE. The compensation expense for the awards expected to vest for the percentage of performance-based restricted stock units subject to the TSR metric are never adjusted, and are amortized utilizing the accounting fair value provided using a Monte Carlo pricing model.

The Corporation offers an Employee Stock Purchase Plan (“ESPP”) to all qualifying employees. The plan qualifies as an ESPP under section 423 of the Internal Revenue Code of 1986. Under the ESPP, eligible employees may enroll in a three month offer period that begins January, April, July, and October of each year. Employees may purchase a limited number of shares on the Corporation’s common stock at 90% of the fair market value on the last day of the offering period. The ESPP is treated as a compensatory plan for purposes of share-based compensation expense.

Recent Accounting Pronouncements. In June 2016, the FASB issued ASU No. 2016-13, “*Financial Instruments- Credit Losses (Topic 326)*,” which is often referred to as CECL. The ASU replaces the incurred loss impairment methodology for recognizing credit losses with a methodology that reflects all expected credit losses. Entities will apply the amendments in the ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. In November 2019, the FASB issued ASU No. 2019-10, “*Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*.” The ASU delays the effective date for the credit losses standard from January 1, 2020 to January 1, 2023 for certain entities, including certain Securities and Exchange Commission filers, public business entities, and private companies. As a smaller reporting company, the Corporation elected to defer adoption. The Corporation has established a cross-functional committee and has implemented a third-party software solution to assist with the adoption of the standard. During the fourth quarter of 2022 and first quarter of 2023, management had the model validated by a third party, performed a full parallel run, and finalized the methodology, processes and internal controls. Management’s model utilizes national GDP and unemployment as inputs to the reasonable and supportable forecast. Management estimates the adoption will result in an initial increase to allowance for credit losses, including the allowance for unfunded commitments, of approximately \$1.0 million to \$4.0 million. The actual impact at adoption will depend on the composition of the loan portfolio as well as the economic environment and forecasts as of the adoption date.

In March 2020, the FASB issued ASU No. 2020-04 “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” These amendments provide temporary, optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. In January 2021, the FASB issued ASU 2021-01 which clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The Corporation adopted this standard in the fourth quarter 2022. The Corporation utilized available optional expedients to simplify accounting analyses for contract modifications and allow hedging relationships to continue without de-designation where there are qualifying changes in the critical terms. The adoption of this standard did not have material effect on the Corporation’s operating results or financial condition.

In March 2022, the FASB issued ASU 2022-02 “Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.” The amendments in this update eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables-Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a

continuation of an existing loan. Additionally, for public business entities, the amendments in this update require that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments-Credit Losses-Measured at Amortized Cost in the vintage disclosures required by paragraph 326-20-50-6. The guidance is effective for the Corporation upon the adoption of ASU 2016-13, January 1, 2023. The Corporation is currently assessing the impact of ASU 2022-02 on its disclosures and control structure; however, the Corporation does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

Note 2 – Cash and Cash Equivalents

Cash and due from banks was approximately \$25.8 million and \$9.7 million at December 31, 2022 and 2021, respectively. As of March 26, 2020, the Federal Reserve Bank (“FRB”) reduced reserve requirement ratios to zero percent for all depository institutions. FRB balances were \$76.5 million and \$47.0 million at December 31, 2022 and 2021, respectively, and are included in short-term investments on the Consolidated Balance Sheets. Short-term investments, considered cash equivalents, were \$76.9 million and \$47.4 million at December 31, 2022 and 2021, respectively.

Note 3 – Securities

The amortized cost and fair value of securities available-for-sale and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

	As of December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale:				
U.S. treasuries	\$ 4,977	\$ —	\$ (532)	\$ 4,445
U.S. government agency securities - government-sponsored enterprises	13,666	70	(531)	13,205
Municipal securities	45,088	90	(5,867)	39,311
Residential mortgage-backed securities - government issued	21,790	—	(2,359)	19,431
Residential mortgage-backed securities - government-sponsored enterprises	119,265	—	(12,942)	106,323
Commercial mortgage-backed securities - government issued	3,450	—	(518)	2,932
Commercial mortgage-backed securities - government-sponsored enterprises	31,515	—	(5,138)	26,377
Other securities	—	—	—	—
	<u>\$ 239,751</u>	<u>\$ 160</u>	<u>\$ (27,887)</u>	<u>\$ 212,024</u>

	As of December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale:				
U.S. treasuries	\$ 4,971	\$ —	\$ (57)	\$ 4,914
U.S. government agency securities - government-sponsored enterprises	19,797	248	(110)	19,935
Municipal securities	30,828	473	(344)	30,957
Residential mortgage-backed securities - government issued	19,563	238	(140)	19,661
Residential mortgage-backed securities - government-sponsored enterprises	85,748	741	(784)	85,705
Commercial mortgage-backed securities - government issued	5,801	36	(66)	5,771
Commercial mortgage-backed securities - government-sponsored enterprises	36,786	313	(568)	36,531
Other securities	2,205	23	—	2,228
	<u>\$ 205,699</u>	<u>\$ 2,072</u>	<u>\$ (2,069)</u>	<u>\$ 205,702</u>

The amortized cost and fair value of securities held-to-maturity and the corresponding amounts of gross unrealized gains and losses were as follows:

	As of December 31, 2022			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
	(In Thousands)			
Held-to-maturity:				
Municipal securities	\$ 7,467	\$ 7	\$ (70)	\$ 7,404
Residential mortgage-backed securities - government issued	1,625	—	(107)	1,518
Residential mortgage-backed securities - government-sponsored enterprises	1,537	—	(93)	1,444
Commercial mortgage-backed securities - government-sponsored enterprises	2,006	—	(102)	1,904
	<u>\$ 12,635</u>	<u>\$ 7</u>	<u>\$ (372)</u>	<u>\$ 12,270</u>

	As of December 31, 2021			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
	(In Thousands)			
Held-to-maturity:				
Municipal securities	\$ 13,009	\$ 222	\$ (3)	\$ 13,228
Residential mortgage-backed securities - government issued	2,226	40	—	2,266
Residential mortgage-backed securities - government-sponsored enterprises	2,502	76	—	2,578
Commercial mortgage-backed securities - government-sponsored enterprises	2,009	195	—	2,204
	<u>\$ 19,746</u>	<u>\$ 533</u>	<u>\$ (3)</u>	<u>\$ 20,276</u>

U.S. Treasuries contains treasury bonds issued by the United States Treasury. U.S. government agency securities - government-sponsored enterprises represent securities issued by Federal National Mortgage Association (“FNMA”) and the SBA. Municipal securities include securities issued by various municipalities located primarily within Wisconsin and are primarily general obligation bonds that are tax-exempt in nature. Residential and commercial mortgage-backed securities - government issued

represent securities guaranteed by the Government National Mortgage Association. Residential and commercial mortgage-backed securities - government-sponsored enterprises include securities guaranteed by the Federal Home Loan Mortgage Corporation, FNMA, and the FHLB. Other securities represent certificates of deposit of insured banks and savings institutions with an original maturity greater than three months. There were seven sales of available-for-sale securities in 2021 and one sale in 2020. There were no sales of available-for-sale securities that occurred during the year ended December 31, 2022.

Total proceeds and gross realized gains and losses from sales of securities available-for-sale were as follows:

	For the Year Ended December 31,		
	2022	2021	2020
	(In Thousands)		
Gross gains	\$ —	\$ 92	\$ —
Gross losses	—	(63)	(4)
Net gains (losses) on sale of available-for-sale securities	<u>\$ —</u>	<u>\$ 29</u>	<u>\$ (4)</u>
Proceeds from sale of available-for-sale securities	\$ —	\$ 14,955	\$ 839

At December 31, 2022 and 2021, securities with a fair value of \$35.9 million and \$70.3 million, respectively, were pledged to secure various obligations, including interest rate swap contracts and municipal deposits.

The amortized cost and fair value of securities by contractual maturity at December 31, 2022 are shown below. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay certain obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Due in one year or less	\$ 603	\$ 593	\$ 2,146	\$ 2,136
Due in one year through five years	15,208	13,884	5,806	5,679
Due in five through ten years	55,058	48,141	3,823	3,670
Due in over ten years	168,882	149,406	860	785
	<u>\$ 239,751</u>	<u>\$ 212,024</u>	<u>\$ 12,635</u>	<u>\$ 12,270</u>

The tables below show the Corporation's gross unrealized losses and fair value of available-for-sale investments, aggregated by investment category and length of time that individual investments were in a continuous loss position at December 31, 2022 and 2021. At December 31, 2022, the Corporation held 175 available-for-sale securities that were in an unrealized loss position. Such securities have not experienced credit rating downgrades; however, they declined in value due to the current interest rate environment. At December 31, 2022, the Corporation held 45 available-for-sale securities that have been in a continuous unrealized loss position for twelve months or greater.

The Corporation also has not specifically identified available-for-sale securities in a loss position that it intends to sell in the near term and does not believe that it will be required to sell any such securities. The Corporation reviews its securities on a quarterly basis to monitor its exposure to other-than-temporary impairment. Consideration is given to such factors as the length of time and extent to which the security has been in an unrealized loss position, changes in security ratings, and an evaluation of the present value of expected future cash flows, if necessary. Based on the Corporation's evaluation, it is expected that the Corporation will recover the entire amortized cost basis of each security. Accordingly, no other-than-temporary impairment was recorded in the Consolidated Statements of Income for the years ended December 31, 2022 and 2021.

A summary of unrealized loss information for securities available-for-sale, categorized by security type and length of time for which the security has been in a continuous unrealized loss position, follows:

	December 31, 2022					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
Available-for-sale:						
U.S. treasuries	\$ —	\$ —	\$ 4,446	\$ 532	\$ 4,446	\$ 532
U.S. government agency securities - government-sponsored enterprises	—	—	2,969	531	2,969	531
Municipal securities	26,759	3,132	10,133	2,735	36,892	5,867
Residential mortgage-backed securities - government issued	9,624	436	9,807	1,923	19,431	2,359
Residential mortgage-backed securities - government-sponsored enterprises	71,474	6,433	34,849	6,509	106,323	12,942
Commercial mortgage-backed securities - government issued	1,236	112	1,696	406	2,932	518
Commercial mortgage-backed securities - government-sponsored enterprises	7,758	984	18,619	4,154	26,377	5,138
	<u>\$ 116,851</u>	<u>\$ 11,097</u>	<u>\$ 82,519</u>	<u>\$ 16,790</u>	<u>\$ 199,370</u>	<u>\$ 27,887</u>
	December 31, 2021					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
Available-for-sale:						
U.S. treasuries	\$ 4,914	\$ 57	\$ —	\$ —	\$ 4,914	\$ 57
U.S. government agency obligations - government-sponsored enterprises	3,390	110	—	—	3,390	110
Municipal securities	12,568	344	—	—	12,568	344
Residential mortgage-backed securities - government issued	12,745	140	—	—	12,745	140
Residential mortgage-backed securities - government-sponsored enterprises	41,277	629	4,249	155	45,526	784
Commercial mortgage-backed securities - government issued	2,193	66	—	—	2,193	66
Commercial mortgage-backed securities - government-sponsored enterprises	25,906	568	—	—	25,906	568
	<u>\$ 102,993</u>	<u>\$ 1,914</u>	<u>\$ 4,249</u>	<u>\$ 155</u>	<u>\$ 107,242</u>	<u>\$ 2,069</u>

The tables below show the Corporation's gross unrealized losses and fair value of held-to-maturity investments, aggregated by investment category and length of time that individual investments were in a continuous loss position at December 31, 2022 and 2021. At December 31, 2022, the Corporation held 40 held-to-maturity securities that were in an unrealized loss position. Such securities have not experienced credit rating downgrades; however, they declined in value due to the current interest rate environment. At December 31, 2022, the Corporation held one held-to-maturity security that had been in a continuous loss position for twelve months or greater. It is expected that the Corporation will recover the entire amortized cost basis of each held-to-maturity security based upon an evaluation of aforementioned factors. Accordingly, no other-than-temporary impairment was recorded in the Consolidated Statements of Income for the years ended December 31, 2022 and 2021.

A summary of unrealized loss information for securities held-to-maturity, categorized by security type and length of time for which the security has been in a continuous unrealized loss position, follows:

	December 31, 2022					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
Held-to-maturity:						
Municipal securities	\$ 6,035	\$ 52	\$ 267	\$ 18	\$ 6,302	\$ 70
Residential mortgage-backed securities - government issued	1,518	107	—	—	1,518	107
Residential mortgage-backed securities - government-sponsored enterprises	1,444	93	—	—	1,444	93
Commercial mortgage backed securities - government-sponsored enterprises	1,904	102	—	—	1,904	102
	<u>\$ 10,901</u>	<u>\$ 354</u>	<u>\$ 267</u>	<u>\$ 18</u>	<u>\$ 11,168</u>	<u>\$ 372</u>
	December 31, 2021					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
Held-to-maturity:						
Municipal securities	\$ —	\$ —	\$ 284	\$ 3	\$ 284	\$ 3
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 284</u>	<u>\$ 3</u>	<u>\$ 284</u>	<u>\$ 3</u>

Note 4 – Loan and Lease Receivables, Impaired Loans and Leases and Allowance for Loan and Lease Losses

Loan and lease receivables consist of the following:

	December 31, 2022	December 31, 2021
(In Thousands)		
Commercial real estate:		
Commercial real estate — owner occupied	\$ 268,354	\$ 235,589
Commercial real estate — non-owner occupied	687,091	661,423
Land development	50,803	42,792
Construction	167,948	179,841
Multi-family	350,026	320,072
1-4 family	17,728	14,911
Total commercial real estate	1,541,950	1,454,628
Commercial and industrial	841,178	730,819
Direct financing leases, net	12,149	15,743
Consumer and other:		
Home equity and second mortgages	6,761	4,223
Other	41,177	35,518
Total consumer and other	47,938	39,741
Total gross loans and leases receivable	2,443,215	2,240,931
Less:		
Allowance for loan and lease losses	24,230	24,336
Deferred loan fees	149	1,523
Loans and leases receivable, net	\$ 2,418,836	\$ 2,215,072

As of December 31, 2022 and 2021, the Corporation had \$554,000 and \$27.9 million, respectively, in gross PPP loans outstanding included in the commercial and industrial loan category and deferred processing fees outstanding of \$48,000 and \$557,000, respectively, included in deferred loan fees. The processing fees are deferred and recognized over the contractual life of the loan, or accelerated at forgiveness, as an adjustment of yield using the interest method. The SBA provides a guaranty to the lender of 100% of principal and interest, unless the lender violated an obligation under the agreement. As loan losses are expected to be immaterial, if any at all, due to the guaranty, management excluded the PPP loans from the allowance for loan and lease losses calculation. Management funded these short-term loans primarily through a combination of excess cash held at the Federal Reserve and from an increase in in-market deposits.

The total amount of the Corporation's ownership of SBA loans on-balance sheet is comprised of the following:

	December 31, 2022	December 31, 2021
(In Thousands)		
SBA 7(a) loans	\$ 36,047	\$ 33,223
SBA 504 loans	25,098	41,394
SBA Express loans and lines of credit	130	387
SBA PPP loans	554	27,854
Total SBA loans	\$ 61,829	\$ 102,858

As of December 31, 2022 and 2021, \$1.1 million and \$1.7 million of SBA loans were considered impaired, respectively.

Loans transferred to third parties consist of the guaranteed portions of SBA loans which the Corporation sold in the secondary market and participation interests in other, non-SBA originated loans. The total principal amount of the guaranteed portions of SBA loans sold during the year ended December 31, 2022 and 2021 was \$29.9 million and \$33.5 million, respectively. Each of

the transfers of these financial assets met the qualifications for sale accounting, and therefore, all of the loans transferred during the year ended December 31, 2022 and 2021 have been derecognized in the Consolidated Financial Statements. The guaranteed portions of SBA loans were transferred at their fair value and the related gain was recognized upon the transfer as non-interest income in the Consolidated Financial Statements. The total outstanding balance of sold SBA loans at December 31, 2022 and 2021 was \$88.5 million and \$93.0 million, respectively.

The total principal amount of transferred participation interests in other, non-SBA originated loans during the year ended December 31, 2022 and 2021 was \$96.0 million and \$70.9 million, respectively, all of which were treated as sales and derecognized under the applicable accounting guidance at the time of transfer. No gain or loss was recognized on participation interests in other, non-SBA originated loans as they were transferred at or near the date of loan origination and the payments received for servicing the portion of the loans participated represents adequate compensation. The total outstanding balance of these transferred loans at December 31, 2022 and 2021 was \$222.9 million and \$195.2 million, respectively. As of December 31, 2022 and 2021, the total amount of the Corporation's partial ownership of these transferred loans on the Consolidated Balance Sheets was \$339.0 million and \$314.5 million, respectively. As of December 31, 2022 and 2021, the non-SBA originated participation portfolio contained no impaired loans. The Corporation does not share in the participant's portion of any potential charge-offs. There were no loan participations purchased on the Consolidated Balance Sheets as of December 31, 2022 and 2021.

Certain of the Corporation's executive officers, directors, and their related interests are loan clients of the Bank. These loans to related parties are summarized below:

	December 31, 2022	December 31, 2021
	(In Thousands)	
Balance at beginning of year	\$ 1,288	\$ 1,632
New loans	656	570
Repayments	(1,560)	(914)
Change due to status of executive officers and directors	(160)	—
Balance at end of year	<u>\$ 224</u>	<u>\$ 1,288</u>

The following tables illustrate ending balances of the Corporation's loan and lease portfolio, including impaired loans by class of receivable, and considering certain credit quality indicators:

	December 31, 2022				
	Category				Total
	I	II	III	IV	
	(Dollars in Thousands)				
Commercial real estate:					
Commercial real estate — owner occupied	\$ 256,242	\$ 2,602	\$ 9,510	\$ —	\$ 268,354
Commercial real estate — non-owner occupied	630,396	34,022	22,673	—	687,091
Land development	50,803	—	—	—	50,803
Construction	157,157	—	10,791	—	167,948
Multi-family	342,030	7,996	—	—	350,026
1-4 family	17,600	98	—	30	17,728
Total commercial real estate	<u>1,454,228</u>	<u>44,718</u>	<u>42,974</u>	<u>30</u>	<u>1,541,950</u>
Commercial and industrial	783,158	19,954	34,281	3,785	841,178
Direct financing leases, net	10,490	365	1,294	—	12,149
Consumer and other:					
Home equity and second mortgages	6,761	—	—	—	6,761
Other	41,177	—	—	—	41,177
Total consumer and other	<u>47,938</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>47,938</u>
Total gross loans and leases receivable	<u>\$ 2,295,814</u>	<u>\$ 65,037</u>	<u>\$ 78,549</u>	<u>\$ 3,815</u>	<u>\$ 2,443,215</u>
Category as a % of total portfolio	93.97 %	2.66 %	3.21 %	0.16 %	100.00 %

December 31, 2021						
	Category				Total	
	I	II	III	IV		
(Dollars in Thousands)						
Commercial real estate:						
Commercial real estate — owner occupied	\$ 218,965	\$ 5,495	\$ 10,781	\$ 348	\$ 235,589	
Commercial real estate — non-owner occupied	599,089	30,363	31,971	—	661,423	
Land development	42,291	501	—	—	42,792	
Construction	140,181	9,077	30,583	—	179,841	
Multi-family	300,589	8,217	11,266	—	320,072	
1-4 family	14,012	158	402	339	14,911	
Total commercial real estate	1,315,127	53,811	85,003	687	1,454,628	
Commercial and industrial	686,123	5,943	32,964	5,789	730,819	
Direct financing leases, net	10,892	105	4,647	99	15,743	
Consumer and other:						
Home equity and second mortgages	3,925	231	67	—	4,223	
Other	35,385	133	—	—	35,518	
Total consumer and other	39,310	364	67	—	39,741	
Total gross loans and leases receivable	\$ 2,051,452	\$ 60,223	\$ 122,681	\$ 6,575	\$ 2,240,931	
Category as a % of total portfolio	91.55 %	2.69 %	5.47 %	0.29 %	100.00 %	

Each credit is evaluated for proper risk rating upon origination, at the time of each subsequent renewal, upon receipt and evaluation of updated financial information from the Corporation's borrowers or as other circumstances dictate. The Corporation primarily uses a nine grade risk rating system to monitor the ongoing credit quality of its loans and leases. The risk rating grades follow a consistent definition and are then applied to specific loan types based on the nature of the loan. Each risk rating is subjective and, depending on the size and nature of the credit, subject to various levels of review and concurrence on the stated risk rating. In addition to its nine grade risk rating system, the Corporation groups loans into four loan and related risk categories which determine the level and nature of review by management.

Category I — Loans and leases in this category are performing in accordance with the terms of the contract and generally exhibit no immediate concerns regarding the security and viability of the underlying collateral, financial stability of the borrower, integrity or strength of the borrowers' management team or the industry in which the borrower operates. The Corporation monitors Category I loans and leases through payment performance, continued maintenance of its personal relationships with such borrowers and continued review of such borrowers' compliance with the terms of their respective agreements.

Category II — Loans and leases in this category are beginning to show signs of deterioration in one or more of the Corporation's core underwriting criteria such as financial stability, management strength, industry trends or collateral values. Management will place credits in this category to allow for proactive monitoring and resolution with the borrower to possibly mitigate the area of concern and prevent further deterioration or risk of loss to the Corporation. Category II loans are considered performing but are monitored frequently by the assigned business development officer and by asset quality review committees.

Category III — Loans and leases in this category are identified by management as warranting special attention. However, the balance in this category is not intended to represent the amount of adversely classified assets held by the Bank. Category III loans and leases generally exhibit undesirable characteristics, such as evidence of adverse financial trends and conditions, managerial problems, deteriorating economic conditions within the related industry or evidence of adverse public filings and may exhibit collateral shortfall positions. Management continues to believe that it will collect all contractual principal and interest in accordance with the original terms of the contracts relating to the loans and leases in this category, and therefore Category III loans are considered performing with no specific reserves established for this category. Category III loans are monitored by management and asset quality review committees on a monthly basis.

Category IV — Loans and leases in this category are considered to be impaired. Impaired loans and leases, with the exception of performing TDRs, have been placed on non-accrual as management has determined that it is unlikely that the Bank will receive the contractual principal and interest in accordance with the original terms of the agreement. Impaired loans are

individually evaluated to assess the need for the establishment of specific reserves or charge-offs. When analyzing the adequacy of collateral, the Corporation obtains external appraisals at least annually for impaired loans and leases. External appraisals are obtained from the Corporation's approved appraiser listing and are independently reviewed to monitor the quality of such appraisals. To the extent a collateral shortfall position is present, a specific reserve or charge-off will be recorded to reflect the magnitude of the impairment. Loans and leases in this category are monitored by management and asset quality review committees on a monthly basis.

The delinquency aging of the loan and lease portfolio by class of receivable was as follows:

December 31, 2022						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans and Leases
(Dollars in Thousands)						
Accruing loans and leases						
Commercial real estate:						
Owner occupied	\$ —	\$ —	\$ —	\$ —	\$ 268,354	\$ 268,354
Non-owner occupied	215	—	—	215	686,876	687,091
Land development	—	—	—	—	50,803	50,803
Construction	—	—	—	—	167,948	167,948
Multi-family	—	—	—	—	350,026	350,026
1-4 family	—	—	—	—	17,698	17,698
Commercial and industrial	1,431	379	—	1,810	835,739	837,549
Direct financing leases, net	6	24	—	30	12,119	12,149
Consumer and other:						
Home equity and second mortgages	—	—	—	—	6,761	6,761
Other	—	—	—	—	41,177	41,177
Total	1,652	403	—	2,055	2,437,501	2,439,556
Non-accruing loans and leases						
Commercial real estate:						
Owner occupied	—	—	—	—	—	—
Non-owner occupied	—	—	—	—	—	—
Land development	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—
1-4 family	—	—	—	—	30	30
Commercial and industrial	439	126	2,464	3,029	600	3,629
Direct financing leases, net	—	—	—	—	—	—
Consumer and other:						
Home equity and second mortgages	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total	439	126	2,464	3,029	630	3,659
Total loans and leases						
Commercial real estate:						
Owner occupied	—	—	—	—	268,354	268,354
Non-owner occupied	215	—	—	215	686,876	687,091
Land development	—	—	—	—	50,803	50,803
Construction	—	—	—	—	167,948	167,948
Multi-family	—	—	—	—	350,026	350,026
1-4 family	—	—	—	—	17,728	17,728
Commercial and industrial	1,870	505	2,464	4,839	836,339	841,178
Direct financing leases, net	6	24	—	30	12,119	12,149
Consumer and other:						
Home equity and second mortgages	—	—	—	—	6,761	6,761
Other	—	—	—	—	41,177	41,177
Total	\$ 2,091	\$ 529	\$ 2,464	\$ 5,084	\$ 2,438,131	\$ 2,443,215
Percent of portfolio	0.09 %	0.02 %	0.10 %	0.21 %	99.79 %	100.00 %

December 31, 2021						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans and Leases
(Dollars in Thousands)						
Accruing loans and leases						
Commercial real estate:						
Owner occupied	\$ 420	\$ —	\$ —	\$ 420	\$ 234,821	\$ 235,241
Non-owner occupied	—	—	—	—	661,423	661,423
Land development	—	—	—	—	42,792	42,792
Construction	394	—	—	394	179,447	179,841
Multi-family	—	—	—	—	320,072	320,072
1-4 family	100	—	—	100	14,472	14,572
Commercial and industrial	907	536	—	1,443	723,804	725,247
Direct financing leases, net	281	14	—	295	15,349	15,644
Consumer and other:						
Home equity and second mortgages	—	—	—	—	4,223	4,223
Other	—	—	—	—	35,518	35,518
Total	2,102	550	—	2,652	2,231,921	2,234,573
Non-accruing loans and leases						
Commercial real estate:						
Owner occupied	—	—	113	113	235	348
Non-owner occupied	—	—	—	—	—	—
Land development	—	—	—	—	—	—
Construction	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—
1-4 family	—	—	—	—	339	339
Commercial and industrial	23	36	1,445	1,504	4,068	5,572
Direct financing leases, net	—	—	84	84	15	99
Consumer and other:						
Home equity and second mortgages	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total	23	36	1,642	1,701	4,657	6,358
Total loans and leases						
Commercial real estate:						
Owner occupied	420	—	113	533	235,056	235,589
Non-owner occupied	—	—	—	—	661,423	661,423
Land development	—	—	—	—	42,792	42,792
Construction	394	—	—	394	179,447	179,841
Multi-family	—	—	—	—	320,072	320,072
1-4 family	100	—	—	100	14,811	14,911
Commercial and industrial	930	572	1,445	2,947	727,872	730,819
Direct financing leases, net	281	14	84	379	15,364	15,743
Consumer and other:						
Home equity and second mortgages	—	—	—	—	4,223	4,223
Other	—	—	—	—	35,518	35,518
Total	\$ 2,125	\$ 586	\$ 1,642	\$ 4,353	\$ 2,236,578	\$ 2,240,931
Percent of portfolio	0.09 %	0.03 %	0.07 %	0.19 %	99.81 %	100.00 %

The Corporation's total impaired assets consisted of the following:

	December 31, 2022	December 31, 2021
	(In Thousands)	
Non-accrual loans and leases		
Commercial real estate:		
Commercial real estate — owner occupied	\$ —	\$ 348
Commercial real estate — non-owner occupied	—	—
Land development	—	—
Construction	—	—
Multi-family	—	—
1-4 family	30	339
Total non-accrual commercial real estate	30	687
Commercial and industrial	3,629	5,572
Direct financing leases, net	—	99
Consumer and other:		
Home equity and second mortgages	—	—
Other	—	—
Total non-accrual consumer and other loans	—	—
Total non-accrual loans and leases	3,659	6,358
Reposessed assets, net	95	164
Total non-performing assets	3,754	6,522
Performing troubled debt restructurings	156	217
Total impaired assets	\$ 3,910	\$ 6,739
	December 31, 2022	December 31, 2021
Total non-accrual loans and leases to gross loans and leases	0.15 %	0.28 %
Total non-performing assets to total gross loans and leases plus reposessed assets, net	0.15	0.29
Total non-performing assets to total assets	0.13	0.25
Allowance for loan and lease losses to gross loans and leases	0.99	1.09
Allowance for loan and lease losses to non-accrual loans and leases	662.20	382.76

As of December 31, 2022 and 2021, \$30,000 and \$627,000 of the non-accrual loans and leases were considered TDRs, respectively. As of December 31, 2022 and 2021, the Corporation allocated \$0 and \$134,000 of specific reserves to TDRs, respectively. There were no unfunded commitments associated with TDR loans and leases as of December 31, 2022.

All loans and leases modified as a TDR are measured for impairment. The nature and extent of the impairment of restructured loans, including those which have experienced a default, is considered in the determination of an appropriate level of the allowance for loan and lease losses.

The following table provides the number of loans modified as TDRs and the pre- and post-modification recorded investment by class of receivable:

	For the Year Ended December 31,		
	2021		
Number of Loans	Pre-Modification Recorded Investment (Dollars in Thousands)	Post-Modification Recorded Investment	
Commercial and industrial	3	\$ 239	\$ 217

For the year ended December 31, 2022, no loans were modified as a TDR.

Restructured loan modifications may include payment schedule modifications, interest rate concessions, maturity date extensions, principal reduction, or some combination of these concessions. For the year ended December 31, 2021, the modification of terms primarily consisted of payment schedule modifications or principal reductions.

There were no loans modified as a TDR during the previous 12 months which subsequently defaulted during the year ended December 31, 2022 and one with a recorded investment of \$280,000 that defaulted during the year ended December 31, 2021.

Additionally, the Corporation worked with borrowers impacted by COVID-19 and provided modifications to include interest only deferrals and principal and interest deferrals. These modifications were excluded from TDR classification under Section 4013 of the CARES Act or under applicable interagency guidance of the federal banking regulators. As of December 31, 2022, the Corporation had no deferrals outstanding. As of December 31, 2021, the Corporation had three deferrals outstanding, representing \$293,000 in total loans.

The following represents additional information regarding the Corporation's impaired loans and leases, including performing TDRs, by class:

	As of and for the Year Ended December 31, 2022						
	Recorded Investment ⁽¹⁾	Unpaid Principal Balance	Impairment Reserve	Average Recorded Investment ⁽²⁾	Foregone Interest Income	Interest Income Recognized	Net Foregone Interest Income
	(In Thousands)						
With no impairment reserve recorded:							
Commercial real estate:							
Owner occupied	\$ —	\$ —	\$ —	\$ 180	\$ 14	\$ 759	\$ (745)
Non-owner occupied	—	—	—	—	—	1	(1)
Land development	—	—	—	—	—	—	—
Construction	—	—	—	—	—	47	(47)
Multi-family	—	—	—	—	—	—	—
1-4 family	30	35	—	112	8	41	(33)
Commercial and industrial	1,193	1,194	—	3,271	275	585	(310)
Direct financing leases, net	—	—	—	67	2	2	—
Consumer and other:							
Home equity and second mortgages	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Total	1,223	1,229	—	3,630	299	1,435	(1,136)
With impairment reserve recorded:							
Commercial real estate:							
Owner occupied	—	—	—	—	—	—	—
Non-owner occupied	—	—	—	—	—	—	—
Land development	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—	—
1-4 family	—	—	—	—	—	—	—
Commercial and industrial	2,592	2,612	1,650	1,454	101	1	100
Direct financing leases, net	—	—	—	—	—	—	—
Consumer and other:							
Home equity and second mortgages	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Total	2,592	2,612	1,650	1,454	101	1	100
Total:							
Commercial real estate:							
Owner occupied	—	—	—	180	14	759	(745)
Non-owner occupied	—	—	—	—	—	1	(1)
Land development	—	—	—	—	—	—	—
Construction	—	—	—	—	—	47	(47)
Multi-family	—	—	—	—	—	—	—
1-4 family	30	35	—	112	8	41	(33)
Commercial and industrial	3,785	3,806	1,650	4,725	376	586	(210)
Direct financing leases, net	—	—	—	67	2	2	—
Consumer and other:							
Home equity and second mortgages	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Grand total	\$ 3,815	\$ 3,841	\$ 1,650	\$ 5,084	\$ 400	\$ 1,436	\$ (1,036)

(1) The recorded investment represents the unpaid principal balance net of any partial charge-offs.

(2) Average recorded investment is calculated primarily using daily average balances.

As of and for the Year Ended December 31, 2021							
Recorded Investment ⁽¹⁾	Unpaid Principal Balance	Impairment Reserve	Average Recorded Investment ⁽²⁾	Foregone Interest Income	Interest Income Recognized	Net Foregone Interest Income	
(In Thousands)							
With no impairment reserve recorded:							
Commercial real estate:							
Owner occupied	\$ 348	\$ 386	\$ —	\$ 2,217	\$ 145	\$ 218	\$ (73)
Non-owner occupied	—	—	—	2,281	233	16	217
Land development	—	—	—	7	—	—	—
Construction	—	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—	—
1-4 family	339	344	—	285	60	24	36
Commercial and industrial	3,717	3,819	—	7,914	522	179	343
Direct financing leases, net	15	15	—	2	1	—	1
Consumer and other:							
Home equity and second mortgages	—	—	—	40	7	9	(2)
Other	—	—	—	8	23	—	23
Total	4,419	4,564	—	12,754	991	446	545
With impairment reserve recorded:							
Commercial real estate:							
Owner occupied	—	—	—	—	—	—	—
Non-owner occupied	—	—	—	—	—	—	—
Land development	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—	—
1-4 family	—	—	—	—	—	—	—
Commercial and industrial	2,072	2,072	1,439	1,456	109	8	101
Direct financing leases, net	84	84	66	50	4	—	4
Consumer and other:							
Home equity and second mortgages	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Total	2,156	2,156	1,505	1,506	113	8	105
Total:							
Commercial real estate:							
Owner occupied	348	386	—	2,217	145	218	(73)
Non-owner occupied	—	—	—	2,281	233	16	217
Land development	—	—	—	7	—	—	—
Construction	—	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—	—
1-4 family	339	344	—	285	60	24	36
Commercial and industrial	5,789	5,891	1,439	9,370	631	187	444
Direct financing leases, net	99	99	66	52	5	—	5
Consumer and other:							
Home equity and second mortgages	—	—	—	40	7	9	(2)
Other	—	—	—	8	23	—	23
Grand total	\$ 6,575	\$ 6,720	\$ 1,505	\$ 14,260	\$ 1,104	\$ 454	\$ 650

(1) The recorded investment represents the unpaid principal balance net of any partial charge-offs.

(2) Average recorded investment is calculated primarily using daily average balances.

As of and for the Year Ended December 31, 2020

	Recorded Investment ⁽¹⁾	Unpaid Principal Balance	Impairment Reserve	Average Recorded Investment ⁽²⁾	Foregone Interest Income	Interest Income Recognized	Net Foregone Interest Income
(In Thousands)							
With no impairment reserve recorded:							
Commercial real estate:							
Owner occupied	\$ 4,338	\$ 4,365	\$ —	\$ 4,565	\$ 291	\$ 72	\$ 219
Non-owner occupied	3,783	6,563	—	1,519	486	—	486
Land development	890	5,187	—	1,192	14	—	14
Construction	—	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—	—
1-4 family	46	51	—	307	31	141	(110)
Commercial and industrial	9,888	12,337	—	13,951	1,219	423	796
Direct financing leases, net	—	—	—	89	—	—	—
Consumer and other:							
Home equity and second mortgages	—	—	—	1	—	—	—
Other	21	688	—	85	41	—	41
Total	18,966	29,191	—	21,709	2,082	636	1,446
With impairment reserve recorded:							
Commercial real estate:							
Owner occupied	1,091	4,792	471	2,349	384	—	384
Non-owner occupied	—	—	—	—	—	—	—
Land development	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—	—
1-4 family	250	250	29	21	—	—	—
Commercial and industrial	6,267	6,972	3,125	3,585	324	—	324
Direct financing leases, net	49	49	49	39	3	—	3
Consumer and other:							
Home equity and second mortgages	40	40	7	—	1	—	1
Other	—	—	—	—	—	—	—
Total	7,697	12,103	3,681	5,994	712	—	712
Total:							
Commercial real estate:							
Owner occupied	5,429	9,157	471	6,914	675	72	603
Non-owner occupied	3,783	6,563	—	1,519	486	—	486
Land development	890	5,187	—	1,192	14	—	14
Construction	—	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—	—
1-4 family	296	301	29	328	31	141	(110)
Commercial and industrial	16,155	19,309	3,125	17,536	1,543	423	1,120
Direct financing leases, net	49	49	49	128	3	—	3
Consumer and other:							
Home equity and second mortgages	40	40	7	1	1	—	1
Other	21	688	—	85	41	—	41
Grand total	\$ 26,663	\$ 41,294	\$ 3,681	\$ 27,703	\$ 2,794	\$ 636	\$ 2,158

(1) The recorded investment represents the unpaid principal balance net of any partial charge-offs.

(2) Average recorded investment is calculated primarily using daily average balances.

The difference between the recorded investment of loans and leases and the unpaid principal balance of \$26,000 and \$145,000 as of December 31, 2022 and 2021, respectively, represents partial charge-offs of loans and leases resulting from losses due to the appraised value of the collateral securing the loans and leases being below the carrying values of the loans and leases. Impaired loans and leases also included \$156,000 and \$217,000 of loans as of December 31, 2022 and 2021, respectively, that were performing TDRs, and although not on non-accrual, were reported as impaired due to the concession in terms. When a

loan is placed on non-accrual, interest accrual is discontinued and previously accrued but uncollected interest is deducted from interest income. Cash payments collected on non-accrual loans are first applied to such loan's principal. Foregone interest represents the interest that was contractually due on the loan but not received or recorded. To the extent the amount of principal on a non-accrual loan is fully collected and additional cash is received, the Corporation will recognize interest income.

To determine the level and composition of the allowance for loan and lease losses, the Corporation categorizes the portfolio into segments with similar risk characteristics. First, the Corporation evaluates loans and leases for potential impairment classification. The Corporation analyzes each loan and lease determined to be impaired on an individual basis to determine a specific reserve based upon the estimated value of the underlying collateral for collateral-dependent loans, or alternatively, the present value of expected cash flows. The Corporation applies historical trends from established risk factors to each category of loans and leases that has not been individually evaluated for the purpose of establishing the general portion of the allowance.

A summary of the activity in the allowance for loan and lease losses by portfolio segment is as follows:

	As of and for the Year Ended December 31, 2022			
	Commercial Real Estate	Commercial and Industrial	Consumer and Other	Total
	(In Thousands)			
Beginning balance	\$ 15,110	\$ 8,413	\$ 813	\$ 24,336
Charge-offs	—	(958)	(21)	(979)
Recoveries	4,262	437	42	4,741
Net recoveries (charge-offs)	4,262	(521)	21	3,762
Provision for loan and lease losses	(6,812)	3,236	(292)	(3,868)
Ending balance	\$ 12,560	\$ 11,128	\$ 542	\$ 24,230

	As of and for the Year Ended December 31, 2021			
	Commercial Real Estate	Commercial and Industrial	Consumer and Other	Total
	(In Thousands)			
Beginning balance	\$ 17,157	\$ 10,593	\$ 771	\$ 28,521
Charge-offs	(256)	(3,227)	(25)	(3,508)
Recoveries	3,935	1,168	23	5,126
Net recoveries (charge-offs)	3,679	(2,059)	(2)	1,618
Provision for loan and lease losses	(5,726)	(121)	44	(5,803)
Ending balance	\$ 15,110	\$ 8,413	\$ 813	\$ 24,336

	As of and for the Year Ended December 31, 2020			
	Commercial Real Estate	Commercial and Industrial	Consumer and Other	Total
	(In Thousands)			
Beginning balance	\$ 10,852	\$ 8,078	\$ 590	\$ 19,520
Charge-offs	(6,119)	(2,007)	(13)	(8,139)
Recoveries	4	325	3	332
Net charge-offs	(6,115)	(1,682)	(10)	(7,807)
Provision for loan and lease losses	12,420	4,197	191	16,808
Ending balance	\$ 17,157	\$ 10,593	\$ 771	\$ 28,521

The following tables provide information regarding the allowance for loan and lease losses and balances by type of allowance methodology:

	December 31, 2022			
	Commercial Real Estate	Commercial and Industrial	Consumer and Other	Total
	(In Thousands)			
Allowance for loan and lease losses:				
Collectively evaluated for impairment	\$ 12,560	\$ 9,478	\$ 542	\$ 22,580
Individually evaluated for impairment	—	1,650	—	1,650
Total	<u>\$ 12,560</u>	<u>\$ 11,128</u>	<u>\$ 542</u>	<u>\$ 24,230</u>
Loans and lease receivables:				
Collectively evaluated for impairment	\$ 1,541,920	\$ 849,542	\$ 47,938	2,439,400
Individually evaluated for impairment	30	3,785	—	3,815
Total	<u>\$ 1,541,950</u>	<u>\$ 853,327</u>	<u>\$ 47,938</u>	<u>\$ 2,443,215</u>
	December 31, 2021			
	Commercial Real Estate	Commercial and Industrial	Consumer and Other	Total
	(In Thousands)			
Allowance for loan and lease losses:				
Collectively evaluated for impairment	\$ 15,110	\$ 6,908	\$ 813	\$ 22,831
Individually evaluated for impairment	—	1,505	—	1,505
Total	<u>\$ 15,110</u>	<u>\$ 8,413</u>	<u>\$ 813</u>	<u>\$ 24,336</u>
Loans and lease receivables:				
Collectively evaluated for impairment	\$ 1,453,941	\$ 740,674	\$ 39,741	\$ 2,234,356
Individually evaluated for impairment	687	5,888	—	6,575
Total	<u>\$ 1,454,628</u>	<u>\$ 746,562</u>	<u>\$ 39,741</u>	<u>\$ 2,240,931</u>

The Corporation's net investment in direct financing leases consists of the following:

	December 31, 2022	December 31, 2021
	(In Thousands)	
Minimum lease payments receivable	\$ 10,673	\$ 13,641
Estimated unguaranteed residual values in leased property	2,776	3,564
Unearned lease and residual income	(1,300)	(1,462)
Investment in commercial direct financing leases	<u>\$ 12,149</u>	<u>\$ 15,743</u>

The Corporation leases equipment under direct financing leases expiring in future years. Some of these leases provide for additional rents and generally allow the lessees to purchase the equipment for fair value at the end of the lease term.

Future aggregate maturities of minimum lease payments to be received are as follows:

(In Thousands)

Maturities during year ended December 31,		
2023	\$	4,246
2024		2,802
2025		1,507
2026		967
2027		637
Thereafter		514
	\$	<u>10,673</u>

Note 5 – Premises and Equipment

A summary of premises and equipment was as follows:

	As of December 31,	
	2022	2021
	(In Thousands)	
Leasehold improvements	\$ 4,525	\$ 2,727
Furniture and equipment	8,250	6,824
Total premises and equipment	12,775	9,551
Less: accumulated depreciation	(8,435)	(7,857)
Total premises and equipment, net	\$ 4,340	\$ 1,694

Depreciation expense was \$578,000, \$585,000, and \$822,000 for the years ended December 31, 2022, 2021, and 2020, respectively. During 2022, the Corporation relocated its Southeastern Wisconsin office. This resulted in additional leasehold improvements and equipment of \$1.8 million and \$602,000, respectively.

Note 6 – Leases

The Corporation leases various office spaces and specialized lending production offices under non-cancellable operating leases which expire on various dates through 2033. The Corporation also leases office equipment. The Corporation recognizes a right-of-use asset and an operating lease liability for all leases, with the exception of short-term leases. Right-of-use assets represent the right to use an underlying asset for the lease term and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term.

In November 2022, the Corporation relocated its Southeast Wisconsin office resulting in a \$1.6 million right-of-use asset and \$2.5 million lease liability. The Corporation received a \$991,000 tenant improvement allowance related to this lease, which is recognized as a lease incentive and deducted from the right-of-use asset. In October 2022, the Corporation also entered into a new lease in the Kansas City metropolitan area that will begin in June 2023, resulting in a \$2.6 million right-of-use asset and \$3.7 million lease liability. The Corporation received a \$1.1 million tenant improvement allowance related to this lease.

In 2019, the Corporation entered into a sublease for office space it vacated in its Kansas City metropolitan area which expires in May 2023. During the first quarter of 2022, the Corporation amended the sublease agreement and the amendment did not result in any impairment.

The components of total lease expense were as follows:

	For the Year Ended December 31,		
	2022	2021	2020
	(In Thousands)		
Operating lease cost	\$ 1,544	\$ 1,513	\$ 1,494
Short-term lease cost	148	158	222
Variable lease cost	604	492	522
Less: sublease income	(179)	(170)	(113)
Total lease cost, net	\$ 2,117	\$ 1,993	\$ 2,125

Quantitative information regarding the Corporation's operating leases was as follows:

	December 31, 2022	December 31, 2021	December 31, 2020
Weighted-average remaining lease term (in years)	8.06	5.05	5.80
Weighted-average discount rate	3.40 %	2.51 %	3.03 %

The following maturity analysis shows the undiscounted cash flows due on the Corporation's operating lease liabilities:

(In Thousands)

2023	\$ 1,511
2024	1,527
2025	1,408
2026	1,400
2027	1,428
Thereafter	4,688
Total undiscounted cash flows	11,962
Discount on cash flows	(1,787)
Total lease liability	\$ 10,175

Note 7 – Goodwill and Other Intangible Assets

Goodwill

Goodwill is not amortized, but is subject to impairment tests on an annual basis and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount (including goodwill). At December 31, 2022 and 2021, the Corporation had goodwill of \$10.7 million, which was related to the acquisition of Alterra Bank in 2014.

The Corporation conducted its annual impairment test on December 31, 2022, utilizing a qualitative assessment, and concluded that it was more likely than not the estimated fair value of the reporting unit exceeded its carrying value, resulting in no impairment.

Other Intangible Assets

The Corporation has intangible assets that are amortized consisting of loan servicing rights.

Loan servicing rights are recognized upon sale of the guaranteed portions of SBA loans with servicing rights retained. When SBA loans are sold, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Loan servicing assets are subsequently measured using the amortization method, which requires servicing rights to be amortized into interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. For the years ended December 31, 2022, 2021, and 2020, loan servicing asset amortization totaled \$634,000, \$412,000, and \$458,000, respectively.

The estimated fair value of the Corporation's loan servicing asset was \$1.5 million and \$1.6 million as of December 31, 2022 and 2021, respectively. The Corporation periodically reviews this portfolio for impairment and engages a third-party valuation firm to assess the fair value of the overall servicing rights portfolio. During the year ended December 31, 2022, the Corporation

recognized \$1,000 of impairment expense. During the years ended December 31, 2021 and 2020, the Corporation recognized an impairment recovery of \$63,000 and \$16,000, respectively.

Note 8 – Other Assets

The Corporation is a limited partner in several limited partnership investments. The Corporation is not the general partner, does not have controlling ownership, and is not the primary beneficiary in any of these limited partnerships and the limited partnerships have not been consolidated. These investments are accounted for using the equity and proportional amortization method of accounting and are evaluated for impairment at the end of each reporting period.

Historic Rehabilitation Tax Credits

The Corporation invests in development entities through BOC Investment, LLC (“BOC”), Mitchell Street, and FBB Tax Credit, wholly-owned subsidiaries of FBB, to rehabilitate historic buildings. On June 30, 2022, the Corporation exercised the put option and exited the BOC entity. As of December 31, 2022, the Corporation had no remaining investment in the BOC. At December 31, 2022 and 2021, the net carrying value of the investments were \$2.2 million and \$2.3 million, respectively. During 2021, the Corporation had no activity related to these investments. During 2020, the Corporation invested \$4.4 million in these partnerships, recognized \$2.8 million in federal historic tax credits, and \$1.9 million in impairment related to these investments. During the year ended December 31, 2020, the Corporation received \$2.7 million in state tax credits, which were sold to a third party resulting in \$275,000 gain on sale.

Low-Income Housing Tax Credits

The Corporation invests in development entities through FBB Tax Credit, wholly-owned subsidiaries of FBB, to develop buildings that offer low-income housing. These investments are accounted for using the proportional amortization method of accounting. At December 31, 2022 and 2021, the net carrying value of the investments were \$13.5 million and \$3.0 million, respectively. During 2022 and 2021, the Corporation invested \$11.5 million and \$3.0 million in these partnerships, respectively. During 2022, the Corporation recognized \$1.4 million in tax benefit and \$1.0 million in amortization related to these partnerships. During 2021, the Corporation did not recognize any tax benefit or amortization related to these partnerships. As of December 31, 2020, the Corporation had no low-income housing tax credit investments.

Other Investments

The Corporation’s equity investment in mezzanine funds, consisting of Aldine Capital Fund II, LP, Aldine Capital Fund III, LP, and Aldine Capital Fund IV, LP, totaled \$12.8 million and \$9.4 million as of December 31, 2022 and 2021, respectively. As of December 31, 2022, the Corporation has \$6.4 million remaining of the original \$15.0 million commitment to these partnerships. The Corporation’s share of these partnerships’ income included in other non-interest income in the Consolidated Statements of Income for the years ended December 31, 2022, 2021 and 2020 was \$3.0 million, \$2.5 million, and \$520,000, respectively. The Corporation’s share of these partnerships’ losses included in other non-interest expense in the Consolidated Statements of Income for the year ended December 31, 2021, and 2020 was \$24,000, and \$99,000, respectively. There were no losses related to these investments during the year ended December 31, 2022.

The Corporation’s equity investment in Dane Workforce Housing Fund LLC, a Wisconsin limited liability company focused on community development by providing affordable workforce housing units in Dane County, Wisconsin, totaled \$653,000 and \$367,000 as of December 31, 2022 and 2021, respectively. As of December 31, 2022, the Corporation had a \$320,000 commitment remaining of the original \$1.0 million. The Corporation’s share of the investment fund’s income included in other non-interest income in the Consolidated Statements of Income for the year ended December 31, 2022 and 2021 was \$8,000 and \$2,000, respectively. The Corporation’s share of these partnerships’ losses included in other non-interest expense in the Consolidated Statements of Income for the year ended December 31, 2021 was \$19,000. There were no losses for the year ended December 31, 2022. During 2020, the Corporation had no income or loss activity related to this investment.

The Corporation’s equity investment in BankTech Ventures, LP, a venture capital fund, focused on the community banking industry through strategic investments in growth-stage startups that directly support community banking needs, totaled \$154,000 and \$120,000 as of December 31, 2022 and 2021, respectively. The Corporation had a \$780,000 commitment remaining of the original \$1.0 million as of December 31, 2022. For the years ended December 31, 2022, 2021, and 2020, there was no income included in other non-interest income in the Consolidated Statements of Income related to this investment. The Corporation’s share of these partnerships’ losses included in other non-interest expense in the Consolidated Statements of Income for the year ended December 31, 2022 was \$21,000. During 2021 and 2020, the Corporation had no loss activity related to this investment.

As of March 30, 2022, the Corporation surrendered its common shares for no gain or loss and exited the Trust II entity, which was subsequently dissolved. Previously, the Corporation was the sole owner of \$315,000 of common securities issued by Trust II. The purpose of Trust II was to complete the sale of \$10.0 million of 10.50% fixed rate preferred securities. Trust II, a wholly owned subsidiary of the Corporation, is not consolidated into the financial statements of the Corporation. The investment in Trust II of \$315,000 as of December 31, 2021 is included in accrued interest receivable and other assets.

A summary of accrued interest receivable and other assets was as follows:

	December 31, 2022	December 31, 2021
	(In Thousands)	
Accrued interest receivable	\$ 9,403	\$ 5,497
Net deferred tax asset	11,711	6,175
Investment in historic development entities	2,176	2,299
Investment in low-income housing development entity	13,514	2,964
Investment in limited partnerships	13,599	9,874
Investment in Trust II	—	315
Prepaid expenses	3,821	2,689
Other assets	8,883	9,577
Total accrued interest receivable and other assets	<u>\$ 63,107</u>	<u>\$ 39,390</u>

Note 9 – Deposits

The composition of deposits is shown below.

	December 31, 2022			December 31, 2021		
	Balance	Average Balance	Average Rate	Balance	Average Balance	Average Rate
	(Dollars in Thousands)					
Non-interest-bearing transaction accounts	\$ 537,107	\$ 566,230	— %	\$ 589,559	\$ 536,981	— %
Interest-bearing transaction accounts	576,601	503,668	0.79	530,225	506,693	0.19
Money market accounts	698,505	761,469	0.82	754,410	693,608	0.17
Certificates of deposit	153,757	97,448	1.39	54,091	47,020	0.84
Wholesale deposits	202,236	48,825	3.31	29,638	119,831	0.82
Total deposits	<u>\$ 2,168,206</u>	<u>\$ 1,977,640</u>	0.67	<u>\$ 1,957,923</u>	<u>\$ 1,904,133</u>	0.19

A summary of annual maturities of in-market and wholesale certificates of deposit at December 31, 2022 is as follows:

(In Thousands)

Maturities during the year ended December 31,	
2023	\$ 234,750
2024	12,804
2025	14,442
2026	25,493
2027	51,432
Thereafter	2,072
	<u>\$ 340,993</u>

Wholesale deposits include \$187.2 million and \$15.0 million of wholesale certificates of deposit and non-reciprocal interest-bearing transaction accounts, respectively, at December 31, 2022, compared to \$19.6 million and \$10.0 million of wholesale certificates of deposit and non-reciprocal interest-bearing transaction accounts at December 31, 2021.

Deposits include \$81.6 million and \$7.9 million of certificates of deposit and wholesale deposits which are denominated in amounts greater than \$250,000 at December 31, 2022 and 2021, respectively.

Note 10 – FHLB Advances, Other Borrowings and Junior Subordinated Notes

The composition of borrowed funds is shown below.

	December 31, 2022			December 31, 2021		
	Balance	Weighted Average Balance	Weighted Average Rate	Balance	Weighted Average Balance	Weighted Average Rate
(Dollars in Thousands)						
Federal funds purchased	\$ —	\$ 14	7.42 %	\$ —	\$ —	— %
FHLB advances	416,380	414,191	1.70	368,800	376,781	1.30
Line of credit	—	85	2.78	500	78	2.90
Other borrowings	6,088	8,624	5.23	10,363	8,090	4.11
Subordinated notes payable	34,340	35,095	5.06	23,788	23,766	5.94
Junior subordinated notes ⁽¹⁾	—	2,429	20.75	10,076	10,068	11.05
	<u>\$ 456,808</u>	<u>\$ 460,438</u>	2.12	<u>\$ 413,527</u>	<u>\$ 418,783</u>	1.86

(1) Weighted average rate of junior subordinated notes reflects the accelerated amortization of subordinated debt issuance costs as a result of the early redemption of the junior subordinated notes during the first quarter of 2022.

A summary of annual maturities of borrowings at December 31, 2022 is as follows:

(In Thousands)

Maturities during the year ended December 31,	
2023	\$ 236,880
2024	35,500
2025	56,000
2026	60,000
2027	28,000
Thereafter	<u>\$ 40,428</u>
	<u>\$ 456,808</u>

The Corporation has a \$600.8 million FHLB line of credit available for advances which is collateralized as noted below. At December 31, 2022, \$184.4 million of this line remained unused. There were \$416.4 million of term FHLB advances outstanding at December 31, 2022 with stated fixed interest rates ranging from 0.31% to 4.69% compared to \$368.8 million of term FHLB advances outstanding at December 31, 2021 with stated fixed interest rates ranging from 0.00% to 2.51%. The term FHLB advances outstanding at December 31, 2022 are due at various dates through July 2027.

The Corporation is required to maintain as collateral mortgage-related securities, unencumbered first mortgage loans and secured small business loans in its portfolio aggregating at least the amount of outstanding advances from the FHLB. Loans totaling approximately \$1.059 billion and \$1.305 billion were pledged as collateral at December 31, 2022 and 2021, respectively.

The Corporation has a senior line of credit with a third-party financial institution of \$10.5 million. As of December 31, 2022, the line of credit carried an interest rate of SOFR + 2.36% that matured on February 19, 2023 and had certain performance debt covenants of which the Corporation was in compliance. The Corporation pays a commitment fee on this senior line of credit. For the years ended December 31, 2022, 2021, and 2020 the Corporation incurred \$13,000 additional interest expense due to this fee. There was no outstanding balance on the line of credit as of December 31, 2022. On February 20, 2023, the credit line was renewed for one additional year with pricing terms of 1-month term SOFR + 2.36% and a maturity date of February 19, 2024.

The Corporation issued a new subordinated note payable as of March 4, 2022. The principal amount of the newly issued subordinated note was \$20.0 million which qualified as Tier II capital. The subordinated note bears a fixed interest rate of 3.50% with a maturity date of March 15, 2032. The subordinated note payable has certain financial performance covenants, with which the Corporation was in compliance as of December 31, 2022. The Corporation may, at its option, redeem the note, in whole or part, at any time after the fifth anniversary of issuance. As of June 16, 2022, the \$9.1 million subordinated notes

payable that bore a fixed interest rate of 6.00% were redeemed, and the remaining unamortized debt issuance cost was accelerated due to the early redemption. The Corporation also has another series of subordinated notes payable, which qualify as Tier II capital. At December 31, 2022, \$15.0 million bore a fixed interest rate of 5.50% with a maturity date of August 15, 2029. The \$15.0 million subordinated notes payable have certain performance debt covenants of which the Corporation was in compliance. The Corporation may, at its option, redeem the 5.50% notes, in whole or part, at any time after August 15, 2024. As of December 31, 2022, \$659,000 of debt issuance costs remain in the subordinated note payable balance, of which \$409,000 is related to the recently issued subordinated note. At December 31, 2022, the aggregate principal amount of subordinated notes payable outstanding was \$34.3 million.

In September 2008, Trust II completed the sale of \$10.0 million of 10.50% fixed rate trust preferred securities (“Trust Preferred Securities”). Trust II also issued common securities of \$315,000. Trust II used the proceeds from the offering to purchase \$10 million of 10.50% junior subordinated notes of the Corporation. The Trust Preferred Securities were mandatorily redeemable upon the maturity of the junior subordinated notes on September 26, 2038. As of March 30, 2022, the junior subordinated notes were redeemed and the remaining unamortized debt issuance cost was accelerated due to the early redemption. As of December 31, 2021 the unamortized debt issuance cost included in junior subordinated notes on the Consolidated Balance Sheet was \$293,000.

As of December 31, 2022, the Corporation had other borrowings of \$6.1 million, which consisted of sold loans accounted for as secured borrowings because they did not qualify for true sale accounting.

Note 11 — Preferred Stock

On March 4, 2022, the Corporation issued 12,500 shares, or \$12.5 million in aggregate liquidation preference, of 7.0% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A, par value \$0.01 per share, with a liquidation preference of \$1,000 per share (the “Series A Preferred Stock”) in a private placement to institutional investors. The net proceeds received from the issuance of the Series A Preferred Stock were \$12.0 million.

The Corporation expects to pay dividends on the Series A Preferred Stock when and if declared by the Board, at a fixed rate of 7.0% per annum, payable quarterly, in arrears, on March 15, June 15, September 15 and December 15 of each year up to, but excluding, March 15, 2027. For each dividend period from and including March 15, 2027, dividends will be paid at a floating rate of Three-Month Term Secured Overnight Financing Rate (“SOFR”) plus a spread of 539 basis points per annum. During the year ended December 31, 2022, the Board of Directors declared preferred stock cash dividends of \$683,000. The Series A Preferred Stock is perpetual and has no stated maturity. The Corporation may redeem the Series A Preferred Stock at its option at a redemption price equal to \$1,000 per share, plus any declared and unpaid dividends (without regard to any undeclared dividends), subject to regulatory approval, on or after March 15, 2027 or within 90 days following a regulatory capital treatment event, in accordance with the terms of the Series A Preferred Stock.

Note 12 – Regulatory Capital

The Corporation and the Bank are subject to various regulatory capital requirements administered by Federal and Wisconsin banking agencies. Failure to meet minimum capital requirements can result in certain mandatory, and possibly additional discretionary actions on the part of regulators, that if undertaken, could have a direct material effect on the Bank’s assets, liabilities, and certain off-balance sheet items as calculated under regulatory practices. The Corporation’s and the Bank’s capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. The Corporation regularly reviews and updates, when appropriate, its Capital and Liquidity Action Plan, which is designed to help ensure appropriate capital adequacy, to plan for future capital needs, and to ensure that the Corporation serves as a source of financial strength to the Bank. The Corporation’s and the Bank’s Board and management teams adhere to the appropriate regulatory guidelines on decisions which affect their respective capital positions, including but not limited to, decisions relating to the payment of dividends and increasing indebtedness.

As a bank holding company, the Corporation’s ability to pay dividends is affected by the policies and enforcement powers of the Board of Governors of the Federal Reserve system (the “Federal Reserve”). Federal Reserve guidance urges financial institutions to strongly consider eliminating, deferring, or significantly reducing dividends if: (i) net income available to common shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividend; (ii) the prospective rate of earnings retention is not consistent with the bank holding company’s capital needs and overall current and prospective financial condition; or (iii) the bank holding company will not meet, or is in danger of not meeting, its minimum regulatory capital ratios. Management intends, when appropriate under regulatory guidelines, to consult with the Federal Reserve Bank of Chicago and provide it with information on the Corporation’s then-current and prospective

earnings and capital position in advance of declaring any cash dividends. As a Wisconsin corporation, the Corporation is subject to the limitations of the Wisconsin Business Corporation Law, which prohibit the Corporation from paying dividends if such payment would: (i) render the Corporation unable to pay its debts as they become due in the usual course of business, or (ii) result in the Corporation's assets being less than the sum of its total liabilities plus the amount needed to satisfy the preferential rights upon dissolution of any shareholders with preferential rights superior to those shareholders receiving the dividend.

The Bank is also subject to certain legal, regulatory, and other restrictions on their ability to pay dividends to the Corporation. As a bank holding company, the payment of dividends by the Bank to the Corporation is one of the sources of funds the Corporation could use to pay dividends, if any, in the future and to make other payments. Future dividend decisions by the Bank and the Corporation will continue to be subject to compliance with various legal, regulatory, and other restrictions as defined from time to time.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios of Total Common Equity Tier 1 and Tier 1 capital to risk-weighted assets and of Tier 1 capital to adjusted total assets. These risk-based capital requirements presently address credit risk related to both recorded and off-balance sheet commitments and obligations.

In July 2013, the FRB and the FDIC approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks. These rules are applicable to all financial institutions that are subject to minimum capital requirements, including federal and state banks and savings and loan associations, as well as bank and savings and loan holding companies other than "small bank holding companies" (generally non-publicly traded bank holding companies with consolidated assets of less than \$1 billion). Under the final rules, minimum requirements increased for both the quantity and quality of capital held by the Corporation. The rules include a new Common Equity Tier 1 capital to risk-weighted assets minimum ratio of 4.5%, raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0%, require a minimum ratio of Total Capital to risk-weighted assets of 8.0%, and require a minimum Tier 1 leverage ratio of 4.0%. The rules also permit banking organizations with less than \$15 billion in assets to retain, through a one-time election, the past treatment for accumulated other comprehensive income, which did not affect regulatory capital. The Corporation elected to retain this treatment, which reduces the volatility of regulatory capital ratios. The Corporation also must comply with the 2.5% conservation buffer, which the Corporation met as of December 31, 2022.

As of December 31, 2022, the Corporation's capital levels exceeded the regulatory minimums and the Bank's capital levels remained characterized as well capitalized under the regulatory framework. The following tables summarize both the Corporation's and the Bank's capital ratios and the ratios required by their federal regulators:

As of December 31, 2022

	Actual		Minimum Required for Capital Adequacy Purposes		For Capital Adequacy Purposes Plus Capital Conservation Buffer		Minimum Required to Be Well Capitalized Under Prompt Corrective Action Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)								
Total capital (to risk-weighted assets)								
Consolidated	\$ 323,893	11.26 %	\$ 230,180	8.00 %	\$ 302,111	10.50 %	N/A	N/A
First Business Bank	323,021	11.22	230,367	8.00	302,357	10.50	\$ 287,959	10.00 %
Tier 1 capital (to risk-weighted assets)								
Consolidated	\$ 264,843	9.20 %	\$ 172,635	6.00 %	\$ 244,566	8.50 %	N/A	N/A
First Business Bank	298,312	10.36	172,775	6.00	244,765	8.50	\$ 230,367	8.00 %
Common equity tier 1 capital (to risk-weighted assets)								
Consolidated	\$ 252,851	8.79 %	\$ 129,476	4.50 %	\$ 201,407	7.00 %	N/A	N/A
First Business Bank	298,312	10.36	129,581	4.50	201,571	7.00	\$ 187,173	6.50 %
Tier 1 leverage capital (to adjusted assets)								
Consolidated	\$ 264,843	9.17 %	\$ 115,464	4.00 %	\$ 115,464	4.00 %	N/A	N/A
First Business Bank	298,312	10.34	115,402	4.00	115,402	4.00	\$ 144,252	5.00 %

As of December 31, 2021

	Actual		Minimum Required for Capital Adequacy Purposes		For Capital Adequacy Purposes Plus Capital Conservation Buffer		Minimum Required to Be Well Capitalized Under Prompt Corrective Action Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)								
Total capital (to risk-weighted assets)								
Consolidated	\$ 281,745	10.82 %	\$ 208,337	8.00 %	\$ 273,443	10.50 %	N/A	N/A
First Business Bank	280,448	10.78	208,142	8.00	273,187	10.50	\$ 260,178	10.00 %
Tier 1 capital (to risk-weighted assets)								
Consolidated	\$ 232,795	8.94 %	\$ 156,253	6.00 %	\$ 221,358	8.50 %	N/A	N/A
First Business Bank	255,286	9.81	156,107	6.00	221,151	8.50	\$ 208,142	8.00 %
Common equity tier 1 capital (to risk-weighted assets)								
Consolidated	\$ 222,719	8.55 %	\$ 117,190	4.50 %	\$ 182,295	7.00 %	N/A	N/A
First Business Bank	255,286	9.81	117,080	4.50	182,124	7.00	\$ 169,116	6.50 %
Tier 1 leverage capital (to adjusted assets)								
Consolidated	\$ 232,795	8.94 %	\$ 104,145	4.00 %	\$ 104,145	4.00 %	N/A	N/A
First Business Bank	255,286	9.81	104,045	4.00	104,045	4.00	\$ 130,056	5.00 %

The following table reconciles stockholders' equity to federal regulatory capital at December 31, 2022 and 2021, respectively:

	As of December 31,	
	2022	2021
(In Thousands)		
Stockholders' equity of the Corporation	\$ 260,640	\$ 232,422
Net unrealized and accumulated losses on specific items	15,310	1,457
Disallowed servicing assets	(706)	(727)
Disallowed goodwill and other intangibles	(10,401)	(10,433)
Junior subordinated notes	—	10,076
Tier 1 capital	264,843	232,795
Allowable general valuation allowances and subordinated debt	59,050	48,950
Total capital	\$ 323,893	\$ 281,745

Note 13 – Earnings per Common Share

Earnings per common share are computed using the two-class method. Basic earnings per common share are computed by dividing net income allocated to common shares by the weighted average number of shares outstanding during the applicable period, excluding outstanding participating securities. Participating securities include unvested restricted shares. Unvested restricted shares are considered participating securities because holders of these securities receive non-forfeitable dividends, or dividend equivalents, at the same rate as holders of the Corporation's common stock. Diluted earnings per share are computed by dividing net income allocated to common shares adjusted for reallocation of undistributed earnings of unvested restricted shares by the weighted average number of shares determined for the basic earnings per common share computation plus the dilutive effect of common stock equivalents using the treasury stock method.

	For the Year Ended December 31,		
	2022	2021	2020
	(Dollars in Thousands, Except Share Data)		
<i>Basic earnings per common share</i>			
Net income	\$ 40,858	\$ 35,755	\$ 16,978
Less: preferred stock dividends	683	—	—
Less: earnings allocated to participating securities	1,106	1,053	423
Basic earnings allocated to common shareholders	<u>\$ 39,069</u>	<u>\$ 34,702</u>	<u>\$ 16,555</u>
Weighted-average common shares outstanding, excluding participating securities	<u>8,226,943</u>	<u>8,314,921</u>	<u>8,384,464</u>
Basic earnings per common share	\$ 4.75	\$ 4.17	\$ 1.97
<i>Diluted earnings per common share</i>			
Earnings allocated to common shareholders, diluted	\$ 39,069	\$ 34,702	\$ 16,555
Weighted-average diluted common shares outstanding, excluding participating securities	8,226,943	8,314,921	8,384,464
Diluted earnings per common share	\$ 4.75	\$ 4.17	\$ 1.97

Note 14 – Share-Based Compensation

The Corporation adopted the 2019 Equity Incentive Plan (the “Plan”) during the quarter ended June 30, 2019. The Plan is administered by the Compensation Committee of the Board of Directors (the “Board”) of the Corporation and provides for the grant of equity ownership opportunities through incentive stock options and nonqualified stock options (“Stock Options”), restricted stock, restricted stock units, dividend equivalent units, and any other type of award permitted by the Plan. As of December 31, 2022, 134,812 shares were available for future grants under the Plan. Shares covered by awards that expire, terminate, or lapse will again be available for the grant of awards under the Plan.

Restricted Stock

Under the Plan, the Corporation may grant restricted stock awards (“RSA”), restricted stock units (“RSU”), and other stock-based awards to plan participants, subject to forfeiture upon the occurrence of certain events until the dates specified in the participant’s award agreement. While restricted stock is subject to forfeiture, RSA participants may exercise full voting rights and will receive all dividends and other distributions paid with respect to the restricted shares. Restricted stock units do not have voting rights and are provided dividend equivalents. Dividend equivalent units with respect to restricted stock grants made after January 2023 will be deferred at paid at the time of vesting. The restricted stock granted under the Plan is typically subject to a vesting period. Compensation expense for restricted stock is recognized over the requisite service period of generally three or four years for the entire award on a straight-line basis. Upon vesting of restricted stock, the benefit of tax deductions in excess of recognized compensation expense is reflected as an income tax benefit in the Consolidated Statements of Income.

The Corporation may issue a combination of performance-based restricted stock units (“PRSU”) and time-based restricted stock awards to its plan participants. Vesting of the PRSU will be measured on the relative Total Shareholder Return (“TSR”) and relative Return on Equity (“ROE”) and will cliff-vest after a three-year measurement period based on the Corporation’s TSR performance and ROE performance compared to a broad peer group of over 100 banks. At the end of the performance period, the number of actual shares to be awarded varies between 0% and 200% of target amounts. Compensation expense is recognized for PRSU over the requisite service and performance period of generally three years for the entire expected award on a straight-line basis. The compensation expense for the awards expected to vest for the percentage of performance-based restricted stock units subject to the ROE metric will be adjusted if there is a change in the expectation of ROE. The compensation expense for the awards expected to vest for the percentage of PRSU subject to the TSR metric are never adjusted, and are amortized utilizing the accounting fair value provided using a Monte Carlo pricing model.

Restricted stock activity for the year ended December 31, 2022, 2021, and 2020 was as follows:

	RSA	Weighted Average Grant Price	PRSU	Weighted Average Grant Price	RSU	Weighted Average Grant Price	Total	Weighted Average Grant Price
Nonvested balance as of January 1, 2020	152,277	\$ 22.37	21,510	\$ 26.77	3,148	\$ 20.36	176,935	\$ 22.51
Granted ⁽¹⁾	57,305	24.08	18,060	31.32	3,410	25.82	78,775	25.82
Vested	(55,334)	22.31	—	—	(1,570)	20.41	(56,904)	22.26
Forfeited	(11,002)	22.86	—	—	—	—	(11,002)	22.86
Nonvested balance as of December 31, 2020	143,246	23.04	39,570	28.85	4,988	24.08	187,804	24.29
Granted ⁽¹⁾	67,515	22.39	23,550	27.12	2,065	21.68	93,130	23.57
Vested	(61,384)	22.26	—	—	(2,001)	22.91	(63,385)	22.28
Forfeited	(7,760)	23.24	—	—	—	—	(7,760)	23.24
Nonvested balance as of December 31, 2021	141,617	23.06	63,120	28.20	5,052	23.56	209,789	24.62
Granted ⁽¹⁾	62,560	34.04	37,335	24.71	3,115	27.95	103,010	30.47
Vested	(62,353)	23.21	(43,020)	18.91	(2,062)	23.20	(107,435)	21.49
Forfeited	(8,507)	26.15	—	—	—	—	(8,507)	26.15
Nonvested balance as of December 31, 2022	133,317	\$ 27.95	57,435	\$ 32.89	6,105	\$ 25.92	196,857	\$ 29.32
Unrecognized compensation cost (in thousands)	\$ 2,516		\$ 1,041		\$ 91		\$ 3,648	
Weighted average remaining recognition period (in years)	2.43		1.75		1.70		2.22	

(1) The number of restricted shares/units shown includes the shares that would be granted if the target level of performance is achieved related to the PRSU. The number of shares actually issued may vary. During the year ended December 31, 2022, an additional 21,510 were issued related to actual performance results of previously granted awards.

Employee Stock Purchase Plan

During 2020, an employee stock purchase plan ("ESPP") was approved by the Corporation's shareholders and is offered to all qualifying employees. The Corporation is authorized to issue up to 250,000 shares of common stock under the ESPP. The plan qualifies as an employee stock purchase plan under section 423 of the Internal Revenue Code of 1986. Under the ESPP, eligible employees may enroll in a three month offer period that begins January, April, July, and October of each year. Employees may elect to purchase a limited number of shares on the Corporation's common stock at 90% of the fair market value on the last day of the offering period. The ESPP is treated as a compensatory item for purposes of share-based compensation expense.

During the year ended December 31, 2022, the Corporation issued 4,535 shares of common stock under the ESPP. At December 31, 2022, 234,966 shares remained available for issuance under the ESPP.

Share-based compensation expense related to restricted stock and ESPP included in the Consolidated Statements of Income was as follows:

	For the Year Ended December 31,		
	2022	2021	2020
	(In Thousands)		
Share-based compensation expense	\$ 2,584	\$ 2,513	\$ 1,871

Note 15 – Employee Benefit Plans

The Corporation maintains a contributory 401(k) defined contribution plan covering substantially all employees. The Corporation matches 100% of amounts contributed by each participating employee, up to 3% of the employee's compensation. The Corporation may also make discretionary profit sharing contributions up to an additional 6% of salary. Contributions are expensed in the period incurred and recorded in compensation expense in the Consolidated Statements of Income. The Corporation made a matching contribution of 3% to all eligible employees which totaled \$1.1 million, \$987,000, and \$896,000 for the years ended December 31, 2022, 2021, and 2020, respectively. Discretionary profit sharing contributions for substantially all employees of 5.2%, or \$1.6 million, 4.7%, or \$1.3 million, and 5.0%, or \$1.2 million, were made in 2022, 2021, and 2020, respectively.

As of December 31, 2022, 2021, and 2020, the Corporation had a deferred compensation plan under which it provided contributions to supplement the retirement income of one executive. Under the terms of the plan, benefits to be received are generally payable within six months of the date of the termination of employment with the Corporation. The expense associated with the deferred compensation plan for the years ended December 31, 2022, 2021, and 2020 was \$382,000, \$237,000, and \$193,000, respectively. The present value of future payments under the remaining plan of \$2.3 million and \$1.9 million at December 31, 2022 and 2021, respectively, is included in accrued interest payable and other liabilities on the Consolidated Balance Sheets.

The Corporation owned life insurance policies on the life of the executive covered by the deferred compensation plan, which had cash surrender values and death benefits of approximately \$2.9 million and \$6.1 million, respectively, at December 31, 2022 and cash surrender values and death benefits of approximately \$2.8 million and \$6.1 million, respectively, at December 31, 2021. The remaining balance of the cash surrender value of bank-owned life insurance of \$51.0 million and \$50.8 million as of December 31, 2022 and 2021, respectively, is related to policies on a number of then-qualified individuals affiliated with the Bank.

Note 16 – Income Taxes

Income tax expense consists of the following:

	For the Year Ended December 31,		
	2022	2021	2020
	(In Thousands)		
Current:			
Federal	\$ 9,174	\$ 6,965	\$ 1,948
State	2,987	3,087	1,386
Current tax expense	<u>12,161</u>	<u>10,052</u>	<u>3,334</u>
Deferred:			
Federal	(733)	1,333	(1,678)
State	(42)	(110)	(329)
Deferred tax (benefit) expense	<u>(775)</u>	<u>1,223</u>	<u>(2,007)</u>
Total income tax expense	<u>\$ 11,386</u>	<u>\$ 11,275</u>	<u>\$ 1,327</u>

Deferred income tax assets and liabilities reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax basis. Deferred tax assets and liabilities are measured using enacted tax rates to apply to taxable income in the period in which the temporary differences are expected to be recovered or settled. Net deferred tax assets are included in accrued interest receivable and other assets in the Consolidated Balance Sheets.

The significant components of the Corporation's deferred tax assets and liabilities were as follows:

	December 31, 2022	December 31, 2021
	(In Thousands)	
Deferred tax assets:		
Allowance for loan and lease losses	\$ 6,267	\$ 6,312
Deferred compensation	2,342	2,016
State net operating loss carryforwards	265	436
Write-down of repossessed assets	11	5
Non-accrual loan interest	47	176
Capital loss carryforwards	21	21
Unrealized losses on securities	5,263	501
Share-based compensation	725	618
Other	125	216
Total deferred tax assets	<u>15,066</u>	<u>10,301</u>
Deferred tax liabilities:		
Leasing and fixed asset activities	2,197	3,014
Loan servicing asset	393	420
Other	765	692
Total deferred tax liabilities	<u>3,355</u>	<u>4,126</u>
Net deferred tax asset	<u>\$ 11,711</u>	<u>\$ 6,175</u>

The tax effects of unrealized gains and losses on securities are components of other comprehensive income. A reconciliation of the change in net deferred tax assets to deferred tax expense is as follows:

	December 31, 2022	December 31, 2021	December 31, 2020
	(In Thousands)		
Change in net deferred tax assets	\$ 5,536	\$ (1,042)	\$ 1,864
Deferred taxes allocated to other comprehensive income	(4,761)	(181)	143
Deferred income tax benefit (expense)	<u>\$ 775</u>	<u>\$ (1,223)</u>	<u>\$ 2,007</u>

Realization of the deferred tax asset over time is dependent upon the Corporation generating sufficient taxable earnings in future periods. In making the determination that the realization of the deferred tax was more likely than not, the Corporation considered several factors including its recent earnings history, its expected earnings in the future, appropriate tax planning strategies, and expiration dates associated with operating loss carryforwards. The Corporation had state net operating loss carryforwards of approximately \$6.3 million and \$7.0 million at December 31, 2022 and 2021, respectively, which can be used to offset future state taxable income. The Corporation believes it will be able to fully utilize its established deferred tax assets and Wisconsin state net operating losses and therefore no valuation allowance has been established as of December 31, 2022 and 2021.

The provision for income taxes differs from that computed at the federal statutory corporate tax rate as follows:

	Year Ended December 31,		
	2022	2021	2020
	(Dollars in Thousands)		
Income before income tax expense	\$ 52,244	\$ 47,030	\$ 18,305
Tax expense at statutory federal rate of 21% applied to income before income tax expense	\$ 10,971	\$ 9,876	\$ 3,844
State income tax, net of federal effect	2,337	2,351	837
Tax-exempt security and loan income, net of TEFRA adjustments	(704)	(710)	(648)
Bank-owned life insurance	(468)	(297)	(294)
Tax credits, net	(338)	—	(2,535)
Share-based compensation	(392)	—	—
Section 162(m) limitation	118	—	—
Other	(138)	55	123
Total income tax expense	\$ 11,386	\$ 11,275	\$ 1,327
Effective tax rate	21.79 %	23.97 %	7.25 %

There were no uncertain tax positions outstanding as of December 31, 2022 and 2021. As of December 31, 2022, tax years remaining open for the State of Wisconsin tax were 2018 through 2021. Federal tax years that remained open were 2019 through 2021. As of December 31, 2022, there were also no unrecognized tax benefits that are expected to significantly increase or decrease within the next twelve months.

Note 17 – Derivative Financial Instruments

The Corporation offers interest rate swap products directly to qualified commercial borrowers. The Corporation economically hedges client derivative transactions by entering into offsetting interest rate swap contracts executed with a third party. Derivative transactions executed as part of this program are not considered hedging instruments and are marked-to-market through earnings each period. The derivative contracts have mirror-image terms, which results in the positions' changes in fair value offsetting through earnings each period. The credit risk and risk of non-performance embedded in the fair value calculations is different between the dealer counterparties and the commercial borrowers which may result in a difference in the changes in the fair value of the mirror-image swaps. The Corporation incorporates credit valuation adjustments to appropriately reflect both its own non-performance risk and the counterparty's risk in the fair value measurements. When evaluating the fair value of its derivative contracts for the effects of non-performance and credit risk, the Corporation considered the impact of netting and any applicable credit enhancements such as collateral postings, thresholds and guarantees. As of December 31, 2022 and 2021 the credit valuation allowance was \$38,000 and \$191,000, respectively.

The Corporation receives fixed rates and pays floating rates based upon designated benchmark interest rates used on the swaps with commercial borrowers. Commercial borrower swaps are completed independently with each borrower and are not subject to master netting arrangements. The Corporation pays fixed rates and receives floating rates based upon designated benchmark interest rates used on the swaps with dealer counterparties. Dealer counterparty swaps are subject to master netting agreements among the contracts within our Bank and are reported on the unaudited Consolidated Balance Sheet. The gross amount of dealer counterparty swaps, without regard to the enforceable master netting agreement, was a gross derivative asset of \$61.4 million and gross derivative liability of \$1.0 million. No right of offset existed with the dealer counterparty swaps as of December 31, 2022.

All changes in fair value of these instruments are recorded in other non-interest income. Given the mirror-image terms of the outstanding derivative portfolio, the change in fair value for the years ended December 31, 2022, 2021, and 2020 had an insignificant impact on the Consolidated Statements of Income.

The Corporation also enters into interest rate swaps to manage interest rate risk and reduce the cost of match-funding certain long-term fixed rate loans. These derivative contracts involve the receipt of floating rate interest from a counterparty in exchange for the Corporation making fixed-rate payments over the life of the agreement, without the exchange of the underlying notional value. The instruments are designated as cash flow hedges as the receipt of floating rate interest from the counterparty is used to manage interest rate risk associated with forecasted issuances of short-term FHLB advances. The change in the fair value of these hedging instruments is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged transactions affects earnings. A pre-tax unrealized gain of \$8.5 million and \$3.6 million was recognized in other comprehensive income for the year ended December 31, 2022 and 2021, while a pre-tax unrealized loss of \$3.0 million was recognized in other comprehensive income for the year ended December 31, 2020, and there were no ineffective portions of these hedges.

The Corporation also enters into interest rate swaps to mitigate market value volatility on certain long-term fixed securities. The objective of the hedge is to protect the Corporation against changes in fair value due to changes in benchmark interest rates. The instruments are designated as fair value hedges as the changes in the fair value of the interest rate swap are expected to offset changes in the fair value of the hedged item attributable to changes in the SOFR swap rate, the designated benchmark interest rate. These derivative contracts involve the receipt of floating rate interest from a counterparty in exchange for the Corporation making fixed-rate payments over the life of the agreement, without the exchange of the underlying notional value. The change in the fair value of these hedging instruments is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged transactions affects earnings. A pre-tax unrealized gain of \$602,000 was recognized in other comprehensive income for the year ended December 31, 2022 and there was no ineffective portion of these hedges. No pre-tax unrealized gain or loss was recognized in other comprehensive income for the years ended December 31, 2021 and 2020.

As of December 31, 2022				
Number of Instruments	Notional Amount	Weighted Average Maturity (In Years)	Fair Value	
(Dollars in Thousands)				
Included in Derivative assets				
Derivatives not designated as hedging instruments				
Interest rate swap agreements on loans with commercial loan customers	2	\$ 65,352	4.83	\$ 1,010
Interest rate swap agreements on loans with third-party counter parties	84	744,233	7.37	60,409
Derivatives designated as hedging instruments				
Interest rate swap related to AFS securities	11	\$ 12,500	9.28	\$ 602
Interest rate swap related to FHLB borrowings	11	116,400	2.88	6,560
Included in Derivative liabilities				
Derivatives not designated as hedging instruments				
Interest rate swap agreements on loans with commercial loan customers	82	\$ 678,881	7.61	\$ 61,419

As of December 31, 2021					
	Number of Instruments	Notional Amount	Weighted Average Maturity (In Years)		Fair Value
(Dollars in Thousands)					
Included in Derivative assets					
Derivatives not designated as hedging instruments					
Interest rate swap agreements on loans with commercial loan customers	41	\$ 411,913	8.18	\$	26,343
Included in Derivative liabilities					
Derivatives not designated as hedging instruments					
Interest rate swap agreements on loans with commercial loan customers	39	\$ 228,676	8.70	\$	6,595
Interest rate swap agreements on loans with third-party counter parties	80	640,589	8.37		19,748
Derivatives designated as hedging instruments					
Interest rate swap related to FHLB borrowings	10	\$ 106,000	3.17	\$	1,940

Note 18 – Commitments and Contingencies

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of clients. These financial instruments include commitments to extend credit and standby letters of credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the Consolidated Financial Statements. The contract amounts reflect the extent of involvement the Bank has in these particular classes of financial instruments.

In the event of non-performance, the Bank's exposure to credit loss for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Bank uses the same credit policies in making commitments and conditional obligations as they do for instruments reflected in the Consolidated Financial Statements. An accrual for credit losses on financial instruments with off-balance sheet risk would be recorded separate from any valuation account related to any such recognized financial instrument. As of December 31, 2022 and 2021, there were no accrued credit losses for financial instruments with off-balance sheet risk.

Financial instruments whose contract amounts represent potential credit risk were as follows:

	At December 31,	
	2022	2021
(In Thousands)		
Commitments to extend credit, primarily commercial loans	\$ 913,042	\$ 768,442
Standby letters of credit	15,013	16,815

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition in the contract. Commitments generally have fixed expiration dates or other termination clauses and may have a fixed interest rate or a rate which varies with the prime rate or other market indices and may require payment of a fee. Since some commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements of the Bank. The Bank evaluates the creditworthiness of each client on a case-by-case basis and generally extends credit only on a secured basis. Collateral obtained varies but consists primarily of commercial real estate, accounts receivable, inventory, equipment, and securities. There is generally no market for commercial loan commitments, the fair value of which would approximate the present value of any fees expected to be received as a result of the commitment. These are not considered to be material to the financial statements.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a client to a third party. Generally, standby letters of credit expire within one year and are collateralized by accounts receivable, equipment, inventory, and commercial properties. The credit risk involved in issuing letters of credit is essentially the same as that involved

in extending loan facilities to clients. The fair value of standby letters of credit is recorded as a liability when the standby letter of credit is issued. The fair value has been estimated to approximate the fees received by the Bank for issuance. The fees are recorded into income and the fair value of the guarantee is decreased ratably over the term of the standby letter of credit.

The Corporation sells the guaranteed portions of SBA 7(a) and 504 loans, as well as participation interests in other, non-SBA originated, loans to third parties. The Corporation has a continuing involvement in each of the transferred lending arrangements by way of relationship management and servicing the loans, as well as being subject to normal and customary requirements of the SBA loan program and standard representations and warranties related to sold amounts. In the event of a loss resulting from default and a determination by the SBA that there is a deficiency in the manner in which the loan was originated, funded, or serviced by the Corporation, the SBA may require the Corporation to repurchase the loan, deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of the principal loss related to the deficiency from the Corporation. The Corporation must comply with applicable SBA regulations in order to maintain the guaranty. In addition, the Corporation retains the option to repurchase the sold guaranteed portion of an SBA loan if the loan defaults.

Management has assessed estimated losses inherent in the outstanding guaranteed portions of SBA loans sold in accordance with ASC 450, *Contingencies*, and determined a recourse reserve based on the probability of future losses for these loans to be \$441,000 and \$635,000 at December 31, 2022 and 2021, respectively, which is reported in accrued interest payable and other liabilities on the Consolidated Balance Sheets.

The summary of the activity in the SBA recourse reserve is as follows:

	As of and For the Year Ended December 31,	
	2022	2021
	(In Thousands)	
Balance at the beginning of the period	\$ 635	\$ 723
SBA recourse benefit	(188)	(76)
Charge-offs, net	(6)	(12)
Balance at the end of the period	<u>\$ 441</u>	<u>\$ 635</u>

In the normal course of business, various legal proceedings involving the Corporation are pending. Management, based upon advice from legal counsel, does not anticipate any significant losses as a result of these actions. Management believes that any liability arising from any such proceedings currently existing or threatened will not have a material adverse effect on the Corporation's financial position, results of operations, and cash flows.

Note 19 – Fair Value Disclosures

The Corporation determines the fair values of its financial instruments based on the fair value hierarchy established in ASC Topic 820, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is defined as the price that would be received in an orderly transaction that is not a forced liquidation or distressed sale at the measurement date and is based on exit prices. Fair value includes assumptions about risk, such as nonperformance risk in liability fair values, and is a market-based measurement, not an entity-specific measurement. The standard describes three levels of inputs that may be used to measure fair value.

Level 1 — Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.

Level 2 — Level 2 inputs are inputs, other than quoted prices included with Level 1, that are observable for the asset or liability either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Level 3 inputs are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

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

Assets and liabilities measured at fair value on a recurring basis, segregated by fair value hierarchy level, are summarized below:

	December 31, 2022			
	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
(In Thousands)				
Assets:				
Securities available-for-sale:				
U.S. treasuries	\$ —	\$ 4,445	\$ —	\$ 4,445
U.S. government agency securities - government-sponsored enterprises	—	13,205	—	13,205
Municipal securities	—	39,311	—	39,311
Residential mortgage-backed securities - government issued	—	19,431	—	19,431
Residential mortgage-backed securities - government-sponsored enterprises	—	106,323	—	106,323
Commercial mortgage-backed securities - government issued	—	2,932	—	2,932
Commercial mortgage-backed securities - government-sponsored enterprises	—	26,377	—	26,377
Interest rate swaps	—	68,581	—	68,581
Liabilities:				
Interest rate swaps	—	61,419	—	61,419
December 31, 2021				
Fair Value Measurements Using				
	Level 1	Level 2	Level 3	Total
(In Thousands)				
Assets:				
Securities available-for-sale:				
U.S. treasuries	\$ —	\$ 4,914	\$ —	\$ 4,914
U.S. government agency securities - government-sponsored enterprises	—	19,935	—	19,935
Municipal securities	—	30,957	—	30,957
Residential mortgage-backed securities - government issued	—	19,661	—	19,661
Residential mortgage-backed securities - government-sponsored enterprises	—	85,705	—	85,705
Commercial mortgage-backed securities - government issued	—	5,771	—	5,771
Commercial mortgage-backed securities - government-sponsored enterprises	—	36,531	—	36,531
Other securities	—	2,228	—	2,228
Interest rate swaps	—	26,343	—	26,343
Liabilities:				
Interest rate swaps	—	28,283	—	28,283

For assets and liabilities measured at fair value on a recurring basis, there were no transfers between the levels during the year ended December 31, 2022 or 2021 related to the above measurements.

Assets and liabilities measured at fair value on a non-recurring basis, segregated by fair value hierarchy, are summarized below:

	December 31, 2022			
	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
	(In Thousands)			
Impaired loans	\$ —	\$ —	\$ 1,022	\$ 1,022
Repossessed assets	—	—	95	95
Loan servicing rights	—	—	1,491	1,491

	December 31, 2021			
	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
	(In Thousands)			
Impaired loans	\$ —	\$ —	\$ 1,000	\$ 1,000
Repossessed assets	—	—	164	164
Loan servicing rights	—	—	1,601	1,601

Impaired loans were written down to the fair value of their underlying collateral less costs to sell of \$1.0 million at December 31, 2022 and 2021 through the establishment of specific reserves or by recording charge-offs when the carrying value exceeded the fair value of the underlying collateral of impaired loans. Valuation techniques consistent with the market approach, income approach, or cost approach were used to measure fair value. These techniques included observable inputs for the individual impaired loans being evaluated such as current appraisals, recent sales of similar assets, or other observable market data, and unobservable inputs, typically when discounts are applied to appraisal values to adjust such values to current market conditions or to reflect net realizable values. The quantification of unobservable inputs for Level 3 impaired loan values range from 8% - 100% as of the measurement date of December 31, 2022. The weighted average of those unobservable inputs was 31%. The majority of the impaired loans are considered collateral dependent loans or are supported by an SBA guaranty.

Repossessed assets, upon initial recognition, are remeasured and reported at fair value through a charge-off to the allowance for loan and lease losses, if deemed necessary, based upon the fair value of the repossessed asset. The fair value of a repossessed asset, upon initial recognition, is estimated using a market approach or based on observable market data, typically a current appraisal, or based upon assumptions specific to the individual property or equipment, such as management applied discounts used to further reduce values to a net realizable value when observable inputs become stale.

Loan servicing rights represent the asset retained upon sale of the guaranteed portion of certain SBA loans. When SBA loans are sold, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. The servicing rights are subsequently measured using the amortization method, which requires amortization into interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

The Corporation periodically reviews this portfolio for impairment and engages a third-party valuation firm to assess the fair value of the overall servicing rights portfolio. Loan servicing rights do not trade in an active, open market with readily observable prices. While sales of loan servicing rights do occur, the precise terms and conditions typically are not readily available to allow for a “quoted price for similar assets” comparison. Accordingly, the Corporation utilizes an independent valuation from a third party which uses a discounted cash flow model to estimate the fair value of its loan servicing rights. The valuation model incorporates prepayment assumptions to project loan servicing rights cash flows based on the current interest rate scenario, which is then discounted to estimate an expected fair value of the loan servicing rights. The valuation model considers portfolio characteristics of the underlying serviced portion of the SBA loans and uses the following significant unobservable inputs: (1) constant prepayment rate (“CPR”) assumptions based on the SBA sold pools historical CPR as quoted in Bloomberg and (2) a discount rate. Loan servicing rights are classified in Level 3 of the fair value hierarchy due to the nature of the valuation inputs.

Fair Value of Financial Instruments

The Corporation is required to disclose estimated fair values for its financial instruments. Fair value estimates, methods and assumptions, consistent with exit price concepts for fair value measurements, are set forth below:

	December 31, 2022				
	Carrying Amount	Fair Value			
		Total	Level 1	Level 2	Level 3
	(In Thousands)				
Financial assets:					
Cash and cash equivalents	\$ 102,682	\$ 102,682	\$ 102,682	\$ —	\$ —
Securities available-for-sale	212,024	212,024	—	212,024	—
Securities held-to-maturity	12,635	12,270	—	12,270	—
Loans held for sale	2,632	2,829	—	2,829	—
Loans and lease receivables, net	2,418,836	2,394,702	—	—	2,394,702
Federal Home Loan Bank stock	17,812	N/A	N/A	N/A	N/A
Accrued interest receivable	9,403	9,403	9,403	—	—
Interest rate swaps	68,581	68,543	—	68,543	—
Financial liabilities:					
Deposits	2,168,206	2,167,444	1,827,215	340,229	—
Federal Home Loan Bank advances and other borrowings	456,808	440,242	—	440,242	—
Accrued interest payable	4,053	4,053	4,053	—	—
Interest rate swaps	61,419	61,419	—	61,419	—
Off-balance sheet items:					
Standby letters of credit	184	184	—	—	184

N/A = The fair value is not applicable due to restrictions placed on transferability

	December 31, 2021				
	Carrying Amount	Fair Value			
		Total	Level 1	Level 2	Level 3
	(In Thousands)				
Financial assets:					
Cash and cash equivalents	\$ 57,110	\$ 57,110	\$ 57,110	\$ —	\$ —
Securities available-for-sale	205,702	205,702	—	205,702	—
Securities held-to-maturity	19,746	20,276	—	20,276	—
Loans held for sale	3,570	3,927	—	3,927	—
Loans and lease receivables, net	2,215,072	2,241,093	—	—	2,241,093
Federal Home Loan Bank stock	13,336	N/A	N/A	N/A	N/A
Accrued interest receivable	5,497	5,497	5,497	—	—
Interest rate swaps	26,343	26,343	—	26,343	—
Financial liabilities:					
Deposits	1,957,923	1,968,195	1,894,273	73,922	—
Federal Home Loan Bank advances and other borrowings	403,451	409,894	—	409,894	—
Junior subordinated notes	10,076	8,844	—	—	8,844
Accrued interest payable	1,008	1,008	1,008	—	—
Interest rate swaps	28,283	28,283	—	28,283	—
Off-balance sheet items:					
Standby letters of credit	203	203	—	—	203

N/A = The fair value is not applicable due to restrictions placed on transferability

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 or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates 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 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 Corporation.

Securities: The fair value measurements of investment securities are determined by a third-party pricing service which considers observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, trade execution data, market consensus prepayment speeds, credit information and the securities' terms and conditions, among other things. The fair value measurements are subject to independent verification by another pricing source on a quarterly basis to review for reasonableness. Any significant differences in pricing are reviewed with appropriate members of management who have the relevant technical expertise to assess the results. The Corporation has determined that these valuations are classified in Level 2 of the fair value hierarchy. When the independent pricing service does not provide a fair value measurement for a particular security, the Corporation will estimate the fair value based on specific information about each security. Fair values derived in this manner are classified in Level 3 of the fair value hierarchy.

Loans Held for Sale: Loans held for sale, which consist of the guaranteed portions of SBA loans, are carried at the lower of cost or estimated fair value. The estimated fair value is based on what secondary markets are currently offering for portfolios with similar characteristics.

Interest Rate Swaps: The carrying amount and fair value of existing derivative financial instruments are based upon independent valuation models, which use widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative contract. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The Corporation incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the

respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Corporation considers the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees.

Limitations: Fair value estimates are made at a discrete 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 Corporation's entire holding of a particular financial instrument. Because no market exists for a significant portion of the Corporation'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 of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. 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 are not considered in the estimates.

Note 20 – Condensed Parent Only Financial Information

The following represents the condensed financial information of the Corporation only:

Condensed Balance Sheets

	December 31, 2022	December 31, 2021
	(In Thousands)	
Assets		
Cash and cash equivalents	\$ 3,129	\$ 331
Investments in subsidiaries, at equity	294,109	265,303
Premises and equipment, net	66	76
Other assets	1,239	2,045
Total assets	<u>\$ 298,543</u>	<u>\$ 267,755</u>
Liabilities and Stockholders' Equity		
Junior subordinated notes and other borrowings	\$ 34,341	\$ 34,364
Accrued interest payable and other liabilities	3,562	969
Total liabilities	<u>37,903</u>	<u>35,333</u>
Stockholders' equity	260,640	232,422
Total liabilities and stockholders' equity	<u>\$ 298,543</u>	<u>\$ 267,755</u>

Condensed Statements of Income

	For the Year Ended December 31,		
	2022	2021	2020
	(In Thousands)		
Net interest expense	\$ 2,295	\$ 2,539	\$ 2,540
Non-interest income			
Consulting and rental income from consolidated subsidiaries	5,794	2,417	21,320
Other non-interest income	69	34	34
Total non-interest income	5,863	2,451	21,354
Non-interest expense	7,633	5,747	24,507
Loss before income tax benefit and equity in undistributed net income of consolidated subsidiaries	4,065	5,835	5,693
Income tax benefit	1,387	1,483	1,388
Loss before equity in undistributed net income of consolidated subsidiaries	2,678	4,352	4,305
Equity in undistributed net income of consolidated subsidiaries	43,536	40,107	21,283
Net income	\$ 40,858	\$ 35,755	\$ 16,978

Condensed Statements of Cash Flows

	For the Year Ended December 31,		
	2022	2021	2020
	(In Thousands)		
Operating activities			
Net income	\$ 40,858	\$ 35,755	\$ 16,978
Adjustments to reconcile net income to net cash used in operating activities:			
Equity in undistributed earnings of consolidated subsidiaries	(43,536)	(40,107)	(21,283)
Share-based compensation	2,584	2,513	1,871
Excess tax (benefit) expense from share-based compensation	(91)	(27)	8
Payments on operating lease liabilities	—	—	(560)
Net increase (decreases) in other liabilities	2,592	(2,090)	(574)
Other, net	(538)	3,413	560
Net cash used in operating activities	1,869	(543)	(3,000)
Investing activities			
Dividends received from subsidiaries	2,008	8,534	12,034
Proceeds from redemption of Trust II stock	315	—	—
Net cash provided by investing activities	2,323	8,534	12,034
Financing activities			
Net (decrease) increase in long-term borrowed funds	(357)	55	55
Proceeds from issuance of subordinated notes payable	20,000	—	—
Repayment of subordinated notes payable	(9,090)	—	—
Repayment of junior subordinated debentures	(10,076)	—	—
Proceeds from issuance of preferred stock	11,992	—	—
Proceeds from purchased funds and other short-term debt	(500)	500	—
Purchase of treasury stock	(6,126)	(5,477)	(1,672)
Preferred stock dividends paid	(683)	—	—
Cash dividends paid	(6,688)	(6,166)	(5,652)
Net proceeds from purchases of ESPP shares	134	160	66
Net cash used in financing activities	(1,394)	(10,928)	(7,203)
Net (decrease) increase in cash and due from banks	2,798	(2,937)	1,831
Cash and cash equivalents at the beginning of the period	331	3,268	1,437
Cash and cash equivalents at the end of the period	\$ 3,129	\$ 331	\$ 3,268

Note 21 – Condensed Quarterly Earnings (unaudited)

	2022				2021			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(Dollars in Thousands, Except Per Share Data)							
Interest income	\$ 38,319	\$ 31,786	\$ 27,031	\$ 24,235	\$ 23,575	\$ 24,014	\$ 24,599	\$ 23,807
Interest expense	10,867	5,902	3,371	2,809	2,651	2,791	2,947	2,944
Net interest income	27,452	25,884	23,660	21,426	20,924	21,223	21,652	20,863
Provision for loan and lease losses	702	12	(3,727)	(855)	(508)	(2,269)	(958)	(2,068)
Non-interest income	6,973	8,197	6,872	7,386	7,569	7,015	6,321	7,195
Non-interest expense	21,167	20,028	19,456	18,823	17,531	18,490	18,184	17,330
Income before income tax expense	12,556	14,041	14,803	10,844	11,470	12,017	10,747	12,796
Income tax expense	2,400	3,215	3,599	2,172	2,879	2,819	2,512	3,065
Net income	<u>\$ 10,156</u>	<u>\$ 10,826</u>	<u>\$ 11,204</u>	<u>\$ 8,672</u>	<u>\$ 8,591</u>	<u>\$ 9,198</u>	<u>\$ 8,235</u>	<u>\$ 9,731</u>
Per common share:								
Basic earnings	\$ 1.18	\$ 1.25	\$ 1.29	\$ 1.02	\$ 1.01	\$ 1.07	\$ 0.95	\$ 1.12
Diluted earnings	1.18	1.25	1.29	1.02	1.01	1.07	0.95	1.12
Dividends declared	0.1975	0.1975	0.1975	0.1975	0.18	0.18	0.18	0.18

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors
First Business Financial Services, Inc.
Madison, Wisconsin

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of First Business Financial Services, Inc. (the "Corporation") as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2022, and the related notes (collectively referred to as the "financial statements"). We also have audited the Corporation's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Corporation management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Corporation's financial statements and an opinion on the Corporation's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Corporation 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the 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 financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance and Provision for Loan and Lease Losses – Qualitative Factors

As described in Notes 1- Nature of Operations and Summary of Significant Accounting Policies, and 4- Loan and Lease Receivables, Impaired Loans and Leases and Allowance for Loan and Lease Losses to the consolidated financial statements, the Corporation's allowance for loan and lease losses is an accounting estimate that requires significant management judgment in the evaluation of the quality of the loan and lease portfolio and the application of qualitative factors. The allowance for loan and lease losses is composed of loans collectively and individually evaluated for impairment. The specific allowance on loans individually evaluated for impairment relates to non-accrual and restructured loans and leases. The portion of the allowance for the collectively evaluated loans is reliant upon historical experience, as well as quantitative and qualitative factors.

The calculation of the allowance for loan losses involves significant estimates and subjective assumptions, which require a high degree of judgment. The methodology applied for determining inherent losses stems from current risk characteristics of the loan and lease portfolio, an assessment of individual impaired loans and leases, actual loss experience, and adverse situations that may affect the borrower's ability to repay. The collectively evaluated component of the allowance for loan and lease losses utilizes a historical loss rate calculation for each loan and lease category with similar risk characteristics. The average loss rates are adjusted for qualitative factors and applied to the end of period loan and lease portfolio balances to estimate probable incurred losses in the loan and lease portfolio. The qualitative factors and measurements used to quantify the risks within each of these categories are subjectively selected by management, using certain objective measurements period over period. The current period measurements are evaluated and assigned a factor commensurate with the current level of risk within each loan and lease category. The qualitative factor is increased or decreased for each loan and lease category based on management's assessment of these qualitative factors: management's ongoing review and grading of the loan and lease portfolios, consideration of delinquency experience, changes in the size of the loan and lease portfolios, existing economic conditions, level of loans and leases subject to more frequent review by management, changes in underlying collateral, concentrations of loans to specific industries, and other qualitative and quantitative factors that could affect credit losses. The evaluation of these factors contributes significantly to the collectively evaluated for impairment component of the estimate for the allowance for loan and lease losses. We identified auditing the estimate of the aggregate effect of the qualitative factors as a critical audit matter as it involved especially subjective auditor judgment. Auditing management's determination of qualitative factors involved especially subjective auditor judgment because management's estimate relies on an inherently subjective analysis to determine the quantitative impact the factors have on the allowance. Management's analysis of these factors requires significant judgment.

The primary procedures we performed to address this critical audit matter included:

Testing the effectiveness of controls over the evaluation of the items used to estimate the qualitative factors, including controls addressing:

- The reliability and relevancy of data used as the basis for the adjustments relating to qualitative factors;
- Management's judgments related to the assessed level of risk and the qualitative factor used to adjust the average loss rates;
- The mathematical accuracy of the dollar amount applied to the qualitative factor; and
- Management's review of trends and the movement within each qualitative factor and the overall allowance balance.

Substantively testing management's process, including evaluating their judgments and assumptions, for developing the qualitative factors, which included:

- Evaluation of the reliability and relevancy of data used as a basis for the adjustments relating to qualitative factors;
- Evaluation of the reasonableness of management's judgments related to the assessed level of risk for the qualitative factors and the resulting allocation to the allowance;
- Analytically evaluating the collectively evaluated for impairment component year over year;
- Verifying the mathematical accuracy of the adjustment factors for the qualitative component and the dollar amount of the reserve derived from the qualitative factor assessment;
- Tracing the allowance allocation from the qualitative factor analysis to the overall allowance calculation.

/s/Crowe LLP

We have served as the Corporation's auditor since 2017, which is the year the engagement letter was signed for the audit of the 2018 financial statements.

Oak Brook, Illinois
February 22, 2023

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

The Corporation's management, with the participation of the Corporation's Chief Executive Officer and Chief Financial Officer, has evaluated the Corporation's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective as of December 31, 2022.

Changes in Internal Control over Financial Reporting

There was no change in the Corporation's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities and Exchange Act of 1934, as amended) that occurred during the quarter ended December 31, 2022 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting

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

Management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of the Corporation's internal control over financial reporting based on criteria for effective internal control over financial reporting established in *Internal Control – Integrated Framework (2013)*, issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO). Based on this assessment, management has determined that the Corporation's internal control over financial reporting was effective as of December 31, 2022.

Crowe LLP, the independent registered public accounting firm that audited the Consolidated Financial Statements of the Corporation included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2022. The report, which expresses an unqualified opinion on the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2022, is included under the heading "Report of Independent Registered Public Accounting Firm."

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III.

Item 10. Directors, Executive Officers and Corporate Governance

- (a) *Directors of the Registrant.* The information included in the definitive Proxy Statement for the Annual Meeting of the Shareholders to be held on April 28, 2023 under the caption “Item 1 - Election of Directors” is incorporated herein by reference.
- (b) *Executive Officers of the Registrant.* The information presented in Item 1 of this document is incorporated herein by reference.
- (c) *Code of Ethics.* The Corporation has adopted a code of ethics applicable to all employees, including the principal executive officer, principal financial officer and principal accounting officer of the Corporation. The FBFS Code of Business Conduct and Ethics is posted on the Corporation’s website at ir.firstbusiness.bank/govdocs. The Corporation intends to satisfy the disclosure requirements under Item 5.05(c) of Form 8-K regarding any amendment to or waiver of the code with respect to its Chief Executive Officer, Chief Financial Officer, principal accounting officer, and persons performing similar functions, by posting such information to the Corporation’s website.
- (d) *Audit Committee.* The information included in the definitive Proxy Statement for the Annual Meeting of the Shareholders to be held on April 28, 2023 under the caption “Item 1 - Election of Directors” is incorporated herein by reference.
- (e) *Delinquent Section 16(a) Reports.* The information included in the definitive Proxy Statement for the Annual Meeting of the Shareholders to be held on April 28, 2023 under the caption “Delinquent Section 16(a) Reports” is incorporated herein by reference.

Item 11. Executive Compensation

Information with respect to compensation for our directors and officers included in the definitive Proxy Statement for the Annual Meeting of the Shareholders to be held on April 28, 2023 under the captions “Executive Compensation”, “Director Compensation,” “Compensation Committee Report,” and “Compensation Committee Interlocks and Insider Participation” is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

Information with respect to security ownership of certain beneficial owners and management included in the definitive Proxy Statement for the Annual Meeting of the Shareholders to be held on April 28, 2023 under the caption “Principal Shareholders” is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information with respect to certain relationships and related transactions included in the definitive Proxy Statement for the Annual Meeting of the Shareholders to be held on April 28, 2023 under the captions “Related Party Transactions” and “Item 1 - Election of Directors” is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information with respect to principal accounting fees and services included in the definitive Proxy Statement for the Annual Meeting of the Shareholders to be held on April 28, 2023 under the caption “Miscellaneous” is incorporated herein by reference.

PART IV.

Item 15. Exhibits and Financial Statement Schedules

The Consolidated Financial Statements listed on the Index included under “Item 8. Financial Statements and Supplementary Data” are filed as a part of this Form 10-K. All financial statement schedules have been included in the Consolidated Financial Statements or are either not applicable or not significant.

Exhibit Index

Exhibit No.	Exhibit Name
3.1	Amended and Restated Articles of Incorporation of First Business Financial Services, Inc. (incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K filed on March 10, 2017)
3.2	Amended and Restated Bylaws of First Business Financial Services, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on October 31, 2018)
3.3	Articles of Amendment dated March 2, 2022 to the Company’s Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on March 4, 2022)
	<i>Pursuant to Item 601(b)(4)(iii) of Regulation S-K, the Registrant agrees to furnish to the Securities and Exchange Commission, upon request, any instrument defining the rights of holders of long-term debt not being registered that is not filed as an exhibit to this Annual Report on Form 10-K. No such instrument authorizes securities in excess of 10% of the total assets of the Registrant.</i>
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.3 to Amendment No. 1 to the Registration Statement on Form S-1 filed on November 26, 2012)
4.2	Description of Registrant’s Securities (filed herewith)
10.1*	2012 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed on July 27, 2012)
10.2*	Form of Executive Change-in-Control and Severance Agreement (incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-K filed on February 24, 2021)
10.3*	Amended and Restated Agreement effective December 22, 2014 between First Business Bank and Corey A. Chambas (incorporated by reference to Exhibit 10.8 of the Registrant’s Annual Report on Form 10-K filed on March 16, 2015)
10.4*	First Amendment of Agreement by and between First Business Bank and Corey Chambas (Amended and Restated December 22, 2014) (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on December 29, 2016)
10.5*	Annual Cash Bonus Plan, effective January 1, 2019 (incorporated by reference to Exhibit 10.6 of the Registrant’s Annual Report on Form 10-K filed on February 28, 2019)
10.6*	First Business Financial Services, Inc. 2019 Equity Incentive Plan, as amended (incorporated by reference to Appendix A to the Definitive Proxy Statement filed on March 9, 2021)
10.7*	Form of Performance-Based Restricted Stock Unit Agreement (incorporated by reference to the Quarterly Report on Form 10-Q filed on October 29, 2021)
10.8*	Form of Restricted Stock Unit Agreement (incorporated by reference to the Quarterly Report on Form 10-Q filed on October 29, 2021)
10.9*	Form of Restricted Stock Agreement (incorporated by reference to the Quarterly Report on Form 10-Q filed on October 29, 2021)
10.10*	Form of Performance-Based Restricted Stock Unit Agreement - Retiree (incorporated by reference to the Quarterly Report on Form 10-Q filed on October 29, 2021)

10.11*	Form of Restricted Stock Unit Agreement - Retiree (incorporated by reference to the Quarterly Report on Form 10-Q filed on October 29, 2021)
10.12*	Form of Performance-Based Restricted Stock Unit Exchange Agreement - Retiree (incorporated by reference to the Quarterly Report on Form 10-Q filed on October 29, 2021)
10.13*	Form of Restricted Stock Unit Exchange Agreement - Retiree (incorporated by reference to the Quarterly Report on Form 10-Q filed on October 29, 2021)
10.14*	Form of Restricted Stock Agreement - Director (incorporated by reference to the Quarterly Report on Form 10-Q filed on October 29, 2021)
10.15*	Form of Performance-Based Restricted Stock Unit Award Agreement - Executive Officer (incorporated by reference to the Quarterly Report on Form 10-Q filed on October 28, 2022)
10.16*	Form of Restricted Stock Unit Award Agreement - Executive Officer (incorporated by reference to the Quarterly Report on Form 10-Q filed on October 28, 2022)
10.17*	Form of Restricted Stock Unit Award Agreement - Board of Directors (incorporated by reference to the Quarterly Report on Form 10-Q filed on October 28, 2022)
10.18*	Amendment to First Business Financial Services 2019 Equity Incentive Plan, effective as of January 27, 2023 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on February 2, 2023)
10.19*	Second Amended and Restated Agreement by and between First Business Bank, First Business Financial Services, and Corey Chambas, dated as of February 3, 2023 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on February 7, 2023)
10.20*	Form of Amendment to Restricted Stock Award Agreement, dated as of February 3, 2023 (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed February 7, 2023)
10.21*	Form of Amendment to Performance-Based Restricted Stock Unit Agreement, dated as of February 3, 2023 (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed February 7, 2023)
21	Subsidiaries of the Registrant
23	Consent of Crowe LLP
31.1	Certification of the Chief Executive Officer
31.2	Certification of the Chief Financial Officer
32	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350
101	The following financial information from First Business Financial Services, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2022, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2022 and December 31, 2021, (ii) Consolidated Statements of Income for the years ended December 31, 2022, 2021, and 2020, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2022, 2021, and 2020, (iv) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2022, 2021, and 2020, (v) Consolidated Statements of Cash Flows for the years ended December 31, 2022, 2021, and 2020, and (vi) the Notes to Consolidated Financial Statements
104	Cover page interactive data file (formatted as inline XBRL and contained in Exhibit 101)
*	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.

FIRST BUSINESS FINANCIAL SERVICES, INC.

February 22, 2023

/s/ Corey A. ChambasCorey A. Chambas
Chief 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/ Corey A. Chambas</u> Corey A. Chambas	Chief Executive Officer and Director (principal executive officer)	February 22, 2023
<u>/s/ Edward G. Sloane, Jr.</u> Edward G. Sloane, Jr.	Chief Financial Officer (principal financial officer)	February 22, 2023
<u>/s/ Brian D. Spielmann</u> Brian D. Spielmann	Chief Accounting Officer (principal accounting officer)	February 22, 2023
<u>/s/ Gerald L. Kilcoyne</u> Gerald L. Kilcoyne	Chair of the Board of Directors	February 22, 2023
<u>/s/ Laurie S. Benson</u> Laurie S. Benson	Director	February 22, 2023
<u>/s/ Mark D. Bugher</u> Mark D. Bugher	Director	February 22, 2023
<u>/s/ Carla C. Chavarria</u> Carla C. Chavarria	Director	February 22, 2023
<u>/s/ John J. Harris</u> John J. Harris	Director	February 22, 2023
<u>/s/ Ralph R. Kauten</u> Ralph R. Kauten	Director	February 22, 2023
<u>/s/ W. Kent Lorenz</u> W. Kent Lorenz	Director	February 22, 2023
<u>/s/ Daniel P. Olszewski</u> Daniel P. Olszewski	Director	February 22, 2023
<u>/s/ Carol P. Sanders</u> Carol P. Sanders	Director	February 22, 2023

FIRST BUSINESS FINANCIAL SERVICES, INC.**Description of Securities Registered Pursuant to
Section 12 of the Securities Exchange Act of 1934****General**

As of December 31, 2022, First Business Financial Services, Inc. (“First Business,” “we,” “our,” “us”) has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: common stock, \$0.01 par value. The following is a summary of the material terms and rights of our common stock and the provisions of our Amended and Restated Articles of Incorporation (the “Articles”) and our Amended and Restated Bylaws (the “Bylaws”), each of which is incorporated by reference as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2022, of which this exhibit is a part. The summary is not complete and you should refer to the applicable provisions of our Articles and Bylaws. As of December 31, 2022, we had 9,371,078 shares of common stock issued and 8,362,085 shares of common stock outstanding. Additionally, we have reserved 134,812 shares of our common stock for future issuance under our equity incentive plan.

Our Articles also authorize us to issue up to 2,500,000 shares of preferred stock, \$0.01 par value. As of December 31, 2022, we had 12,500 shares of our 7.0% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A, par value \$0.01 per share, issued and outstanding.

Listing

Our common stock is listed for trading on the NASDAQ Global Select Market under the symbol “FBIZ.”

Voting Rights

Each outstanding share of our common stock is entitled to one vote on all matters submitted to a vote of shareholders. There is no cumulative voting in the election of directors, which means that a plurality of the shares voted shall elect all of the directors then standing for election at a meeting of shareholders at which a quorum is present. Our board of directors is divided into three classes of directors, each serving a staggered three-year term. At each annual meeting, the successors to the class of directors whose terms expire at that meeting are elected for a term of office to expire at the third succeeding annual meeting after their election and until their successors have been duly elected and qualified.

Liquidation Rights

Upon our liquidation, dissolution or winding up, the holders of our common stock are entitled to receive, pro rata, our assets which are legally available for distribution, after payment of all debts and other liabilities and subject to the prior rights of any holders of preferred stock then outstanding.

Dividends Payable on Shares of Common Stock

In general, the holders of outstanding shares of our common stock are entitled to receive dividends out of assets legally available therefor at such times and in such amounts as our board of directors may from time to time determine. The ability of our board of directors to declare and pay dividends on our common stock may be affected by both general corporate law considerations and

policies of the Board of Governors of the Federal Reserve System, which we refer to herein as the Federal Reserve, applicable to bank holding companies. As a Wisconsin corporation, we are subject to the limitations of Wisconsin law, which allows us to pay a dividend unless, after such dividend, we would not be able to pay our debts as they become due in the usual course of business or our total assets would be less than the sum of our total liabilities plus any amount that would be needed if we were to be dissolved at the time of the dividend payment to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the dividend. As a bank holding company, our ability to declare and pay dividends is also subject to the guidelines of the Federal Reserve regarding capital adequacy and dividends. The Federal Reserve guidelines generally require us to review the effects of the cash payment of dividends on our common stock and other Tier 1 capital instruments in light of our earnings, capital adequacy and financial condition. As a general matter, the Federal Reserve indicates that the board of directors of a bank holding company should eliminate, defer or significantly reduce the dividends 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.

Most of our revenues available for the payment of dividends derive from amounts paid to us by First Business Bank (the "Bank"). There are various statutory limitations that limit the ability of the Bank to pay dividends to us. The Bank is a Wisconsin state-chartered bank and is subject to the laws and regulations of the Wisconsin Department of Financial Institutions and to the regulations of the Federal Deposit Insurance Corporation, which we refer to herein as the FDIC. If a bank's primary banking regulator determines that the bank is engaged or is about to engage in an unsafe or unsound banking practice, the regulator may require, after notice and hearing, that the bank cease and desist from such practice. Depending on the financial condition of the bank, an unsafe or unsound practice could include the payment of dividends. In particular, the federal banking agencies have indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice.

Under Wisconsin banking law, the Bank generally may not pay dividends in excess of its undivided profits, and if dividends declared and paid in either of the two immediately preceding years exceeded net income for either of those two years respectively, the Bank may not declare or pay any dividend in the current year that exceeds year-to-date net income. Further, the payment of dividends by any financial institution is also affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. Even notwithstanding the availability of funds for dividends, the FDIC may prohibit the payment of any dividends by an insured bank, such as the Bank, if the FDIC determines such payment would constitute an unsafe or unsound practice.

Furthermore, as of December 31, 2022, we had outstanding approximately \$34.3 million of subordinated notes. As of December 31, 2022, we were current on the interest payable pursuant to such subordinated notes. However, if we default on our obligation to pay interest on such instruments in the future, our ability to pay dividends on our common stock also will be subject to the prior payment of all accrued but unpaid interest on such subordinated notes.

Anti-Takeover Provisions

General.

Our Articles and Bylaws may have the effect of discouraging, delaying or preventing a change in control or an unsolicited acquisition proposal that a shareholder might consider favorable, including a proposal that might result in the payment of a premium over the market price for the shares held by shareholders. These provisions are summarized in the following paragraphs.

Authorized Shares of Capital Stock.

Authorized but unissued shares of our common stock and preferred stock under our Articles could (within the limits imposed by applicable law and the rules of The NASDAQ Stock Market LLC) be issued in one or more transactions that could make a change of control of us more difficult, and therefore more unlikely. The additional authorized shares could be used to discourage persons from attempting to gain control of us by diluting the voting power of shares then outstanding or increasing the voting power of persons who would support the board of directors in a potential takeover situation, including by preventing or delaying a proposed business combination that is opposed by the board of directors although perceived to be desirable by some shareholders.

Limitations on Right to Call Special Meetings; Stockholder Proposal Notice Requirements; Unanimous Consent without Meeting.

Under our Bylaws, a special meeting of our shareholders may be called only by: (i) the Chairperson of the board of directors; (ii) the President; (iii) resolution adopted by a majority of the board of directors; or (iv) the holders of at least 10% of all the votes entitled to be cast on any issue proposed to be considered at the proposed special meeting who sign, date and deliver to First Business one or more written demands for the meeting describing one or more purposes for which it is to be held. Additionally, our Bylaws require that shareholder proposals meet certain advanced notice and minimum informational requirements. Further, under our Bylaws, shareholders may only take action without a meeting if such action receives the unanimous written consent of all shareholders entitled to vote thereon. These provisions could have the effect of delaying until the next annual shareholders meeting shareholder actions which are favored by the holders of a majority of our outstanding voting securities.

Classified Board of Directors; Noncumulative Voting for Directors.

Our Bylaws provide that our board of directors is classified into three classes of directors, with the members of one class to be elected each year, which prevents a majority of our directors from being removed at a single annual meeting. Our shareholders are also not permitted to cumulate votes for directors, which may make it more difficult for a noncompany nominee to be elected to our board of directors.

Director Removal; Filling of Board Vacancies.

Our Bylaws specify that directors may be removed during their three-year terms only for one of the following reasons: (i) a willful failure to deal fairly with us or our shareholders in connection with a matter in which the director has a material conflict of interest; (ii) a violation of criminal law, unless the director had reasonable cause to believe that his or her conduct was lawful or no reasonable cause to believe that his or her conduct was unlawful; (iii) a transaction from which the director derived an improper personal profit; or (iv) willful misconduct. Further, our Bylaws provide that any vacancy

occurring in the board of directors may be filled by a vote of a majority of the remaining directors, unless such vacancy was created by shareholder action. A person elected to fill a vacancy on the board of directors will serve for the unexpired term of the director whose seat became vacant. These provisions make it more difficult for shareholders to remove directors and/or fill vacancies.

State Anti-Takeover Laws.

Provisions of the Wisconsin Business Corporation Law prevent “interested shareholders” and an applicable Wisconsin corporation from entering into a “business combination” unless certain conditions are met. A business combination means: (i) any merger or share exchange with an interested shareholder; (ii) any sale, lease, exchange, mortgage, pledge, transfer or other disposition, in one transaction or a series of transactions, with an interested shareholder having (a) an aggregate market value equal to 5% or more of the aggregate market value of the assets of the corporation, (b) an aggregate market value equal to 5% or more of the aggregate market value of all outstanding shares of the corporation, or (c) representing 10% or more of the earning power or income of the corporation; (iii) the issuance of stock with a market value equal to 5% or more of the outstanding stock of the corporation to an interested shareholder; (iv) the adoption of a plan or proposal for the liquidation or dissolution which is proposed by, on behalf of, or pursuant to a written or unwritten agreement, arrangement or understanding with, an interested shareholder; and (v) certain other transactions involving an interested shareholder.

An “interested shareholder” is defined to mean a person who beneficially owns, directly or indirectly, 10% or more of the voting power of the outstanding voting stock of a Wisconsin corporation or who is an affiliate or associate of the corporation and beneficially owned 10% or more of the voting power of its then-outstanding voting stock within the last three years. Under Wisconsin law, a corporation cannot engage in a business combination with an interested shareholder for a period of three years following the date such person becomes an interested shareholder, unless the board of directors approved the business combination or the acquisition of the stock that resulted in the person becoming an interested shareholder before such acquisition. A corporation may engage in a business combination with an interested shareholder after the three-year period with respect to that shareholder expires only if one or more of the following conditions is satisfied: (i) the board of directors approved the acquisition of the stock that resulted in the person becoming an interested shareholder before such acquisition; (ii) the business combination is approved by a majority of the outstanding voting stock not beneficially owned by the interested shareholder; or (iii) the consideration to be received by shareholders meets certain fair price requirements of the statute with respect to form and amount.

Other provisions of the Wisconsin Business Corporation Law prohibit an acquiror, under certain circumstances, from voting shares of a target corporation’s stock after crossing certain threshold ownership percentages, unless the acquiror obtains the approval of the target corporation’s shareholders. Once an acquiror obtains voting securities representing in excess of 20% of the outstanding voting power of the corporation, such shareholder’s voting power shall be limited to 10% of the voting power of those shares until disinterested shareholders restore the right.

The Wisconsin Business Corporation Law also prohibits a Wisconsin corporation from taking certain actions while it is subject to a take-over offer, which is generally defined as an offer to acquire the equity securities of the corporation which would result in the acquiror beneficially owning more than 5% of the equity securities of the corporation. While subject to a take-over offer, a Wisconsin corporation may not take either of the following actions unless approved by a majority of its shareholders: (i) acquire more than 5% of its voting shares from a shareholder who holds more than 3% of the voting shares and has held those shares for less than two years at a price above market price, unless the corporation has

made the same offer to all of its shareholders; or (ii) sell assets of the corporation which amount to at least 10% of the market value of the corporation.

Finally, Wisconsin law also provides that certain mergers, share exchanges or sales, leases, exchanges or other dispositions of assets in a transaction involving a significant shareholder and a Wisconsin corporation require a supermajority vote of shareholders in addition to any approval otherwise required, unless shareholders receive a fair price for their shares that satisfies a statutory formula. A “significant shareholder” for this purpose is defined as a person or group who beneficially owns, directly or indirectly, 10% or more of the voting stock of the corporation, or is an affiliate of the corporation and beneficially owned, directly or indirectly, 10% or more of the voting stock of the corporation within the last two years. Any such business combination must be approved by 80% of the voting power of the corporation’s stock and at least two-thirds of the voting power of its stock not beneficially owned by the significant shareholder who is party to the relevant transaction or any of its affiliates or associates, in each case voting together as a single group, unless the following fair price standards have been met:

- the aggregate value of the per share consideration is at least equal to the highest of:
 - o the highest price paid for any common shares of the corporation by the significant shareholder in the transaction in which it became a significant shareholder or within two years before the date of the business combination;
 - o the market value of the corporation’s shares on the date of commencement of any tender offer by the significant shareholder, the date on which the person became a significant shareholder or the date of the first public announcement of the proposed business combination, whichever is highest; or
 - o the highest preferential liquidation or dissolution distribution to which holders of the shares would be entitled; and
- the consideration to be received by shareholders is either cash or the form of consideration used by the significant shareholder to acquire its shares, or, if it paid for its shares with varying forms of consideration, the form of consideration shall be either cash or the form used to acquire the largest number of the significant shareholder’s shares.

Miscellaneous

Our shares of common stock are neither redeemable nor convertible, and the holders thereof have no preemptive, subscription or other rights to purchase any of our securities.

Subsidiaries of the Registrant

Subsidiary	State of Incorporation or Organization
First Business Bank	Wisconsin
First Business Specialty Finance, LLC	Wisconsin
Mitchell Street Apartments Investment, LLC	Wisconsin
ABKC Real Estate, LLC	Kansas
FBB Real Estate 2, LLC	Kansas
FBB Tax Credit Investment, LLC	Wisconsin
First Madison Investment Corp.	Nevada

Consent of Independent Registered Public Accounting Firm

The Board of Directors
First Business Financial Services, Inc.:

We consent to the incorporation by reference in Registration Statement Nos. 333-183274, 333-231418, 333-248131, and 333-256132 on Form S-8 of First Business Financial Services, Inc. of our report dated February 22, 2023 relating to the financial statements and effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K.

/s/ Crowe LLP

Oak Brook, Illinois
February 22, 2023

Certifications

I, Corey A. Chambas, certify that:

1. I have reviewed this Annual Report on Form 10-K of First Business Financial Services, 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. Any 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.

/s/ Corey A. Chambas

Corey A. Chambas

Chief Executive Officer

February 22, 2023

Certifications

I, Edward G. Sloane, Jr., certify that:

1. I have reviewed this Annual Report on Form 10-K of First Business Financial Services, 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. Any 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.

/s/ Edward G. Sloane, Jr.

Edward G. Sloane, Jr.
Chief Financial Officer
February 22, 2023

Certification of the Chief Executive Officer and the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned Chief Executive Officer and Chief Financial Officer, of First Business Financial Services, Inc., a Wisconsin Corporation (the “Corporation”), hereby certify, based on our knowledge that the Annual Report on Form 10-K of the Corporation for the year ended December 31, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ Corey A. Chambas

Corey A. Chambas
Chief Executive Officer
February 22, 2023

/s/ Edward G. Sloane, Jr.

Edward G. Sloane, Jr.
Chief Financial Officer
February 22, 2023