FIRST BUSINESS FINANCIAL SERVICES, INC.
Form 10-K
March 09, 2018
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
¨ 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 | 39-1576570 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 401 Charmany Drive, Madison, WI | 53719 |
| (Address of principal executive offices) | (Zip Code) |

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

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, $0.01 par value | The Nasdaq Stock Market LLC |
| Common Share Purchase Rights | 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 þ
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 þ
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 þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted 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 and post such files.) Yes þ No ¨
Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | | |
|---|---|---|---|---|
| Large accelerated filer o | Accelerated filer þ | Non-accelerated filer o | Smaller reporting company o | Emerging growth company o |

(Do not check if a smaller reporting company)

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

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

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 $201.2 million.

As of March 1, 2018, 8,764,845 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 May 22, 2018 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 the Bank and certain subsidiaries of FBB. 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 business banking focus does not rely on an extensive branch network to attract retail clients; therefore, to supplement the business banking deposit base, the Bank utilizes a wholesale funding strategy to fund a portion of its assets. We conduct our business operations through one operating segment.

In early 2017, the Corporation owned three separate bank charters: Alterra Bank (“Alterra”), Leawood, Kansas, First Business Bank-Milwaukee (“FBB-Milwaukee”), Brookfield, Wisconsin and First Business Bank (“FBB”), Madison, Wisconsin. Effective June 1, 2017, Alterra and FBB-Milwaukee were merged with and into FBB. The Corporation’s existing management structure remains unchanged, with the current roles and decision making authority retained by local banking leaders, as well as the heads of our trust and investment management and specialty finance businesses.

As of December 31, 2017, on a consolidated basis, we had total assets of $1.794 billion, total gross loans and leases of $1.502 billion, total deposits of $1.394 billion and total stockholders’ equity of $169.3 million.

Business Lines

Commercial Lending

We strive to meet the specific commercial lending needs of small- to medium-sized companies in our target markets in Wisconsin, Kansas and Missouri, primarily through lines of credit and term loans to businesses with annual sales of up to $75.0 million. Through FBB, we service the Madison, Milwaukee and Northeast Wisconsin metropolitan areas and surrounding areas. In 2014 we acquired Aslin Group, Inc. and its bank subsidiary, Alterra, to add an established business-focused team serving similar sized businesses in the Kansas City metropolitan area. Alterra, now known as First Business Bank-Kansas City Region (“FBB-KC”), was subsequently rebranded as a full-service banking location of FBB during the charter consolidation referenced above.

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 commercial facilities, multi-family housing, office buildings, retail centers, and, to a lesser extent, commercial real estate construction loans. In very limited cases, we may originate loans on an unsecured basis. As of December 31, 2017, our commercial real estate and commercial loans, excluding asset-based lending and equipment financing, represented approximately 86% of our total gross loans and leases receivable.

Asset-Based Financing

First Business Capital Corp. (“FBCC”), a wholly-owned subsidiary of FBB, provides asset-based lending to small- to medium-sized companies. With its sales offices located in several states, FBCC serves clients nationwide.

FBCC primarily provides revolving lines of credit and term loans for financial and strategic acquisitions (e.g., leveraged or management buyouts), capital expenditures, working capital to support rapid growth, bank debt refinancing, debt restructuring, corporate turnaround strategies and debtor-in-possession financing in the course of bankruptcy proceedings or the exit therefrom. As a bank-owned, asset-based lender with strong underwriting standards, FBCC is positioned to provide cost-effective financing solutions to companies who do not have the established stable cash flows necessary to qualify for traditional commercial lending products. These financings generally range between $1.0 million and $10.0 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, 2017, our asset-based lending business line represented 9% of our total gross loans and leases receivable.

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First Business Factors ("FBF"), a division of FBCC, provides funding to clients by purchasing accounts receivable on a full recourse basis. FBF provides competitive rates to clients seeking growth and needing cash flow support, or who are experiencing financial issues. Factoring typically generates higher yields than traditional commercial lending and complements our traditional commercial portfolio. FBF is headquartered in Chicago, Illinois and, with its sales offices located in several states, is able to serve clients nationwide. As of December 31, 2017, our factored receivable financing business line represented less than 1% of our total gross loans and leases receivable.

Equipment Financing

First Business Equipment Finance, LLC ("FBEF"), a wholly-owned subsidiary of FBB, delivers a broad range of equipment finance products, including loans and leases, to address the financing needs of commercial clients in a variety of industries. FBEF's focus 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 $5.0 million with terms of 36 to 84 months. As of December 31, 2017, our equipment financing business line represented approximately 3% of our total gross loans and leases receivable.

Small Business Administration ("SBA") Lending

The SBA guarantees loans originated by lenders to small business borrowers who meet its program eligibility and underwriting guidelines. 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 under the SBA program. Generally, the SBA 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 bank 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 the costs of collection, subject to SBA rules and limits, as well as the proceeds of liquidation.

We are an active 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 and most servicing and liquidation authority and responsibility to selected PLP lenders. We leverage this expertise and capacity to package, underwrite, process, service and liquidate, if necessary, SBA loans throughout the Corporation's locations.

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 the loan, generally at a variable rate, and by gathering deposits from and providing other services to these clients. In addition, our SBA strategy generates non-interest income from two primary sources. First, we typically sell the guaranteed portions of the SBA loans to aggregators who securitize the assets for sale in the secondary market and 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.

Treasury Management Services

The Bank provides comprehensive services for commercial clients to manage their cash and liquidity, including lockbox, accounts receivable collection services, electronic payment solutions, cash vault services, fraud 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. As we strive to diversify our income and increase our non-interest income, we have focused on increasing sales of these services and have emphasized these offerings with new and existing business clients.

Trust and Investment Services

FBB, through its First Business Trust & Investments (“FBTI”) division, acts as fiduciary and investment manager for individual and corporate clients, creating and executing asset allocation strategies tailored to each client’s unique situation. FBTI has full fiduciary powers and offers trust, estate, financial planning and investment services, acting in a trustee or agent capacity as well as Employee Benefit/Retirement Plan services. FBTI also provides brokerage and custody-only services, for which it administers and safeguards assets, but does not provide investment advice. At December 31, 2017, FBTI had $1.536 billion of assets under management and administration.

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Competition

The Bank encounters strong competition across all of our lines of business. 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 and our focus on fostering long-lasting relationships sets us apart from our competitors.

We are not dependent upon a single or a few clients, the loss of which would have a material adverse effect on us.

Employees

At December 31, 2017, we had 264 employees equating to approximately 251 full-time equivalent employees. None of our employees is represented by a union or subject to a collective bargaining agreement.

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, equipment loans and leases 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 trust and investment services through FBTI, a division of FBB. FBB has two full-service banking locations in Brookfield, Wisconsin and Leawood, Kansas, as well as four loan production offices located in Appleton, Oshkosh, Manitowoc and Kenosha, Wisconsin.

FBB has eight wholly-owned subsidiaries:

- FBCC is an asset-based lending company specializing in providing lines of credit, factored receivable financing and term loans secured by accounts receivable, inventory, equipment and real estate assets, primarily to manufacturers and wholesale distribution companies located throughout the country, with a concentration in the Midwest. FBCC was established in 1995 and has sales offices in several states.
- FBEF is a commercial equipment finance company offering a full array of finance and leasing options to commercial clients of which the largest percentage are currently located in Wisconsin. It offers new and replacement equipment loans and leases, debt restructuring, consolidation and sale-lease-back transactions through its primary banking locations in Wisconsin. FBEF was established in 1998.
- Rimrock Road Investment Fund, LLC ("Rimrock"), established in 2009 and formerly known as FBB Real Estate, LLC, is a limited liability company originally established for the purpose of holding and liquidating real estate and other assets acquired by FBB through foreclosure or other legal proceedings. In 2014, Rimrock's purpose was changed to reflect its qualified equity investment in a Madison, Wisconsin community development project, including the financing and ownership of a property that generates federal new market tax credits.
- BOC Investment, LLC ("BOC"), is a limited liability company established for the purpose of capturing federal historic tax credits to reduce the cost of borrowing for a FBB client engaged in rehabilitating a historic building in Madison, Wisconsin. BOC was established in 2015.
- Mitchell Street Apartments Investment, LLC ("Mitchell"), is a limited liability company established for the purpose of capturing federal and state historic tax credits to reduce the cost of borrowing for a FBB client engaged in

rehabilitating a historic building in Milwaukee, Wisconsin. Mitchell was established in 2016.

- ABKC Real Estate, LLC (“ABKCRE”), is a limited liability company established for the purpose of holding and liquidating real estate and other assets acquired by FBB through foreclosure or other legal proceedings. ABKCRE was established in 2017.

- FBB Tax Credit Investment, LLC ("FBB Tax Credit"), established in 2012 and formerly known as FBB-Milwaukee Real Estate, LLC ("FBBMRE"), is a limited liability company originally established for the purpose of holding and liquidating real estate and other assets acquired by FBB through foreclosure or other legal proceedings. In 2017, FBB Tax Credit's purpose was changed to facilitate investments in federal and state tax credits.
- First Madison Investment Corp. ("FMIC") is located in and formed under the laws of the State of Nevada, and was organized for the purpose of managing a portion of FBB's investment portfolio. FMIC was established in 1993.

As of December 31, 2017, FBB had total gross loans and leases receivable of $1.503 billion, total deposits of $1.396 billion and total stockholders' equity of $196.5 million.

### FBFS Statutory Trust II

In September 2008, we formed FBFS Statutory Trust II ("Trust II"), a Delaware business trust wholly-owned by FBFS. In 2008, Trust II completed the sale of $10.0 million of 10.5% fixed rate trust preferred securities. Trust II also issued common securities in the amount of $315,000 to us. Trust II used the proceeds from the offering to purchase $10.3 million of 10.5% junior subordinated notes issued by us. FBFS has the right to redeem the junior subordinated notes at each interest payment date on or after September 26, 2013. The preferred securities are mandatorily redeemable upon the maturity of the junior subordinated notes on September 26, 2038. FBFS's ownership interest in Trust II has not been consolidated into the financial statements.

## Corporate Information

Our principal executive offices are located at 401 Charmany Drive, Madison, Wisconsin 53719 and our telephone number is (608) 238-8008. We maintain an Internet website at www.firstbusiness.com. This Form 10-K and all of our other filings under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are available through that website, free of charge, 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, on the date that we electronically file those materials with, or furnish them to, the Securities and Exchange Commission ("SEC"). The contents of our website are not incorporated by reference into this Form 10-K.

## Markets

Although certain of our business lines are marketed throughout the Midwest and beyond, our primary markets lie in Wisconsin, Kansas and Missouri. Specifically, our three target markets in Wisconsin consist of Madison and Milwaukee, and their surrounding communities, and Northeastern Wisconsin. We serve our target markets in Kansas and Missouri through our Leawood, Kansas office, which is located in the Kansas City metropolitan statistical 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:

### Madison

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

### Milwaukee

Our Milwaukee market, the primary commercial and industrial hub for Southeastern Wisconsin, provides a diverse economic base, with both a highly skilled labor force and significant manufacturing base. The most prominent economic sectors in the Milwaukee market include manufacturing, financial services, health care, diversified service companies and education. Milwaukee is home to several major hospitals, providing health services to the greater Southeastern Wisconsin

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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.

Northeastern Wisconsin

The cities of Appleton, Green Bay, Oshkosh and Manitowoc, 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

Geographically located in the center of the U.S., the greater Kansas City area includes 18 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 55, has served as a director of FBFS since July 2002, as Chief Executive Officer since December 2006 and as President since February 2005. 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. He also currently serves as a director of our subsidiary FMIC. Mr. Chambas has over 30 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, in Madison, Wisconsin.

Edward G. Sloane, Jr., age 57, 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 30 years of financial services experience including mergers and acquisitions, strategic planning and financial reporting and analysis. Prior to joining FBFS, Mr. Sloane was Executive Vice President, Chief Financial Officer and Treasurer with Peoples Bancorp, Inc. in Marietta, Ohio from 2008 to 2015. He also served as Senior Vice President of Strategic Planning & Analysis for WesBanco, Inc. in Wheeling, West Virginia from 2006 to 2008, as Senior Vice President and Controller from 1998 to 2006 and in various other capacities from 1989 to 1998.

Michael J. Losenegger, age 60, has served as Chief Credit Officer of FBFS since May 2011. Mr. Losenegger also serves as the Chief Credit Officer of the Bank. He also currently serves as a director for our subsidiaries FBCC and FBEF. Prior to being appointed Chief Credit Officer, Mr. Losenegger served as FBFS's Chief Operating Officer since September 2006. Mr. Losenegger joined FBFS in 2003 and has held various positions with FBB, including Chief Executive Officer, Chief Operating Officer and Senior Vice President of Business Development. Mr. Losenegger has over 30 years of experience in commercial lending. Prior to joining FBFS, Mr. Losenegger was Senior Vice President of Lending at M&I Bank, now known as BMO Harris Bank, in Madison, Wisconsin.

Barbara M. Conley, age 64, 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. She had been employed at Associated Bank since May 1976.

Jodi A. Chandler, age 53, 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 56, has served as Chief Executive Officer of FBB since December 2007. Mr. Meloy joined FBFS in 2000 and has held various positions including Executive Vice President of FBB and President and Chief Executive Officer of

FBB-Milwaukee. He currently serves as CEO of FBEF. He also currently serves as a director of our subsidiaries FBB, FBCC and FBEF. Mr. Meloy has over 25 years of commercial lending experience. Prior to joining FBFS, Mr. Meloy was a Vice President and Senior Relationship Manager with Firstar 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.

Joan A. Burke, age 66, has served as President of FBTI since September 2001. Ms. Burke has over 30 years of experience in providing trust services, investment management, mutual fund management and brokerage services. Prior to joining FBFS, Ms. Burke was the President, Chief Executive Officer and Chairperson of the Board of Johnson Trust Company and certain of its affiliates.

Charles H. Batson, age 64, has served as the President and Chief Executive Officer of FBCC since January 2006. He also serves as a director for FBCC. Mr. Batson has over 30 years of experience in asset-based lending. Prior to joining FBCC, Mr. Batson served as Vice President and Business Development Manager for Wells Fargo Business Credit, Inc. since 1990.

Daniel S. Ovokaitys, age 44, 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 53, has served as Chief Operating Officer of FBFS since April 2016. He also currently serves as a director for our subsidiary FBCC. 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, N.A. 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.

## 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

Institutions insured by the Federal Deposit Insurance Corporation (“FDIC”), their holding companies and their affiliates are extensively regulated under federal and state law. As a result, the Corporation’s growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the Wisconsin Department of Financial Institutions (“WDFI”), the Federal Reserve, the FDIC and the Consumer Financial Protection Bureau (“CFPB”). 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 the Corporation’s business. The effect of these statutes, regulations, regulatory policies and accounting rules are significant to the Corporation’s operations and results.
Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of FDIC-insured institutions, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than shareholders. These laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of the Corporation’s business, the kinds and amounts of investments we may make, reserve requirements, required capital levels relative to the Corporation’s 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 insiders and affiliates and the Corporation’s payment of dividends. In reaction to the global financial crisis and particularly following passage of the

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "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 the Corporation's compliance and risk management processes, and the costs thereof, to increase. After the 2016 federal elections, momentum to decrease the regulatory burden on community banks gathered strength. Although these deregulatory trends continue to receive much discussion among the banking industry, lawmakers and the bank regulatory agencies, little substantive progress has yet been made. The true impact of proposed reforms remains difficult to predict with any certainty.

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

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

Regulatory Emphasis on Capital

Regulatory capital represents the net assets of a banking organization available to absorb losses. Because of the risks attendant to their business, FDIC-insured institutions are generally required to hold more capital than other businesses, which directly affects the Corporation’s earnings capabilities. While capital has historically been one of the key measures of the financial health of both bank holding companies and banks, its role became fundamentally more important in the wake of the global financial crisis, as the banking regulators recognized that the amount and quality of capital held by banks prior to the crisis was insufficient to absorb losses during periods of severe stress. Certain provisions of the Dodd-Frank Act and Basel III, discussed below, establish strengthened capital standards for banks and bank holding companies, require more capital to be held in the form of common stock and disallow certain funds from being included in capital determinations. These standards represent regulatory capital requirements 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, are being 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. Because we have assets of less than $15 billion, we are able to maintain the Corporation’s trust preferred proceeds as capital but we have to comply with new capital mandates in other respects and will not be able to raise capital in the future through the issuance of trust preferred securities.

The Basel III Rule. On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on a strengthened set of capital requirements for banking organizations around the world, known as “Basel III”, to address deficiencies recognized in connection with the global financial crisis. 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 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” (generally bank holding companies with consolidated assets of less than $1 billion). The Basel III Rule required higher capital levels, increased the required quality of capital and required more detailed categories of risk weighting of riskier, more opaque assets. For nearly every class of assets, the Basel III Rule requires a more complex, detailed and calibrated assessment of credit risk and calculation of risk weightings.

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

Capital, but qualifies as Additional Tier 1 Capital. The Basel III Rule also constrained the inclusion of minority interests, mortgage-servicing assets and deferred tax assets in capital and requires deductions from Common Equity Tier 1 Capital in the event that such assets exceed a certain percentage of a banking institution's Common Equity Tier 1 Capital.

The Basel III Rule required minimum capital ratios 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 being phased in over three years beginning in 2016 (which, as of January 1, 2018, it had phased in to 1.875%). 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 fully phased-in 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.

Banking organizations (except for large, internationally active banking organizations) became subject to the new rules on January 1, 2015. However, there are separate phase-in/phase-out periods for: (i) the capital conservation buffer; (ii) regulatory capital adjustments and deductions; (iii) nonqualifying capital instruments; and (iv) changes to the prompt corrective action rules discussed below. The phase-in periods commenced on January 1, 2016 and extend until January 1, 2019.

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

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

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

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

As of December 31, 2017: (i) the Bank was not subject to a directive from the FDIC to increase capital; and (ii) the Bank was well-capitalized, as defined by FDIC regulations. As of December 31, 2017, the Corporation had regulatory capital in excess of the Federal Reserve's requirements and met the Basel III Rule requirements to be well-capitalized.

Prompt Corrective Action. An FDIC-insured institution's capital plays an important role in connection with regulatory enforcement as well. Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. 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.

Regulations and Supervision of the Corporation

General. The Corporation, as the sole shareholder of the Bank, is a bank holding company. As a bank holding company, we are registered with, and subject to regulation 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 and managerial 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 and are required to file with the Federal Reserve periodic reports of the Corporation’s operations and such additional information regarding us and the Bank as the Federal Reserve may require.

Acquisitions, Activities and Change in Control. The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company of another bank or bank holding company. Subject to certain conditions (including deposit concentration limits established by the BHCA, the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its FDIC-insured institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company. Furthermore, in accordance with the Dodd-Frank Act, bank holding companies must be well-capitalized and well-managed in order to effect interstate mergers or acquisitions. For a discussion of the capital requirements, see “Regulatory Emphasis on 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 would permit us to engage in a variety of banking-related businesses, including the ownership and operation of a savings association, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development) and mortgage banking and brokerage services. The BHCA does not place territorial restrictions on the domestic activities of nonbank subsidiaries of bank holding companies.

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

Federal law also prohibits any person or company from acquiring “control” of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. “Control” is conclusively presumed

to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 10% and 24.99% ownership.
Capital Requirements. Bank holding companies are required to maintain capital in accordance with Federal Reserve capital adequacy requirements. For a discussion of capital requirements, see “Regulatory Emphasis on Capital” above.
Dividend Payments. The Corporation’s ability to pay dividends to the Corporation’s 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 the Wisconsin Business Corporations Law, which allows us to pay dividends unless, after such dividend, (i) we would not be able to pay the Corporation’s debts as they become due in the usual

course of business or (ii) the Corporation's total assets would be less than the sum of the Corporation's 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 will have to maintain 2.5% in Common Equity Tier 1 Capital attributable to the capital conservation buffer to be phased in over three years beginning in 2016. See "Regulatory Emphasis on Capital" above.

Incentive Compensation. There have been a number of developments in recent years focused on incentive compensation plans sponsored by bank holding companies and banks, reflecting recognition by the bank regulatory agencies and Congress that flawed incentive compensation practices in the financial industry were one of many factors contributing to the global financial crisis. Layered on top of that are the abuses in the headlines dealing with product cross-selling incentive plans. The result is interagency guidance on sound incentive compensation practices and proposed rulemaking by the agencies required under Section 956 of the Dodd-Frank Act.

The interagency guidance recognized three core principles. Effective incentive plans should: (i) provide employees incentives that appropriately balance risk and reward; (ii) be compatible with effective controls and risk-management; and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. Much of the guidance addresses large banking organizations and, because of the size and complexity of their operations, the regulators expect those organizations to maintain systematic and formalized policies, procedures and systems for ensuring that the incentive compensation arrangements for all executive and non-executive employees covered by this guidance are identified and reviewed, and appropriately balance risks and rewards. Smaller banking organizations like the Corporation that use incentive compensation arrangements are expected to be less extensive, formalized and detailed than those of the larger banks.

Section 956 of the Dodd-Frank Act required the banking agencies, the National Credit Union Administration, the SEC and the Federal Housing Finance Agency to jointly prescribe regulations that prohibit types of incentive-based compensation that encourages inappropriate risk taking and to disclose certain information regarding such plans. On June 10, 2016, the agencies released an updated proposed rule for comment. Section 956 will only apply to banking organizations with assets of greater than $1 billion. We have consolidated assets greater than $1 billion and less than $50 billion and we are considered a Level 3 banking organization under the proposed rules. The proposed rules contain mostly general principles and reporting requirements for Level 3 institutions so there are no specific prescriptions or limits, deferral requirements or claw-back mandates. Risk management and controls are required, as is board or committee level approval and oversight. Management expects to review its incentive plans in light of the proposed rulemaking and guidance and implement policies and procedures that mitigate unreasonable risk. As of December 31, 2017, these rules remain in proposed form.

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

Regulation and Supervision of the Bank

General. The Bank is a Wisconsin-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, 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 not based on examination rating and financial ratios. The total base assessment rates currently range from 1.5 basis points to 30 basis points. At least semi-annually, the FDIC updates its loss and income projections for the DIF and, if needed, increases or decreases the assessment rates, following notice and comment on proposed rulemaking. The assessment base against which an FDIC-insured institution's deposit insurance premiums paid to the DIF are calculated is based on its average consolidated total assets less its average tangible equity. This method shifts the burden of deposit insurance premiums toward those large depository institutions that rely on funding sources other than U.S. deposits.

The reserve ratio is the FDIC insurance fund balance divided by estimated insured deposits. The Dodd-Frank Act altered the minimum reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to FDIC-insured institutions when the reserve ratio exceeds certain thresholds. The reserve ratio reached 1.15% on June 30, 2016, when revised factors were put in place for calculating the assessment. The reserve ratio as of December 31, 2017 was 1.30%. If the reserve ratio does not reach 1.35% by December 31, 2018 (provided it is at least 1.15%), the FDIC will impose a shortfall assessment on March 31, 2019 on insured depository institutions with total consolidated assets of $10 billion or more. The FDIC will provide assessment credits to insured depository institutions, like the Bank, with total consolidated assets of less than $10 billion for the portion of their regular assessments that contribute to growth in the reserve ratio between 1.15% and 1.35%. The FDIC will apply the credits each quarter that the reserve ratio is at least 1.38% to offset the regular deposit insurance assessments of institutions with credits.

FICO Assessments. In addition to paying basic deposit insurance assessments, FDIC-insured institutions must pay Financing Corporation ("FICO") assessments. FICO is a mixed-ownership governmental corporation chartered by the former Federal Home Loan Bank ("FHLB") Board pursuant to the Competitive Equality Banking Act of 1987 to function as a financing vehicle for the recapitalization of the former Federal Savings and Loan Insurance Corporation. FICO issued 30-year noncallable bonds of approximately $8.1 billion that mature in 2017 through 2019. FICO's authority to issue bonds ended on December 12, 1991. Since 1996, federal legislation has required that all FDIC-insured institutions pay assessments to cover interest payments on FICO's outstanding obligations. The FICO assessment rate is adjusted quarterly and for the fourth quarter of 2017 was 54 cents per $100 dollars of assessable deposits.

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. During the year ended December 31, 2017, the Bank paid supervisory assessments to the WDFI totaling approximately $60,000, which includes any separate assessment paid by FBB-Milwaukee. Also, Alterra, for the time in which it was held as a separate charter in 2017, paid supervisory assessments to the Office of State Bank Commissioner of Kansas totaling approximately $51,000.

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

Liquidity Requirements. Liquidity is a measure of the ability and ease with which bank assets may be converted to cash. Liquid assets are those that can be converted to cash quickly if needed to meet financial obligations. To remain viable, FDIC-insured institutions must have enough liquid assets to meet their near-term obligations, such as withdrawals by depositors. Because the global financial crisis was in part a liquidity crisis, Basel III also includes a liquidity framework that requires FDIC-insured institutions to measure their liquidity against specific liquidity tests.

One test, referred to as the Liquidity Coverage Ratio (“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).

In addition to liquidity guidelines already in place, the federal bank regulatory agencies implemented the Basel III LCR in September 2014, which requires large financial firms to hold levels of liquid assets sufficient to protect against constraints on their funding during times of financial turmoil, and in 2016 proposed implementation of the NSFR. While these tests only apply to the largest banking organizations in the country, certain elements are expected to filter down to all FDIC-insured institutions. We are reviewing the Corporation’s liquidity risk management policies in light of the LCR and NSFR.

Stress Testing. A stress test is an analysis or simulation designed to determine the ability of a given FDIC-insured institution to deal with an economic crisis. In October 2012, U.S. bank regulators unveiled new rules mandated by the Dodd-Frank Act that require the largest U.S. banks to undergo stress tests twice per year, once internally and once conducted by the regulators. Stress tests are not required for banks with less than $10 billion in assets; however, the FDIC now recommends stress testing as means to identify and quantify loan portfolio risk and the Bank is conducting quarterly commercial real estate portfolio stress testing.

Dividend Payments. The primary source of funds for the Corporation is dividends from the Bank. Under Wisconsin banking law, Wisconsin-chartered banks generally may pay dividends only out of undivided profits. The WDFI may restrict the declaration or payment of a dividend by a Wisconsin-chartered bank, such as the Bank. The payment of dividends by any FDIC-insured institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a FDIC-insured institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its capital requirements under applicable guidelines as of December 31, 2017. 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 to be phased in over three years beginning in 2016. See “Regulatory Emphasis on 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.” The Corporation is 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 guidelines that establish operational and managerial standards to promote the safety and soundness of FDIC-insured institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings. In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the FDIC-insured institution’s primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If a 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 the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal bank regulatory agencies, including cease and desist orders and civil money penalty assessments.

During the past decade, the bank regulatory agencies have increasingly emphasized the importance of sound risk management processes and strong internal controls when evaluating the activities of the FDIC-insured institutions they supervise. Properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation, and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal and reputational risk. 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 and cybersecurity are critical sources of operational risk that FDIC-insured institutions must 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. 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. 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 the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) without impediments.

Transaction Account Reserves. Federal Reserve regulations require FDIC-insured institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2018, the first $16 million of otherwise reservable balances are exempt from reserves and have a zero percent reserve requirement; for transaction accounts aggregating more than $16 million to $122.3 million, the reserve requirement is 3% of total transaction accounts; and for net transaction accounts in excess of $122.3 million, the reserve requirement is 3% up to $115.1 million plus 10% of the aggregate amount of total transaction accounts in excess of $122.3 million. These reserve requirements are subject to annual adjustment by the Federal Reserve.

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

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

Concentrations in Commercial Real Estate. Concentration risk exists when FDIC-insured institutions deploy too many assets to any one industry or segment. A concentration in commercial real estate 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 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. We do not currently expect the CFPB’s rules to have a significant impact on the Corporation’s operations, except for higher compliance costs.

## 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.

### 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 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 and 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 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, 2017, our allowance for loan and lease losses as a percentage of total loans and leases was 1.25% and as a percentage of total non-performing loans and leases was 71.10%. Although management believes the allowance for loan and lease losses is appropriate as of such date, 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, 2017 we had $1.0 billion of commercial real estate loans, which represented 67.7% 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 often more sensitive than other types of loans to adverse 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 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, a subset of commercial real estate loans, comprised approximately $165.3 million, or 11.0%, of our gross loan and lease portfolio as of December 31, 2017. 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, 2017, approximately $429.0 million, or 28.5%, 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, asset-based borrowers are usually 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.

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

At December 31, 2017, our non-performing loans and leases totaled $26.4 million, or 1.76% of our gross loan and lease portfolio and our non-performing assets (which include non-performing loans and foreclosed properties) totaled $27.5 million, or 1.53% of total assets. The aggregate amount of our non-performing loans and non-performing assets have increased from $25.2 million and $26.7 million, respectively, as of December 31, 2016. There can be no

assurances that we will not experience further deterioration in our loan portfolio.
Our non-performing assets adversely affect our net income in various ways. We do not record interest income on non-accrual loans or foreclosed properties, 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 foreclosure 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 foreclosed properties 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 our first fiscal year after December 15, 2019. This standard, referred to as Current Expected Credit Loss ("CECL"), will require 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.

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.

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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. However, the structure of our balance sheet and resultant sensitivity to interest rates in various scenarios may change in the future.

Additionally, interest rate increases 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 a material 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.

Operational Risks

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, if we expand, 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.

We are subject to certain operational risks, including, but not limited to, client or employee fraud and data processing system failures and errors.

Employee errors and employee and client misconduct, including the improper disclosure or use of client information, could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our clients or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors or misconduct could also subject us to financial claims for negligence.

We maintain a system of internal controls and insurance coverage to mitigate our operational risks, including data processing system failures and errors and client or employee fraud. If our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

Our information systems may experience an interruption or breach in security and cyber-attacks, all of which could have a material adverse effect on our business.

The Corporation relies heavily on internal and outsourced technologies, communications and information systems to conduct its business. Additionally, in the normal course of business, the Corporation collects, processes and retains sensitive and confidential information regarding our clients. As our reliance on technology has increased, so have the potential risks of a technology-related operation interruption (such as disruptions in our client relationship management, general ledger, deposit, loan or other systems) or the occurrence of a cyber-attack (such as unauthorized access to our systems). These risks have increased for all financial institutions as new technologies, the use of the Internet and telecommunications technologies (including mobile devices) to conduct financial and other business transactions have increased, and the sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others have increased. In addition to cyber-attacks or other security breaches involving the theft of sensitive and confidential information, hackers recently have engaged in attacks

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against large financial institutions, particularly denial of service attacks, which are designed to disrupt key business services, such as customer-facing web sites. We may not be able to anticipate or implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently and because attacks can originate from a wide variety of sources. However, applying guidance from the Federal Financial Institutions Examination Council ("FFIEC"), the Corporation has analyzed and will continue to analyze security related to device specific considerations, user access topics, transaction-processing and network integrity.

We rely on our advisors, vendors and employees to comply with our policies and procedures to safeguard confidential data. The failure of these parties to comply with such policies and procedures could result in the loss or wrongful use of our clients' confidential information or other sensitive information. In addition, even if we and our advisors, vendors and employees comply with our policies and procedures, persons who circumvent security measures could wrongfully use our confidential information or clients' confidential information or cause interruptions or malfunctions in our operations.

The Corporation also faces risks related to cyber-attacks and other security breaches in connection with credit card and debit card transactions that typically involve the transmission of sensitive information regarding our customers through various third parties, including merchant acquiring banks, payment processors, payment card networks and its processors. 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 such as the point of sale that the Corporation does not control or secure, future security breaches or cyber-attacks affecting any of these third parties could impact us through no fault of its own, and in some cases it may have exposure and suffer losses for breaches or attacks relating to them. Further cyber-attacks or other breaches in the future, whether affecting us or others, could intensify consumer concern and regulatory focus and result in reduced use of payment cards and increased costs, all of which could have a material adverse effect on our business. To the extent we are involved in any future cyber-attacks or other breaches, our reputation could be affected, which could also have a material adverse effect on our business, financial condition or results of operations.

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

We outsource certain information system, data management and processing functions to third-party providers. 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 breaches and unauthorized disclosures of sensitive or confidential client or customer information. If third-party service providers encounter any of these issues, or if we have difficulty exchanging information with them, we could be exposed to disruption of operations, loss of service or connectivity to customers, reputational damage and litigation risk that could have a material adverse effect on our business, results of operations and financial condition. We believe there may be an elevated risk of these issues occurring in connection with our recently completed core system conversion, which involved among other things, a change in certain of our third-party providers.

Third-party vendors provide key components of our business infrastructure such as internet connections, network access and core application processing. While we have selected these third-party vendors carefully, we do not control their actions. Any problems caused by these third parties, including as a result of their not providing us their services for any reason or their performing their services poorly, could adversely affect our ability to deliver products and services to our customers and otherwise to conduct our business.

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 or telecommunication failure. 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, whether due to severe weather, natural disasters, acts of war or terrorism, criminal activity or other factors, could result in failures or disruptions in general ledger, deposit, loan, 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 such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures or interruptions 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.

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, report and analyze the types of risk to which we are subject, including liquidity risk, credit risk, market risk, interest rate risk, operational 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 given recent economic conditions, more drastic changes may occur. The implementation of such changes could have a material adverse effect on our business, results of operations and financial condition.

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, if we continue to grow the Corporation, our controls will also 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.

Strategic and External Risks

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 the South Central region of Wisconsin and, to a lesser extent, the Southeastern and Northeastern regions of Wisconsin and the greater Kansas City area 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 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 currently calls for, among other things, regaining our strong asset quality while we continue to grow loans and generate in-market deposits to maintain our net interest margin and increasing fee income. Our ability to increase profitability in accordance with this plan will depend on a variety of factors, including the identification of desirable business opportunities, competitive responses from financial institutions in our markets and our ability to manage liquidity and funding sources. 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, 2017, the fair value of our securities portfolio was approximately $163.7 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, 2017, the Corporation had goodwill of $10.7 million recorded in connection with our acquisition of Alterra. 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. Our most recent impairment test conducted as of November 30, 2017 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 specific to FBB-KC or other factors, the goodwill impairment analysis may require additional review of assumptions and outcomes prior to our next annual impairment testing date of July 1, 2018. 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. Effective January 1, 2018, the enactment of the Tax Cuts and Jobs Act (the "Act") reduced the federal corporate income tax rate to 21% from 35%. Despite this reduction to the federal corporate tax rate, the Corporation believes it will fully realize its deferred tax assets and therefore no valuation allowance was necessary as of December

31, 2017. 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 institutions could adversely affect our profitability.
We encounter heavy competition in attracting commercial loan, equipment finance and deposit clients as well as trust and investment 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, service fees, flexibility 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 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 target markets. Furthermore, tax-exempt credit unions operate in most of 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-banks 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 banks through alternative methods. For example, the wide acceptance of Internet-based commerce has resulted in a number of alternative payment processing systems and lending platforms in which banks play only minor roles. Clients can now maintain funds in prepaid debit cards or digital currencies, and pay bills and transfer funds directly without the direct assistance of banks. The diminishing role of banks as financial intermediaries has resulted and could continue to result in the loss of fee income, as well as the loss of customer 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 trust and investment services operations may be negatively impacted by changes in economic and market conditions.

Our trust and investment services 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. Our management contracts generally provide for fees payable for services based on the market value of assets under management. Because most of our contracts provide for a fee based on market values of securities, 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' trust and investment services accounts could result in us losing trust and investment services clients, including those who are also banking clients.

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 disruption to our business.
- 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,

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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.

Regulatory, Compliance, Legal and Reputational Risks

We operate in a highly regulated industry and the 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, impose limitations on our business activities and compensation practices, limit the dividends or distributions that we can pay, restrict the ability of institutions 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. 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.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

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

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

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, including the Act, 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 and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the USA PATRIOT Act and other 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, established by Treasury to administer the Bank Secrecy Act, 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 Financial Crimes Enforcement Network. Federal and state bank regulators also focus on compliance with Bank Secrecy Act and anti-money laundering regulations.

If our policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that we have already acquired or 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.

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SBA lending is a significant part of our strategic business plan. 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.

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.

Historically we have sold the guaranteed portions of our SBA 7(a) loans in the secondary market. These sales have resulted in our earning premium income and have created 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. When we sell the guaranteed portions of our SBA 7(a) loans, we retain credit risk on the non-guaranteed portions of the loans.

In order for a borrower to be eligible to receive an SBA loan, the lender must establish 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 deterioration in economic conditions or the borrower’s financial condition. 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 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 Corporation. Management has estimated losses inherent in the outstanding guaranteed portions of SBA loans and recorded a recourse reserve at a level determined to be appropriate. Significant increases to the recourse reserve may materially decrease our net income, which may adversely affect our business, results of operations and financial condition.

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 trust and investment 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. Either of 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.
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, information security, management actions, corporate governance and actions taken by government regulators and community organizations



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in response to those activities. Negative publicity can adversely affect our ability to keep and attract clients, 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.

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. In addition, 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.

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, 2017:

| Location | Function | Expiration |
| --- | --- | --- |

| | | Date |
|---|---|---|
| 401 Charmany Drive, Madison, WI | Full-service banking location of FBB and office of FBFS | 2029 |
| 18500 W. Corporate Drive, Brookfield, WI | Full-service banking location of FBB - Milwaukee Region | 2020 |
| 11300 Tomahawk Creek Pkwy, Leawood, KS | Full-service banking location of FBB - Kansas City Region | 2023 |

To facilitate additional business development opportunities, as of December 31, 2017, the Corporation had loan production offices in Oshkosh, Appleton, Manitowoc and Kenosha, Wisconsin.

For the purpose of generating business development opportunities in asset-based financing, as of December 31, 2017, 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 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.

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PART II.

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

Holders, Price Range and Dividends Declared

The common stock of the Corporation is traded on the Nasdaq Global Select Market under the symbol "FBIZ." As of March 1, 2018, there were 389 registered shareholders of record of the Corporation's common stock. Certain of the Corporation's shares are held in "nominee" or "street" name and the number of beneficial owners of such shares as of March 1, 2018 was approximately 1,900.

The following table presents the range of high and low sale prices of our common stock for each quarter within the two most recent fiscal years, according to information provided by Nasdaq, and cash dividends declared in such quarters.

| | High | Low | Dividend Declared |
|---|---|---|---|
| 2017 | | | |
| 4th Quarter | $24.24 | $20.76 | $ 0.13 |
| 3rd Quarter | 23.75 | 20.57 | 0.13 |
| 2nd Quarter | 28.43 | 22.49 | 0.13 |
| 1st Quarter | 26.47 | 23.07 | 0.13 |
| 2016 | | | |
| 4th Quarter | 24.14 | 18.76 | 0.12 |
| 3rd Quarter | 24.74 | 20.96 | 0.12 |
| 2nd Quarter | 25.94 | 22.19 | 0.12 |
| 1st Quarter | 24.70 | 20.06 | 0.12 |

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.

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Stock Performance Graph

The chart shown below depicts total return to shareholders during the period beginning December 31, 2012 and ending December 31, 2017. 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, 2012, and that all dividends were reinvested in FBIZ common stock.

| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| Index | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| First Business Financial Services, Inc. | $100.00 | $166.98 | $216.75 | $230.68 | $223.68 | $213.36 |
| Nasdaq Composite | 100.00 | 140.12 | 160.78 | 171.97 | 187.22 | 242.71 |
| SNL Bank Nasdaq | 100.00 | 143.73 | 148.86 | 160.70 | 222.81 | 234.58 |

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Issuer Purchases of Securities

The following table sets forth information about the Corporation's purchases of its common stock during the three months ended December 31, 2017.

| 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 | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| October 1, 2017 - October 31, 2017 | — | $ — | — | $ — |
| November 1, 2017 - November 30, 2017 | 1,024 | 22.42 | — | — |
| December 1, 2017 - December 31, 2017 | — | — | — | — |
| Total | 1,024 | | — | |

(1) The shares in this column represent the shares that were surrendered to us to satisfy income tax withholding obligations in connection with the vesting of restricted shares.

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Item 6. Selected Financial Data

Five Year Comparison of Selected Consolidated Financial Data

| | As of and for the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| | (Dollars in Thousands, Except Share and Per Share Data) | | | | |
| INCOME STATEMENT: | | | | | |
| Interest income | $75,811 | $78,117 | $72,471 | $57,701 | $53,810 |
| Interest expense | 15,202 | 14,789 | 13,831 | 11,571 | 11,705 |
| Net interest income | 60,609 | 63,328 | 58,640 | 46,130 | 42,105 |
| Provision for loan and lease losses | 6,172 | 7,818 | 3,386 | 1,236 | (959) |
| Non-interest income | 16,665 | 17,988 | 17,011 | 10,103 | 8,442 |
| Non-interest expense | 56,871 | 56,433 | 47,374 | 33,775 | 30,371 |
| Income tax expense | 2,326 | 2,156 | 8,377 | 7,083 | 7,389 |
| Net income | $11,905 | $14,909 | $16,514 | $14,139 | $13,746 |
| Yield on earning assets | 4.47 % | 4.50 % | 4.52 % | 4.45 % | 4.52 % |
| Cost of funds | 1.11 % | 1.06 % | 1.04 % | 1.07 % | 1.18 % |
| Interest rate spread | 3.36 % | 3.44 % | 3.48 % | 3.38 % | 3.34 % |
| Net interest margin | 3.58 % | 3.64 % | 3.66 % | 3.56 % | 3.54 % |
| Return on average assets | 0.67 % | 0.82 % | 0.97 % | 1.04 % | 1.10 % |
| Return on average equity | 7.16 % | 9.40 % | 11.36 % | 11.78 % | 13.12 % |
| ENDING BALANCE SHEET: | | | | | |
| Total assets | $1,794,066 | $1,780,699 | $1,782,081 | $1,628,505 | $1,268,267 |
| Securities | 163,783 | 184,505 | 177,830 | 186,261 | 180,118 |
| Loans and leases, net of deferred loan fees | 1,501,595 | 1,450,675 | 1,430,965 | 1,266,438 | 967,050 |
| In-market deposits | 1,086,346 | 1,122,174 | 1,089,748 | 1,010,928 | 736,323 |
| Wholesale deposits | 307,985 | 416,681 | 487,483 | 427,340 | 393,532 |
| FHLB advances and other borrowings | 207,898 | 59,676 | 34,740 | 33,451 | 11,901 |
| Junior subordinated notes | 10,019 | 10,004 | 9,990 | 9,976 | 9,962 |
| Stockholders’ equity | 169,278 | 161,650 | 150,832 | 137,748 | 109,275 |
| FINANCIAL CONDITION ANALYSIS: | | | | | |
| Allowance for loan and lease losses to gross loans and leases | 1.25 % | 1.44 % | 1.14 % | 1.12 % | 1.42 % |
| Allowance to non-accrual loans and leases | 71.10 % | 83.00 % | 73.17 % | 146.33 % | 87.68 % |
| Net charge-offs to average loans and leases | 0.57 % | 0.22 % | 0.10 % | 0.08 % | 0.06 % |
| Non-accrual loans to gross loans and leases | 1.76 % | 1.74 % | 1.56 % | 0.76 % | 1.61 % |
| Average equity to average assets | 9.35 % | 8.75 % | 8.54 % | 8.80 % | 8.39 % |
| STOCKHOLDERS’ DATA: | | | | | |
| Basic earnings per common share(1) | $1.36 | $1.71 | $1.90 | $1.76 | $1.75 |
| Diluted earnings per common share(1) | 1.36 | 1.71 | 1.90 | 1.75 | 1.74 |
| Book value per share at end of period | 19.32 | 18.55 | 17.34 | 15.88 | 13.86 |
| Tangible book value per share at end of period | 17.87 | 17.08 | 15.90 | 14.51 | 13.86 |
| Dividend declared per share | 0.52 | 0.48 | 0.44 | 0.42 | 0.28 |
| Dividend payout ratio | 38.12 % | 23.93 % | 23.93 % | 23.93 % | 16.05 % |
| Shares outstanding | 8,763,539 | 8,715,856 | 8,699,410 | 8,671,854 | 7,833,334 |

(1) Basic and diluted earnings per share reflect earnings per common share as calculated under the two-class method due to the existence of participating securities. All shares and per share amounts have been adjusted to reflect the

2-for-1 stock split in the form of a 100% stock dividend completed in August 2015.

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## 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,” “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:

- Competitive pressures among depository and other financial institutions nationally and in our markets.
- Adverse changes in the economy or business conditions, either nationally or 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.
- The consequences of continued bank acquisitions and mergers in our markets, resulting in fewer but much larger and financially stronger competitors.
- 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 shareholders 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 and the Selected Consolidated Financial Data in this Form 10-K.

### 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 the Bank and certain subsidiaries of FBB. We operate as a business bank focusing on 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 include commercial lending, SBA lending and servicing, asset-based lending, equipment financing, factoring, trust and investment services, treasury management services and a broad range of deposit products. We do not utilize a branch network to attract retail clients. Our operating philosophy is predicated on deep client relationships fostered by local expertise, combined with the efficiency of centralized administrative functions such as information technology, loan and deposit operations, finance and accounting, credit administration, compliance and human resources. Our focused model allows experienced staff to provide the level of financial expertise needed to develop and maintain

long-term relationships with our clients.
Effective June 1, 2017, we completed the consolidation of the Corporation’s three bank charters into a single charter. In addition to Federal Reserve supervision of the holding company, which will remain unchanged, prior to consolidation the Corporation’s three chartered bank subsidiaries were supervised by a total of four federal and state banking regulators. The

consolidated single charter is now supervised by the FDIC and the WDFI. Beyond streamlining bank regulatory processes and relationships, the charter consolidation was designed to accelerate the Corporation's ongoing efforts to improve overall operating efficiency. With one bank charter, we expect to eliminate administrative redundancies and increase our flexibility in managing capital, liquidity and funding.

In addition, having already integrated most of FBB-KC's back office operations into FBFS, during the fourth quarter of 2017, the Corporation converted FBB-KC's core bank system and centralized this service with FBB's core bank system and its Wisconsin-based operations.

Operational Summary

- Total assets at December 31, 2017 increased $13.4 million, or 0.8%, to $1.794 billion from $1.781 billion at December 31, 2016.
- Net income for the year ended December 31, 2017 was $11.9 million compared to $14.9 million for the year ended December 31, 2016.
- Diluted earnings per common share were $1.36 for the year ended December 31, 2017, compared to $1.71 in the prior year.
- Net interest margin was 3.58% for the year ended December 31, 2017, declining six basis points from 3.64% for the year ended December 31, 2016.
- Top line revenue, which consists of net interest income and non-interest income, decreased 5.0% to $77.3 million for the year ended December 31, 2017, compared to $81.3 million for the same period in 2016.
- Return on average assets and return on average equity for the year ended December 31, 2017 were 0.67% and 7.16% respectively, compared to 0.82% and 9.40%, respectively, for 2016.
- Provision for loan and lease losses was $6.2 million for the year ended December 31, 2017, compared to $7.8 million for the year ended December 31, 2016.
- Loans and leases receivable at December 31, 2017 increased $50.9 million, or 3.5%, to $1.502 billion from $1.451 billion as of December 31, 2016.
- Non-performing assets were $27.5 million and 1.53% of total assets as of December 31, 2017, compared to $26.7 million and 1.50% of total assets as of December 31, 2016.
- Net charge-offs as a percentage of average loans and leases increased to 0.57% for the year ended December 31, 2017, compared to 0.22% for the year ended December 31, 2016.
- Trust assets under management and administration increased by $332.0 million, or 27.6%, to $1.536 billion at December 31, 2017 compared to $1.204 billion at December 31, 2016.
- Trust and investment service fee income increased by $1.3 million, or 24.5%, to $6.7 million for the year ended December 31, 2017 compared to $5.4 million for the year ended December 31, 2016.
- Average in-market deposits of $1.097 billion, or 70.15% of total bank funding sources, for the year ended December 31, 2017, decreased 2.4%, compared to $1.124 billion, or 69.98% of total bank funding sources, for the same period in 2016.

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The detailed financial discussion that follows focuses on 2017 results compared to 2016. Discussion of 2016 results compared to 2015 is predominantly in the section captioned "2016 Compared to 2015."

Results of Operations

Top Line Revenue

Top line revenue is comprised of net interest income and non-interest income. This measurement is also commonly referred to as operating revenue. In 2017, top line revenue decreased 5.0% compared to the prior year primarily due to a reduction in gains from the sale of the guaranteed portions of SBA loans and a decline in recurring loan fees collected in lieu of interest. Based on management's second quarter 2016 decision to rebuild the SBA operations and production platforms, gains on the sale of SBA loans decreased \$2.8 million to \$1.6 million in 2017, compared to \$4.4 million in 2016. Loan fees collected in lieu of interest decreased \$2.4 million to \$4.4 million in 2017, compared to \$6.8 million in 2016.

These 2017 revenue headwinds were partially offset by record trust and investment services fee income, an increase in loan swap fee income and successful efforts to manage in-market deposit rates and utilize an efficient mix of wholesale funding sources, despite a rising interest rate environment.

The components of top line revenue were as follows for 2017, 2016 and 2015:

| | For the Year Ended December 31, | | | Change From Prior Year | | | |
|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | $ Change 2017 | % Change 2017 | $ Change 2016 | % Change 2016 |
| | (Dollars in Thousands) | | | | | | |
| Net interest income | $60,609 | $63,328 | $58,640 | $(2,719) | (4.3)% | $4,688 | 8.0 % |
| Non-interest income | 16,665 | 17,988 | 17,011 | (1,323) | (7.4) | 977 | 5.7 |
| Top line revenue | $77,274 | $81,316 | $75,651 | $(4,042) | (5.0) | $5,665 | 7.5 |

Return on Average Assets and Return on Average Equity

Return on average assets ("ROAA") was 0.67% for the year ended December 31, 2017 compared to 0.82% for the year ended December 31, 2016. The decrease in ROAA can be attributed principally to a decrease in earnings as net income decreased 20.1% during the same time period. The reasons for the decrease in net income are consistent with top line revenue explanations discussed above. In addition, continued investments in technology and an increase in collateral liquidation costs in 2017 reduced ROAA compared to 2016, partially offset by a \$1.6 million reduction in provision for loan and leases losses. ROAA is a critical metric used by us to measure the profitability of our organization and how efficiently our assets are deployed. ROAA 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.

Return on average equity ("ROAE") for the year ended December 31, 2017 was 7.16% compared to 9.40% for the year ended December 31, 2016. The primary reasons for the decrease in ROAE are consistent with the net income variance explanations discussed above. We view ROAE 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

Efficiency ratio is a non-GAAP measure representing non-interest expense excluding the effects of the SBA recourse provision, impairment of tax credit investments, losses or gains on foreclosed properties, amortization of other intangible assets and other discrete items, if any, divided by operating revenue, which is equal to net interest income plus non-interest income less realized gains or losses on securities, if any.

The efficiency ratio deteriorated to 66.48% for the year ended December 31, 2017, compared to 61.12% for the year ended December 31, 2016. Despite this reported reduction in operating efficiency, we believe we continue to progress towards enhancing our long-term efficiency ratio, building on the strategic changes we have made to date and laying the foundation to generate sustainable and high-quality revenue growth. After significant investment in 2016 and 2017, we believe we now have a high-quality SBA infrastructure, with the people and processes in place to resume production in the quarters and years ahead as we continue to enhance our SBA sales presence. At the same time, we expect our recently completed charter consolidation and core system conversion to create capacity within our existing workforce to accommodate future growth in a highly efficient manner. Management will continue to take proactive measures to drive positive operating leverage with the objective of moving the efficiency ratio back toward our long-term operating goal of 58-62%.

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We believe the efficiency ratio allows investors and analysts to better assess the Corporation's operating expenses in relation to its top line revenue by removing the volatility that is associated with certain non-recurring and other discrete items. The efficiency ratio also 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 ROAA and ROAE. The information provided below reconciles the efficiency ratio to its most comparable GAAP measure.

Please refer to the Non-Interest Expense section below for discussion on the primary drivers of the year-over-year change in the efficiency ratio.

| | For the Year Ended December 31, | | | Change From Prior Year | | | |
|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | $ Change 2017 | % Change 2017 | $ Change 2016 | % Change 2016 |
| | (Dollars in Thousands) | | | | | | |
| Total non-interest expense | $56,871 | $56,433 | $47,374 | $438 | 0.8 % | $9,059 | 19.1 % |
| Less: | | | | | | | |
| Net (gain) loss on foreclosed properties | (143 ) | 122 | (171 ) | (265 ) | NM | 293 | NM |
| Amortization of other intangible assets | 54 | 62 | 71 | (8 ) | (12.9) | (9 ) | (12.7)% |
| SBA recourse provision | 2,240 | 2,068 | — | 172 | NM | 2,068 | NM |
| Impairment of tax credit investments | 2,784 | 3,691 | — | (907 ) | NM | 3,691 | NM |
| Deconversion fees | 300 | 794 | — | (494 ) | NM | 794 | NM |
| Total adjusted operating expense | $51,636 | $49,696 | $47,474 | $1,940 | 3.9 | $2,222 | 4.7 |
| Net interest income | $60,609 | $63,328 | $58,640 | $(2,719) | (4.3 ) | $4,688 | 8.0 |
| Total non-interest income | 16,665 | 17,988 | 17,011 | (1,323 ) | (7.4 ) | 977 | 5.7 |
| Less: | | | | | | | |
| Net (loss) gain on sale of securities | (403 ) | 10 | — | (413 ) | NM | 10 | NM |
| Total adjusted operating revenue | $77,677 | $81,306 | $75,651 | $(3,629) | (4.5 ) | $5,655 | 7.5 |
| Efficiency ratio | 66.48 % | 61.12 % | 62.75 % | | | | |

NM = Not meaningful

Net Interest Income

Net interest income levels depend on the amounts of and yields on interest-earning assets as compared to the amounts of and rates 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.

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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, | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | | | 2016 | | | | 2015 | | | |
| | 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) | $961,572 | $43,452 | 4.52 | % | $938,524 | $43,927 | 4.68 | % | $848,213 | $40,006 | 4.72 | % |
| Commercial and industrial loans(1) | 447,937 | 26,165 | 5.84 | % | 465,736 | 28,143 | 6.04 | % | 445,659 | 26,668 | 5.98 | % |
| Direct financing leases(1) | 28,988 | 1,231 | 4.25 | % | 30,379 | 1,364 | 4.49 | % | 30,228 | 1,394 | 4.61 | % |
| Consumer and other loans(1) | 27,612 | 1,112 | 4.03 | % | 25,615 | 1,193 | 4.66 | % | 23,996 | 1,067 | 4.45 | % |
| Total loans and leases receivable(1) | 1,466,109 | 71,960 | 4.91 | % | 1,460,254 | 74,627 | 5.11 | % | 1,348,096 | 69,135 | 5.13 | % |
| Mortgage-related securities(2) | 138,528 | 2,466 | 1.78 | % | 147,433 | 2,328 | 1.58 | % | 153,182 | 2,490 | 1.63 | % |
| Other investment securities(3) | 37,085 | 682 | 1.84 | % | 32,995 | 517 | 1.57 | % | 29,686 | 472 | 1.59 | % |
| FHLB and FRB stock | 4,231 | 103 | 2.43 | % | 2,537 | 79 | 3.11 | % | 2,886 | 81 | 2.82 | % |
| Short-term investments | 49,113 | 600 | 1.22 | % | 94,548 | 566 | 0.60 | % | 69,264 | 293 | 0.42 | % |
| Total interest-earning assets | 1,695,066 | 75,811 | 4.47 | % | 1,737,767 | 78,117 | 4.50 | % | 1,603,114 | 72,471 | 4.52 | % |
| Non-interest-earning assets | 84,829 | | | | 73,905 | | | | 97,932 | | | |
| Total assets | $1,779,895 | | | | $1,811,672 | | | | $1,701,046 | | | |
| Interest-bearing liabilities | | | | | | | | | | | | |
| Transaction accounts | $226,540 | 1,335 | 0.59 | % | $169,571 | 456 | 0.27 | % | $125,558 | 297 | 0.24 | % |
| Money market | 583,241 | 2,746 | 0.47 | % | 642,784 | 3,112 | 0.48 | % | 602,842 | 3,331 | 0.55 | % |
| Certificates of deposit | 56,667 | 569 | 1.00 | % | 65,608 | 592 | 0.90 | % | 106,177 | 825 | 0.78 | % |
| Wholesale deposits | 361,712 | 6,155 | 1.70 | % | 467,826 | 7,556 | 1.62 | % | 450,460 | 6,424 | 1.43 | % |
| Total interest-bearing deposits | 1,228,160 | 10,805 | 0.88 | % | 1,345,789 | 11,716 | 0.87 | % | 1,285,037 | 10,877 | 0.85 | % |
| FHLB advances | 105,276 | 1,472 | 1.40 | % | 14,485 | 140 | 0.97 | % | 14,779 | 110 | 0.75 | % |
| Other borrowings | 24,796 | 1,813 | 7.31 | % | 26,463 | 1,818 | 6.87 | % | 24,944 | 1,732 | 6.94 | % |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Junior subordinated notes | 10,011 | 1,112 | 11.11% | 9,997 | 1,115 | 11.15% | 9,982 | 1,112 | 11.14% |
| Total interest-bearing liabilities | 1,368,243 | 15,202 | 1.11 % | 1,396,734 | 14,789 | 1.06 % | 1,334,742 | 13,831 | 1.04 % |
| Non-interest-bearing demand deposit accounts | 230,907 | | | 246,182 | | | 211,945 | | |
| Other non-interest-bearing liabilities | 14,375 | | | 10,210 | | | 9,049 | | |
| Total liabilities | 1,613,525 | | | 1,653,126 | | | 1,555,736 | | |
| Stockholders' equity | 166,370 | | | 158,546 | | | 145,310 | | |
| Total liabilities and stockholders' equity | $1,779,895 | | | $1,811,672 | | | $1,701,046 | | |
| Net interest income | | $60,609 | | | $63,328 | | | $58,640 | |
| Net interest spread | | | 3.36 % | | | 3.44 % | | | 3.48 % |
| Net interest-earning assets | $326,823 | | | $341,033 | | | $268,372 | | |
| Net interest margin | | | 3.58 % | | | 3.64 % | | | 3.66 % |
| Average interest-earning assets to average interest-bearing liabilities | 123.89 % | | | 124.42 % | | | 120.11 % | | |
| Return on average assets | 0.67 % | | | 0.82 % | | | 0.97 % | | |
| Return on average equity | 7.16 % | | | 9.40 % | | | 11.36 % | | |
| Average equity to average assets | 9.35 % | | | 8.75 % | | | 8.54 % | | |
| Non-interest expense to average assets | 3.20 % | | | 3.11 % | | | 2.78 % | | |

(1) The average balances of loans and leases include non-performing loans and leases and loans held for sale. Interest income related to non-performing 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.

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

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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, 2017 compared to the year ended December 31, 2016 and for the year ended December 31, 2016 compared to the year ended December 31, 2015. 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, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 Compared to 2016 | | | 2016 Compared to 2015 | | |
| | Rate | Volume | Net | Rate | Volume | Net |
| | (In Thousands) | | | | | |
| Interest-earning assets | | | | | | |
| Commercial real estate and other mortgage loans[1] | $(1,538) | $1,063 | $(475) | $(308) | $4,228 | $3,920 |
| Commercial and industrial loans[1] | (922) | (1,056) | (1,978) | 264 | 1,211 | 1,475 |
| Direct financing leases[1] | (72) | (61) | (133) | (36) | 7 | (29) |
| Consumer and other loans[1] | (169) | 88 | (81) | 52 | 74 | 126 |
| Total loans and leases receivable[1] | (2,701) | 34 | (2,667) | (28) | 5,520 | 5,492 |
| Mortgage-related securities[2] | 284 | (146) | 138 | (70) | (91) | (161) |
| Other investment securities | 96 | 69 | 165 | (8) | 52 | 44 |
| FHLB and FRB Stock | (20) | 44 | 24 | 8 | (11) | (3) |
| Short-term investments | 395 | (361) | 34 | 145 | 129 | 274 |
| Total net change in income on interest-earning assets | (1,946) | (360) | (2,306) | 47 | 5,599 | 5,646 |
| Interest-bearing liabilities | | | | | | |
| Transaction accounts | 686 | 193 | 879 | 44 | 114 | 158 |
| Money market | (84) | (282) | (366) | (430) | 212 | (218) |
| Certificates of deposit | 63 | (86) | (23) | 117 | (351) | (234) |
| Wholesale deposits | 387 | (1,788) | (1,401) | 878 | 255 | 1,133 |
| Total deposits | 1,052 | (1,963) | (911) | 609 | 230 | 839 |
| FHLB advances | 89 | 1,243 | 1,332 | 32 | (2) | 30 |
| Other borrowings | 113 | (118) | (5) | (19) | 105 | 86 |
| Junior subordinated notes | (5) | 2 | (3) | 1 | 2 | 3 |
| Total net change in expense on interest-bearing liabilities | 1,249 | (836) | 413 | 624 | 334 | 958 |
| Net change in net interest income | $(3,195) | $476 | $(2,719) | $(577) | $5,265 | $4,688 |

(1) The average balances of loans and leases include non-performing loans and leases and loans held for sale. Interest income related to non-performing 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.

Net interest income decreased by $2.7 million, or 4.3%, for the year ended December 31, 2017 compared to the same period in 2016. The decrease in net interest income was primarily attributable to a $2.4 million decrease in recurring loan fees collected in lieu of interest, combined with a shift in the mix of loan originations toward lower-yielding conventional commercial loans. This decrease in interest income was partially muted by successful efforts to manage in-market deposit rates and reinvestment of certain investment security cash flows amid a rising interest rate environment.

The yield on average earning assets for the year ended December 31, 2017 was 4.47% compared to 4.50% for the year ended December 31, 2016. The decrease in the yield on average earning assets was principally due to a decrease in recurring loan fees collected in lieu of interest. Excluding the impact of loan fees in lieu of interest in both 2017 and 2016, the yield on average earning assets for the year ended December 31, 2017 was 4.21% compared to 4.10% for the year ended December 31, 2016. This increase in yield is principally due to a reduction in lower yielding short-term investments, as average cash held at the Federal Reserve decreased $46.3 million, combined with an increase in investment security yields and the increase in rates on certain variable-rate loans following the Federal Open Market Committee's ("FOMC") increases in the targeted federal funds rate since December 2016.

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The yield on average loans and leases receivable for the year ended December 31, 2017 was 4.91% compared to 5.11% for the year ended December 31, 2016. The decrease in yield was principally due to a decrease in recurring loan fees collected in lieu of interest. Excluding the impact of loan fees in lieu of interest in both 2017 and 2016, the yield on average loans and leases receivable for the year ended December 31, 2017 was 4.61% compared to 4.64% for the year ended December 31, 2016.

While the yield on average variable rate loans and leases receivable benefited from the FOMC's decision to raise the federal funds target rate 75 basis points in 2017, a significant portion of our loan and lease portfolio is comprised of fixed rate loans with terms generally from three to five years. As these loans reach their maturity they are renewed at current market rates and subject to competitive pricing pressures. As a result, the average yield on the loan and lease portfolio for the full year 2017, excluding purchase accounting adjustments and elevated recurring loan fees, continued to decline in comparison to full year 2016 results. We believe our ability to improve the average yield of the loan and lease portfolio may partially be dependent on the steepness of the yield curve, as well as our ability to successfully limit the price sensitivity of our existing and prospective client base by continuing to focus on adding value and fostering relationships.

The average rate paid on interest-bearing liabilities was 1.11% for the year ended December 31, 2017, an increase of five basis points from 1.06% for the year ended December 31, 2016. We were successful in limiting the increase in average rate paid during 2017, despite a rising rate environment, as the weighted average rate paid on interest-bearing liabilities continued to benefit from a relatively stable level of low cost in-market interest-bearing deposits. In addition, the increase in the average rate paid was tempered due to a favorable change in our wholesale funding mix as maturing fixed rate wholesale deposits were replaced with more efficient and cost effective fixed rate FHLB advances. Consistent with our longstanding funding strategy to use the most efficient and cost effective source of wholesale funds, management will continue to replace maturing wholesale deposits with fixed rate FHLB advances at various maturity terms commensurate with the Bank's funding needs. Average FHLB advances for the year ended December 31, 2017 increased $90.8 million to $105.3 million at an average rate paid of 1.40%. As of December 31, 2017, the weighted average original maturity of our FHLB term advances was 3.7 years.

Despite an uncertain rate environment, management expects to effectively manage the Corporation's liability structure in both term and rate to deliver a stable net interest margin within our target range. Further, we expect to attract new in-market deposit relationships in our Wisconsin and Kansas-based markets which we believe will contribute to our ability to maintain an appropriate cost of funds. Average in-market deposits - comprised of all transaction accounts, money market accounts and non-wholesale deposits - decreased 2.4% to $1.097 billion for the year ended December 31, 2017 from $1.124 billion for the year ended December 31, 2016.

Provision for Loan and Lease Losses

We determine 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 for further information regarding our refined allowance for loan and lease loss methodology.

We recorded a provision for loan and lease losses of $6.2 million for the year ended December 31, 2017 as compared to $7.8 million for the year ended December 31, 2016. Provision for the year ended December 31, 2017 primarily reflected $5.0 million of estimated losses related to the previously disclosed $6.7 million Wisconsin-based commercial and industrial impaired loan. Management continues to pursue all potential repayment sources related to this credit. The provision for the year ended December 31, 2017 also reflected $5.0 million in charge-offs related to the Corporation's remaining energy sector exposure, of which $2.3 million was specifically reserved for as of December 31, 2016. These 2017 increases were partially offset by the reversal of a $1.8 million specific reserve based on the full repayment of a previously disclosed impaired construction loan originated in our Kansas City market. Provision for the year ended December 31, 2016 primarily reflected $8.2 million in specific reserves and net charge-offs related to five discrete Kansas City-based loan relationships.

The addition of specific reserves on impaired loans represents new specific reserves established when collateral shortfalls 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

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than the application of a general reserve loss rate. Refer to Asset Quality for further information regarding the overall credit quality of our loan and lease portfolio.

Non-Interest Income

Non-interest income, consisting primarily of fees earned for trust and investment services, service charges on deposits, loan fees and gains on sale of SBA loans, decreased by $1.3 million, or 7.4%, to $16.7 million for the year ended December 31, 2017, from $18.0 million for the year ended December 31, 2016. Management continues to focus on revenue growth from multiple non-interest income sources in order to maintain a diversified revenue stream through greater contribution from fee-based revenues. Total non-interest income accounted for 21.6% of our total revenues in 2017 compared to 22.1% in 2016.

The decrease in total non-interest income for the year ended December 31, 2017 primarily reflected lower gains from SBA and residential mortgage loans sales stemming from the Corporation's decision to rebuild its SBA platform and to exit all secondary market residential mortgage loan origination activity. The decrease was partially offset by record trust and investment services fee income, an increase in loan swap fee income and an increase in bank-owned life insurance ("BOLI") fee income driven by a $9.8 million purchase of additional BOLI in December 2016.

The components of non-interest income were as follows for the years ended December 31, 2017, 2016 and 2015:

| | For the Year Ended December 31, | | | Change From Prior Year | | | |
|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | $ Change 2017 | % Change 2017 | $ Change 2016 | % Change 2016 |
| | (In Thousands) | | | | | | |
| Trust and investment service fees | $6,670 | $5,356 | $4,954 | $1,314 | 24.5 % | $ 402 | 8.1 % |
| Gain on sale of SBA loans | 1,591 | 4,400 | 3,999 | (2,809 ) | (63.8) | 401 | 10.0 % |
| Gain on sale of residential mortgage loans | 26 | 590 | 729 | (564 ) | (95.6) | (139 ) | (19.1)% |
| Service charges on deposits | 3,013 | 2,990 | 2,812 | 23 | 0.8 | 178 | 6.3 |
| Loan fees | 1,988 | 2,430 | 2,187 | (442 ) | (18.2) | 243 | 11.1 |
| Increase in cash surrender value of bank-owned life insurance | 1,250 | 974 | 960 | 276 | 28.3 | 14 | 1.5 |
| Net (loss) gain on sale of securities | (403 ) | 10 | — | (413 ) | NM | 10 | NM |
| Swap fees | 909 | 76 | 7 | 833 | NM | 69 | NM |
| Other non-interest income | 1,621 | 1,162 | 1,363 | 459 | 39.5 | (201 ) | (14.7) |
| Total non-interest income | $16,665 | $17,988 | $17,011 | $(1,323) | (7.4 ) | $ 977 | 5.7 |
| Fee income ratio[(1)] | 21.6 % | 22.1 % | 22.5 % | | | | |

(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).

Trust and investment services fee income increased by $1.3 million, or 24.5%, to $6.7 million for the year ended December 31, 2017 compared to $5.4 million for the year ended December 31, 2016. Trust and investment services fee income is primarily driven by the amount of 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 capital markets. At December 31, 2017, our trust assets under management were $1.350 billion, or 38.2% more than the trust assets under management of $977.0 million at December 31, 2016, while our assets under administration decreased approximately 18.0%, to $186.4 million at December 31, 2017 from $227.4 million at December 31, 2016. The decrease in assets under administration reflected the transfer of client assets from assets under administration to assets under management. The retirement plan services industry is undergoing a migration from advised services to fiduciary services. Consequently, during the first quarter of 2017, one large and several smaller retirement plans changed their service model, which resulted in assets moving to full fiduciary status. We anticipate there will be similar migration of additional assets because of this trend in the future. We expect to continue to increase our revenue from assets under management and administration, but market volatility may also affect the actual change in revenue.

Gain on sale of SBA loans for the year ended December 31, 2017 totaled $1.6 million, a decrease of $2.8 million, or 63.8%, from the same period in 2016 resulting from management's decision during the second quarter of 2016 to temporarily slow SBA production while making investments to enhance the infrastructure, processes, capacity and scalability of the SBA platform. With the infrastructure and processes in place, management is now committed to increasing SBA production at a moderate pace by continuing to expand our business development team.

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Loan fees decreased by $442,000, or 18.2%, to $2.0 million for the year ended December 31, 2017 from $2.4 million for the year ended December 31, 2016. The decrease in loan fees was primarily attributable to a decrease in fees associated with SBA production, specifically SBA loan packaging fee income, as well as a decrease asset-based lending audit fee income.

Net loss on sale of securities totaled $403,000 for the year ended December 31, 2017, compared to net gain on sale of securities of $10,000 for the year ended December 31, 2016. This was principally due to the strategic decision to harvest securities losses ahead of the 2018 reduction in corporate tax rates. We reinvested the cash into securities within the portfolio's existing risk profile while adding approximately 130 basis points in yield.

Swap fees increased by $833,000 to $909,000 for the year ended December 31, 2017 from $76,000 for the year ended December 31, 2016. We originate commercial real estate loans in which we offer clients a floating rate and interest rate swap and then offset the client's swap with a counter-party dealer. The execution of these transactions generates swap fee income. We believe due to the market's general assumption of a rising interest rate environment throughout 2018, we could see additional demand for these types of interest rate swap opportunities.

Other non-interest income increased by $459,000 to $1.6 million for the year ended December 31, 2017, compared to $1.2 million for the year ended December 31, 2016. The increase was primarily due to historically reflecting our quarterly allocation of net income/loss from equity investments in two mezzanine funds in other non-interest expense. Due to the underlying funds being in an earnings position for a sustained period of time, we recognized our share of earnings in other non-interest income for the year ended December 31, 2017.

Non-Interest Expense

Non-interest expense increased by $438,000, or 0.8%, to $56.9 million for the year ended December 31, 2017 from $56.4 million for the comparable period of 2016. The increase in non-interest expense was primarily due to an increase in other non-interest expense, collateral liquidation costs and computer software expense. The increase was partially offset by a decrease in impairment of tax credit investments, data processing expense and marketing expense.

The components of non-interest expense were as follows for the years ended December 31, 2017, 2016 and 2015:

| | For the Year Ended December 31, | | | Change From Prior Year | | | |
|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | $ Change 2017 | % Change 2017 | $ Change 2016 | % Change 2016 |
| | (Dollars in Thousands) | | | | | | |
| Compensation | $31,663 | $31,545 | $28,543 | $118 | 0.4 % | $3,002 | 10.5 % |
| Occupancy | 2,088 | 2,019 | 1,973 | 69 | 3.4 | 46 | 2.3 |
| Professional fees | 4,063 | 4,031 | 4,893 | 32 | 0.8 | (862 ) | (17.6 ) |
| Data processing | 2,701 | 3,298 | 2,378 | (597 ) | (18.1 ) | 920 | 38.7 |
| Marketing | 2,109 | 2,338 | 2,585 | (229 ) | (9.8 ) | (247 ) | (9.6 ) |
| Equipment | 1,211 | 1,189 | 1,230 | 22 | 1.9 | (41 ) | (3.3 ) |
| Computer software | 2,723 | 2,160 | 1,649 | 563 | 26.1 | 511 | 31.0 |
| FDIC insurance | 1,388 | 1,472 | 920 | (84 ) | (5.7 ) | 552 | 60.0 |
| Collateral liquidation costs | 829 | 262 | 472 | 567 | 216.4 | (210 ) | (44.5 ) |
| Net (gain) loss on foreclosed properties | (143 ) | 122 | (171 ) | (265 ) | (217.2) | 293 | (171.3) |
| Impairment on tax credit investments | 2,784 | 3,691 | — | (907 ) | (24.6 ) | 3,691 | NM |
| SBA recourse provision | 2,240 | 2,068 | — | 172 | 8.3 | 2,068 | NM |
| Other non-interest expense | 3,215 | 2,238 | 2,902 | 977 | 43.7 | (664 ) | (22.9 ) |
| Total non-interest expense | $56,871 | $56,433 | $47,374 | $438 | 0.8 | $9,059 | 19.1 |
| Compensation expense to total non-interest expense | 55.7 % | 55.9 % | 60.3 % | | | | |
| Full-time equivalent employees | 251 | 257 | 242 | | | | |

Compensation expense increased by $118,000, or 0.4%, to $31.7 million for the year ended December 31, 2017 from $31.5 million for the year ended December 31, 2016. The increase reflects annual merit increases and growth in employee benefit costs. Full time equivalent employees as of December 31, 2017 were 251, down 2.3% from 257 at

December 31, 2016.

The modest decrease in FTE does not accurately depict our commitment to opportunistic growth but is merely a reflection of timing as it relates to filling open positions. Consistent with our historical approach to talent acquisition, we expect to continue investing in talent to support our strategic growth efforts, both in the form of additional business development and operational staff.

Data processing expense decreased by $597,000, or 18.1%, to $2.7 million for the year ended December 31, 2017 from $3.3 million for the year ended December 31, 2016. The decrease is primarily due to a reduction in non-recurring expense related to our recent core banking system conversion. During the fourth quarter of 2017 we recognized $199,000 in final deconversion costs related to FBB-KC's core banking system, compared to $794,000 in one-time fees recognized in the fourth quarter of 2016 to terminate its core banking system vendor agreement. These one-time fees are expected to be more than offset by savings recognized over the life of the renegotiated contract extended through the year 2022.

Marketing expense decreased by $229,000, or 9.8%, to $2.1 million for the year ended December 31, 2017 from $2.3 million for the year ended December 31, 2016. The decrease is primarily due to a reduction of certain advertising initiatives as management continues to align expense growth with revenue production.

Computer software expense increased by $563,000, or 26.1%, to $2.7 million for the year ended December 31, 2017 from $2.2 million for the year ended December 31, 2016. The increase was principally due to investments in technology platforms, continuing our strategic focus on scaling the Corporation to efficiently execute our growth strategy.

FDIC insurance expense decreased by $84,000, or 5.7%, to $1.4 million for the year ended December 31, 2017 from $1.5 million for the year ended December 31, 2016. Consistent with our funding philosophy to match-fund long-term fixed rate loans with the most cost effective source of wholesale funds, in 2017 we began replacing maturing brokered certificates of deposit with the more cost effective FHLB advances in order to lower our FDIC assessment rate. While we expect to continue this strategy in 2018, we do not expect brokered certificates of deposit as a percentage of total assets to go below 10%.

Collateral liquidation costs for the year ended December 31, 2017 were $829,000 compared to $262,000 for the same period in 2016. The increase primarily reflected our workout process related to two non-performing loans.

Net loss on foreclosed properties decreased $265,000 to a net gain of $143,000 for the year ended December 31, 2017, compared to a net loss of $122,000 for the year ended December 31, 2016. The decrease reflects a $547,000 gain on the sale of the Overland Park full-service banking location in 2017, partially offset by a reduction in the fair value of the remaining foreclosed property.

Impairment on tax credit investments decreased $907,000, or 24.6%, to $2.8 million for the year ended December 31, 2017, compared to $3.7 million for the year ended December 31, 2016. The decrease reflects $2.3 million of impairment associated with the recognition of a $3.0 million federal historic tax credit in 2017, compared to $3.2 million of impairment associated with a $3.6 million credit in 2016.

SBA recourse provision for the year ended December 31, 2017 was $2.2 million compared to $2.1 million for the same period in 2016. The increase reflected refinements to the recourse reserve estimate due to the migration of certain credits with potential guaranty eligibility issues during the year. Management has extensively overhauled the previously acquired SBA lending platform and implemented best practices in the critical areas of credit, operations and compliance. These essential functions are overseen by a team of experienced SBA professionals, including a Director of SBA Credit, a Senior Director of SBA Operations and an SBA Compliance Manager, who all joined the team within the past 15 months. With these major pieces of the rebuild in place in 2017, we are now actively adding more producers in order to achieve the appropriate mix of producers and internal support staff to drive an optimal level of efficiency in our SBA business model.

Despite these enhancements to the SBA platform, changes to SBA recourse provision may be a source of non-interest expense volatility in future quarters; however, we believe the frequency and volatility in SBA recourse provision should diminish over time as we continue to originate new SBA loans with our rebuilt platform, the existing portfolio amortizes down and ongoing remediation efforts mitigate possible losses. The total recourse reserve balance was $2.8 million, or 2.8% of total sold SBA loans outstanding at December 31, 2017.

Other non-interest expense increased by $977,000, or 43.7%, to $3.2 million for the year ended December 31, 2017 from $2.2 million for the year ended December 31, 2016. The increase was primarily due to historically reflecting our quarterly allocation of net income/loss from equity investments in two mezzanine funds in other non-interest expense. Due to the underlying funds being in an earnings position for a sustained period of time, we recognized our share of earnings in other non-interest income for the year ended December 31, 2017.

Income Taxes

Income tax expense was $2.3 million for the year ended December 31, 2017, compared to $2.2 million for the year ended December 31, 2016. Effective January 1, 2018, the Act reduced the corporate federal income tax rate to 21% from 35%, which required the Corporation to revalue its deferred taxes as of December 31, 2017. The revaluation resulted in an additional $629,000 income tax expense during the fourth quarter of 2017. The Corporation also recognized a federal historic tax credit in both 2017 and 2016, which reduced income tax expense by $3.0 million and $3.6 million, respectively. The effective tax rate for the year ended December 31, 2017 was 16.3% compared to 12.6% for the year ended December 31, 2016.

FINANCIAL CONDITION

General

At December 31, 2017 total assets were $1.794 billion, representing an increase of $13.4 million, or 0.8%, from $1.781 billion at December 31, 2016. The increase in total assets was primarily driven by an increase in loans and leases, which was partially offset by a decrease in our investment security portfolio and by a decrease in cash held at the Federal Reserve Bank ("FRB") as the excess liquidity was deployed to fund loan and lease growth.

Short-term investments

Short-term investments decreased by $27.4 million to $35.5 million at December 31, 2017 from $62.9 million at December 31, 2016. Short-term investments primarily consist of interest-bearing deposits held at the FRB, which decreased by $23.2 million to $17.7 million at December 31, 2017. We value the safety and soundness provided by the FRB, and therefore, we incorporate short-term investments in our on-balance-sheet liquidity program. Although the majority of short-term investments consist of deposits with the FRB, we also make investments in commercial paper. We approach decisions to purchase commercial paper with similar rigor and underwriting standards applied to our loan and lease portfolio. The original maturities of the commercial paper are typically 60 days or less and provide an attractive yield in comparison to other short-term alternatives. These investments also assist us in maintaining a shorter duration of our overall investment portfolio which we believe is necessary to take advantage of a rising rate environment. In general, the level of short-term investments is influenced by the timing of deposit gathering, scheduled maturities of wholesale deposits and FHLB advances, funding of loan and lease growth when opportunities are presented and the level of our securities portfolio. Please refer to Liquidity and Capital Resources for further discussion.

Securities

Total securities, including available-for-sale and held-to-maturity, decreased by $20.7 million to $163.8 million at December 31, 2017 from $184.5 million at December 31, 2016. As of December 31, 2017, our total securities portfolio had a weighted average estimated maturity of approximately 3.5 years. The investment portfolio primarily consists of collateralized mortgage obligations and agency obligations 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 investments to utilize our cash position effectively within appropriate policy guidelines and estimates of future cash demands. While collateralized mortgage obligations present prepayment risk and extension risk, we believe the overall credit risk associated with these investments is minimal, as the majority of the obligations we hold are guaranteed by 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 obligations prior to purchase and generally limit exposure to general obligation issuances from municipalities, primarily in Wisconsin.

As we evaluate the level of on-balance-sheet liquidity, we continue to purchase U.S. government agency obligations, primarily those obligations issued by Federal Home Loan Mortgage Corporation ("FHLMC") and Federal National Mortgage Association ("FNMA"). We have structured these purchases to have final maturities within two to four years from the issue date. Some of the securities contain either quarterly or one-time call features. The maturity structure of our securities portfolio allows us to effectively manage the cash flows of these securities along with the collateralized mortgage obligations to be able to meet loan demand in the near future without the need to immediately borrow funds from various funding sources and proactively adjust the portfolio should interest rates rise materially within the next two to four years. Our management deems these securities to be creditworthy and believes they exhibit appropriate market yields for the risks assumed. We expect to continue to purchase these types of approved securities with appropriate maturity terms when they are available in the market.

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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 movements than a securities portfolio with a shorter average duration in a changing rate environment. During the year ended December 31, 2017, we recognized unrealized holding losses of $1.2 million before income taxes through other comprehensive income. These losses were the result of the increase in interest rates. No securities within our portfolio were deemed to be other-than-temporarily impaired as of December 31, 2017. As of December 31, 2017 no securities were classified as trading securities.

At December 31, 2017, $2.8 million of our mortgage-related securities were pledged to secure our various obligations, including interest rate swap contracts.

The table below sets forth information regarding the amortized cost and fair values of our securities at the dates indicated.

| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2015 | |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (In Thousands) | | | | | |
| Available-for-sale: | | | | | | |
| U.S. government agency obligations - government-sponsored enterprises | $999 | $1,000 | $6,298 | $6,295 | $8,047 | $8,017 |
| Municipal obligations | 9,494 | 9,414 | 8,246 | 8,156 | 4,278 | 4,283 |
| Asset-backed securities | — | — | 1,116 | 1,081 | 1,327 | 1,269 |
| Collateralized mortgage obligations - government issued | 22,313 | 22,249 | 30,936 | 31,213 | 43,845 | 44,543 |
| Collateralized mortgage obligations - government-sponsored enterprises | 91,480 | 90,305 | 99,865 | 99,148 | 82,707 | 82,436 |
| Other securities | 3,040 | 3,037 | — | — | — | — |
| | $127,326 | $126,005 | $146,461 | $145,893 | $140,204 | $140,548 |

| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2015 | |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (In Thousands) | | | | | |
| Held-to-maturity: | | | | | | |
| U.S. government agency obligations - government-sponsored enterprises | $1,499 | $1,490 | $1,497 | $1,494 | $1,495 | $1,485 |
| Municipal obligations | 21,680 | 21,822 | 21,173 | 21,157 | 16,038 | 16,365 |
| Collateralized mortgage obligations - government issued | 9,072 | 8,943 | 9,148 | 9,127 | 11,718 | 11,709 |
| | 5,527 | 5,441 | 6,794 | 6,742 | 8,031 | 7,999 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Collateralized mortgage obligations - government-sponsored enterprises | $37,778 | $37,696 | $38,612 | $38,520 | $37,282 | $37,558 |

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U.S. government agency obligations - government-sponsored enterprises represent securities issued by the FHLMC and FNMA. Municipal obligations include securities issued by various municipalities located primarily within the State of Wisconsin and are primarily general obligation bonds that are tax-exempt in nature. Asset-backed securities represent securities issued by the Student Loan Marketing Association ("SLMA") which are 97% guaranteed by the U.S. government. Collateralized mortgage obligations - government issued represent securities guaranteed by GNMA. Collateralized mortgage obligations - government-sponsored enterprises include securities guaranteed by FHLMC and the FNMA. Other securities represent certificates of deposit of insured banks and savings institutions with an original maturity greater than three months. As of December 31, 2017, 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, 2017, classified by remaining contractual maturity. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay obligations without call or prepayment penalties. Yields on tax-exempt obligations have not been computed on a tax equivalent basis.

| | Less than One Year | | One to Five Years | | Five to Ten Years | | Over Ten Years | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fair Value | Weighted Average Yield | Fair Value | Weighted Average Yield | Fair Value | Weighted Average Yield | Fair Value | Weighted Average Yield | Total |
| | (Dollars in Thousands) | | | | | | | | |
| Available-for-sale: | | | | | | | | | |
| U.S. government agency obligations - government-sponsored enterprises | $— | — % | $1,000 | 2.04 % | $— | — % | $— | — % | $1,000 |
| Municipal obligations | 4,468 | 1.04 | 3,105 | 1.23 | 1,348 | 1.60 | 493 | 2.20 | 9,414 |
| Collateralized mortgage obligations - government issued | — | — | — | — | 6,954 | 2.97 | 15,295 | 2.46 | 22,249 |
| Collateralized mortgage obligations - government-sponsored enterprises | 22 | 2.45 | 6,864 | 2.08 | 27,340 | 1.94 | 56,079 | 2.27 | 90,305 |
| Other securities | 590 | 1.20 | 2,447 | 2.27 | — | — | — | — | 3,037 |
| | $5,080 | | $13,416 | | $35,642 | | $71,867 | | $126,005 |

| | Less than One Year | | One to Five Years | | Five to Ten Years | | Over Ten Years | | |
|---|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Weighted Average Yield | Amortized Cost | Weighted Average Yield | Amortized Cost | Weighted Average Yield | Amortized Cost | Weighted Average Yield | Total |
| | (Dollars in Thousands) | | | | | | | | |
| Held-to-maturity: | | | | | | | | | |
| U.S. government agency obligations - government-sponsored enterprises | $1,499 | 1.07 % | $— | — % | $— | — % | $— | — % | $1,499 |
| Municipal obligations | — | — | 10,673 | 2.00 | 10,058 | 2.20 | 949 | 2.69 | 21,680 |
| Collateralized mortgage obligations - government issued | — | — | — | — | 4,014 | 1.80 | 5,058 | 2.12 | 9,072 |
| Collateralized mortgage obligations - government-sponsored enterprises | — | — | — | — | 1,641 | 1.47 | 3,886 | 1.72 | 5,527 |
| | $1,499 | | $10,673 | | $15,713 | | $9,893 | | $37,778 |

Derivative Activities

The Bank’s investment policies allow the Bank to participate in hedging strategies or to use financial futures, options, forward commitments or interest rate swaps with prior approval from the Board. The Bank utilizes, from time to time, derivative instruments in the course of their asset/liability management. As of December 31, 2017 and 2016, the Bank did not hold any derivative instruments that were designated as fair value hedges. The derivative portfolio includes interest rate swaps offered directly to qualified commercial borrowers, which allow the Bank to provide a fixed rate alternative to their clients while mitigating interest rate risk by keeping a variable rate loan in their portfolios. The Bank economically hedges client derivative transactions by entering into equal and offsetting interest rate swap contracts executed with dealer counterparties. The economic hedge with the dealer counterparties allows the Bank to primarily offset the fixed rate interest rate risk. Derivative transactions executed through this program are not designated as accounting hedge relationships and are marked to market through earnings each period.

As of December 31, 2017, the aggregate amortizing notional value of interest rate swaps with various commercial borrowers was approximately $53.4 million. We receive fixed rates and pay floating rates based upon LIBOR on the swaps with commercial borrowers. These swaps mature between September 2018 and May 2034. Commercial borrower swaps are completed independently with each borrower and are not subject to master netting arrangements. All of these commercial borrower swaps were reported on the Consolidated Balance Sheets as a derivative asset of $942,000, included in accrued interest receivable and other assets as of December 31, 2017. On the offsetting swap contracts with dealer counterparties, we pay fixed rates and receive floating rates based upon LIBOR. These interest rate swaps also have maturity dates between September 2018 and May 2034. Dealer counterparty swaps are subject to master netting agreements among the contracts within the Bank and are reported as a derivative liability of $942,000. The value of these swaps was included in accrued interest payable and other liabilities on the Consolidated Balance Sheets as of December 31, 2017.

During the fourth quarter of 2017, the Corporation also entered into an interest rate swap to manage interest rate risk and reduce the cost of match-funding certain long-term fixed rate loans. This derivative contract involves 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. This instrument is designated as a cash flow hedge 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 this hedging instrument is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged transaction affects earnings.

As of December 31, 2017, the aggregate notional value of the cash flow hedge, which matures in December 2027, was approximately $22.0 million. A pre-tax unrealized loss of $122,000 was recognized in accumulated other comprehensive income for the year ended December 31, 2017 with a corresponding amount reported in accrued interest payable and other liabilities on the Consolidated Balance Sheets.

Loans and Leases Receivable

Loans and leases receivable, net of allowance for loan and lease losses, increased by $53.1 million, or 3.7%, to $1.483 billion at December 31, 2017 from $1.430 billion at December 31, 2016.

While we continue to have a concentration in commercial real estate (“CRE”) loans, the overall mix of our portfolio remained fairly consistent in 2017 when compared to 2016. Approximately 67.7% of our loan and lease portfolio was concentrated in CRE loans at December 31, 2017, primarily in our owner-occupied and non-owner-occupied classes, compared to 65.2% at December 31, 2016. Our CRE portfolio increased by $72.0 million, or 7.6%, to $1.018 billion at December 31, 2017 from $945.9 million at December 31, 2016. As of December 31, 2017, approximately 19.7% of the CRE loans were owner-occupied CRE. We consider owner-occupied CRE more characteristic of the Corporation’s commercial and industrial (“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 decreased $21.3 million, or 4.7%, to $429.0 million at December 31, 2017 from $450.3 million at December 31, 2016 reflecting specialty finance prepayments and continued competitive pressure amid soft overall commercial loan demand. The countercyclical nature of the asset-based lending business may result in increased payoffs and fees collected in lieu of interest in periods of economic stability, with increased loan fundings and interest income during weaker economic markets. Consequently, a slight decline was noted in the C&I component of our portfolio mix as approximately 28.5% of our loan and lease portfolio was comprised of C&I loans at December 31, 2017, compared to 31.0% at December 31, 2016. We continue to emphasize actively pursuing C&I loans 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 and trust and investment relationships which generate additional fee revenue.

While we continue to experience significant competition as banks operating in our primary geographic area attempt to deploy excess liquidity, 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 adequately replace amortization and to continue to grow at a modest pace in future years.

Credit underwriting primarily through a committee process is a key component of our operating philosophy. Business development officers have relatively low 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. In addition, we make every reasonable effort to ensure that there is appropriate collateral or a government guarantee at the time of origination to protect our interest in the related loan or lease. 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.

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

| | As of December 31, 2017 | | 2016 | | 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amount Outstanding | % of Total Loans and Leases | Amount Outstanding | % of Total Loans and Leases | Amount Outstanding | % of Total Loans and Leases | 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 | $200,387 | 13.3 % | $176,459 | 12.2 % | $176,322 | 12.3 % | $163,884 | 12.8 % | $141,164 | 14.4 % |
| Commercial real estate — non-owner occupied | 470,236 | 31.3 | 473,158 | 32.6 | 436,901 | 30.5 | 417,962 | 32.6 | 341,695 | 34.8 |
| Land development | 40,154 | 2.7 | 56,638 | 3.9 | 59,779 | 4.2 | 56,836 | 4.4 | 40,946 | 4.2 |
| Construction | 125,157 | 8.3 | 101,206 | 7.0 | 100,625 | 7.0 | 64,324 | 5.0 | 27,762 | 2.8 |
| Multi-family | 136,978 | 9.1 | 92,762 | 6.4 | 80,254 | 5.6 | 72,578 | 5.7 | 62,758 | 6.4 |
| 1-4 family | 44,976 | 3.0 | 45,651 | 3.1 | 50,304 | 3.5 | 36,182 | 2.8 | 30,786 | 3.1 |
| Total commercial real estate | 1,017,888 | 67.7 | 945,874 | 65.2 | 904,185 | 63.1 | 811,766 | 63.3 | 645,111 | 65.7 |
| Commercial and industrial | 429,002 | 28.5 | 450,298 | 31.0 | 472,193 | 33.0 | 416,654 | 32.5 | 293,552 | 29.9 |
| Direct financing leases, net | 30,787 | 2.1 | 30,951 | 2.1 | 31,093 | 2.2 | 34,165 | 2.7 | 26,065 | 2.7 |
| Consumer and other: | | | | | | | | | | |
| Home equity and second mortgage | 7,262 | 0.5 | 8,412 | 0.6 | 8,237 | 0.6 | 7,866 | 0.6 | 5,272 | 0.5 |
| Other | 18,099 | 1.2 | 16,329 | 1.1 | 16,319 | 1.1 | 11,341 | 0.9 | 11,972 | 1.2 |
| Total consumer and other | 25,361 | 1.7 | 24,741 | 1.7 | 24,556 | 1.7 | 19,207 | 1.5 | 17,244 | 1.8 |
| Total gross loans and leases receivable | 1,503,038 | 100.0% | 1,451,864 | 100.0% | 1,432,027 | 100.0% | 1,281,792 | 100.0% | 981,972 | 100.0% |
| Less: Allowance for loan and | 18,763 | | 20,912 | | 16,316 | | 14,329 | | 13,901 | |

| | | | | | |
|---|---|---|---|---|---|
| lease losses | | | | | |
| Deferred loan fees | 1,443 | 1,189 | 1,062 | 1,025 | 1,021 |
| Loans and leases receivable, net | $1,482,832 | $1,429,763 | $1,414,649 | $1,266,438 | $967,050 |

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 which have fixed or adjustable interest rates, as of December 31, 2017.

| | 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 | $27,389 | $ 116,367 | $56,631 | $200,387 | $ 115,067 | $ 57,931 |
| Non-owner occupied | 80,544 | 252,436 | 137,256 | 470,236 | 294,060 | 95,631 |
| Land development | 29,102 | 11,052 | — | 40,154 | 8,695 | 2,357 |
| Construction | 26,731 | 46,108 | 52,318 | 125,157 | 47,022 | 51,404 |
| Multi-family | 10,846 | 74,979 | 51,153 | 136,978 | 90,743 | 35,389 |
| 1-4 family | 10,228 | 27,690 | 7,058 | 44,976 | 32,755 | 1,993 |
| Commercial and industrial | 176,221 | 204,346 | 48,435 | 429,002 | 93,860 | 158,921 |
| Direct financing leases | 29 | 20,717 | 10,041 | 30,787 | 30,759 | — |
| Consumer and other | 5,503 | 18,333 | 1,525 | 25,361 | 16,082 | 3,776 |
| | $366,593 | $ 772,028 | $364,417 | $1,503,038 | $ 729,043 | $ 407,402 |

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 up to five years and amortizations of up to 25 years on existing commercial real estate and new construction. 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.

Commercial real estate lending typically involves larger loan principal amounts than residential mortgage loans or consumer loans and, therefore, have the potential for larger losses on a per loan basis. The repayment of these loans generally is dependent on sufficient income from the 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 more sensitive than other types of loans to adverse 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 $1.018 billion of commercial real estate loans outstanding as of December 31, 2017, $31.6 million were originated by our asset-based lending subsidiary.

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 $429.0 million of commercial and industrial loans outstanding as of December 31, 2017, $109.3 million were originated by our asset-based lending subsidiary, $6.2 million were originated by our factored receivable business line and $9.5 million were originated by our equipment finance and leasing subsidiary. The asset-based loans, including accounts receivable purchased on a full recourse basis, are typically secured by the borrower’s accounts receivable and inventory. These loans generally have higher interest rates and non-origination fees collected in lieu of interest and the collateral supporting the credit is closely monitored. The equipment finance loans may provide 100% financing.

Our commercial loans are typically larger in amount than loans to individual consumers and, therefore, have the potential for larger losses on a per loan basis. Additionally, asset-based borrowers are usually 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 have a material adverse impact on our results of operations.

Small Business Administration. As an SBA Preferred Lender, the Bank originates loans partially guaranteed by the SBA to small businesses under the 7(a) Loan Program. Historically we have sold the guaranteed portions of our SBA 7(a) loans in the secondary market and retained the non-guaranteed portions. As of December 31, 2017, the Corporation’s ownership of SBA loans that were included in the commercial and industrial loan portfolio was $36.8 million, while the amount included in the commercial real estate loan portfolio was $15.5 million.

Direct Financing Leases. Direct financing leases initiated through FBEF are originated with a fixed rate and typically a term of seven years or less. It is customary in the leasing industry to provide 100% financing; however, FBEF will, from time-to-time, require a down payment or lease deposit to provide a credit enhancement. As of December 31, 2017, the Bank had $30.8 million in net direct financing receivables outstanding.

FBEF 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. In estimating the equipment's

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fair value, FBEF 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.

Our commercial leases are typically larger in amount than leases to individual consumers and, therefore, have the potential for larger losses on an individual lease basis. Significant adverse changes in various industries could cause rapid declines in values of leased equipment resulting in inadequate collateral coverage that may expose us to future losses. An increase in specific reserves and charge-offs may have a material adverse impact on our results of operations.

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

Asset Quality

Non-performing loans increased $1.2 million, or 4.7%, to $26.4 million at December 31, 2017 compared to $25.2 million at December 31, 2016.

Our total impaired assets consisted of the following as of the dates indicated.

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| | (Dollars in Thousands) | | | | |
| Non-accrual loans and leases | | | | | |
| Commercial real estate: | | | | | |
| Commercial real estate – owner occupied | $7,021 | $2,223 | $2,907 | $500 | $339 |
| Commercial real estate – non-owner occupied | 34 | 1,609 | 1,678 | 286 | 283 |
| Land development | 2,626 | 3,440 | 4,393 | 4,932 | 5,422 |
| Construction | 2,872 | 2,918 | 397 | — | — |
| Multi-family | — | — | 2 | 17 | 31 |
| 1-4 family | 1,161 | 1,937 | 2,550 | 690 | 521 |
| Total non-accrual commercial real estate | 13,714 | 12,127 | 11,927 | 6,425 | 6,596 |
| Commercial and industrial | 12,321 | 12,463 | 9,136 | 2,318 | 8,011 |
| Direct financing leases, net | — | — | 38 | — | — |
| Consumer and other: | | | | | |
| Home equity and second mortgage | — | — | 542 | 329 | 453 |
| Other | 354 | 604 | 655 | 720 | 795 |
| Total non-accrual consumer and other loans | 354 | 604 | 1,197 | 1,049 | 1,248 |
| Total non-accrual loans and leases | 26,389 | 25,194 | 22,298 | 9,792 | 15,855 |
| Foreclosed properties, net | 1,069 | 1,472 | 1,677 | 1,693 | 333 |
| Total non-performing assets | 27,458 | 26,666 | 23,975 | 11,485 | 16,188 |
| Performing troubled debt restructurings | 332 | 717 | 1,735 | 2,003 | 371 |
| Total impaired assets | $27,790 | $27,383 | $25,710 | $13,488 | $16,559 |
| Total non-accrual loans and leases to gross loans and leases | 1.76 % | 1.74 % | 1.56 % | 1.61 % | 1.55 % |
| Total non-performing assets to gross loans and leases plus foreclosed properties, net | 1.83 % | 1.83 % | 1.67 % | 1.65 % | 1.72 % |
| Total non-performing assets to total assets | 1.53 % | 1.50 % | 1.35 % | 1.28 % | 1.28 % |
| Allowance for loan and lease losses to gross loans and leases | 1.25 % | 1.44 % | 1.14 % | 1.42 % | 1.69 % |
| Allowance for loan and lease losses to non-accrual loans and leases | 71.10 % | 83.00 % | 73.17 % | 87.68 % | 109.05 % |

As of December 31, 2017 and 2016, $8.8 million and $12.8 million 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 foreclosed properties totaling $27.5 million, or 1.53% of total assets, as of December 31, 2017, an increase in non-performing assets of 3.0%, or $792,000, from December 31, 2016. Impaired loans and leases as of

December 31, 2017 and 2016 also included $332,000 and $717,000, respectively, of loans that are 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.

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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 increased slightly to 1.53% at December 31, 2017 from 1.50% at December 31, 2016. As of December 31, 2017, the payment performance of our loans and leases did not point to any new areas of concern, as approximately 98.7% of the total portfolio was in a current payment status. We also monitor our asset quality through our established categories as defined in Note 4 of our 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 2017, 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 as of and for the years indicated was as follows:

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| | (In Thousands) | | | | |
| Impaired loans and leases with no impairment reserves | $16,975 | $11,345 | $15,175 | $11,270 | $8,200 |
| Impaired loans and leases with impairment reserves required | 9,746 | 14,566 | 8,858 | 525 | 8,026 |
| Total impaired loans and leases | 26,721 | 25,911 | 24,033 | 11,795 | 16,226 |
| Less: Impairment reserve (included in allowance for loan and lease losses) | 4,491 | 5,599 | 1,113 | 290 | 402 |
| Net impaired loans and leases | $22,230 | $20,312 | $22,920 | $11,505 | $15,824 |
| Average impaired loans and leases | $33,164 | $22,986 | $11,443 | $14,474 | $12,084 |

| | For the years ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| | (In Thousands) | | | | |
| Interest income attributable to impaired loans and leases | $2,695 | $1,617 | $750 | $870 | $887 |
| Less: Interest income recognized on impaired loans and leases | 454 | 614 | 87 | 740 | 221 |
| Net foregone interest income on impaired loans and leases | $2,241 | $1,003 | $663 | $130 | $666 |

Loans with no specific reserves required 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 appraisals 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, 2017. 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. Smaller balance loans (individually less than $50,000) are collectively evaluated for impairment as allowed under applicable accounting standards.
Foreclosed properties are recorded at the lower of cost or net realizable value. If, at the time of foreclosure, the fair value less cost to sell is lower than the carrying value of the loan, the difference, if any, is charged to the allowance for

loan and lease losses prior to the transfer to foreclosed property. The fair value is based on an appraisal, discounted cash flow analysis (the majority of which is based on current occupancy and lease rates) or a verifiable offer to purchase. After foreclosure, valuation allowances or future write-downs to net realizable value are charged directly to non-interest expense. Foreclosed properties were $1.1 million as of December 31, 2017, compared to $1.5 million as of December 31, 2016. We recorded

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impairment losses of approximately $403,000, $7,000 and $36,000 for the years ended December 31, 2017, 2016 and 2015, respectively. Net gain on sales of existing foreclosed property inventory was $547,000 for the year ended December 31, 2017, which reflected the sale of the Corporation's previously disclosed Overland Park full-service banking location during the fourth quarter of 2017. Net losses on sales were $115,000 for the year ended December 31, 2016 compared to net gains of $207,000 for the year ended December 31, 2015. We continue to evaluate possible exit strategies on our impaired loans when foreclosure action may be probable and our level of foreclosed assets may increase in the future. Loans are transferred to foreclosed properties when we claim ownership rights to the properties.

A summary of foreclosed properties activity for the years ended December 31, 2017, 2016 and 2015 is as follows:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | (In Thousands) | | |
| Balance at the beginning of the period | $1,472 | $1,677 | $1,693 |
| Transfer of loans to foreclosed properties, at lower of cost or fair value | 1,112 | — | 341 |
| Impairment adjustments | (403) | (7) | (36) |
| Net book value of properties sold | (1,112) | (198) | (321) |
| Balance at the end of the period | $1,069 | $1,472 | $1,677 |

Allowance for Loan and Lease Losses

The allowance for loan and lease losses as a percentage of gross loans and leases was 1.25% as of December 31, 2017 and 1.44% as of December 31, 2016. Non-accrual loans and leases as a percentage of gross loans and leases increased slightly to 1.76% at December 31, 2017 compared to 1.74% at December 31, 2016. During the year ended December 31, 2017, we recorded net charge-offs on impaired loans and leases of approximately $8.3 million, which included $8.8 million of charge-offs and $519,000 of recoveries. During the year ended December 31, 2016, we recorded net charge-offs on impaired loans and leases of approximately $3.2 million, which included $3.6 million of charge-offs and $372,000 of recoveries.

As of December 31, 2017 and 2016, our allowance for loan and lease losses to total non-accrual loans and leases was 71.10% and 83.00%, respectively. This ratio decreased primarily due to the collateral positions related to additional non-accrual loans and leases outstanding during 2017. Despite a $1.3 million increase in non-accrual loans and leases, specific reserves related to non-accrual loans and leases decreased $1.1 million. 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 appropriate 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 either does not require additional specific reserves or requires only a minimal amount of required specific reserve, as we believe the loans and leases are adequately collateralized as of the measurement period. In addition, 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, 2017.

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

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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, 2017 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 at least annually, or more frequently as circumstances warrant. As we have completed new appraisals and/or market evaluations, we have found that in general real estate values have been stable or improved; however, in specific situations current fair values collateralizing certain impaired loans were inadequate to support the entire amount of the outstanding debt. Foreclosure actions may have been initiated on certain of these commercial real estate and other mortgage loans.

As a result of our review process, we have concluded that an appropriate allowance for loan and lease losses for the existing loan and lease portfolio was $18.8 million, or 1.25% of gross loans and leases, at December 31, 2017. Taking into consideration net charge-offs of $8.3 million, the required provision for loan and lease losses was $6.2 million for the year ended December 31, 2017. 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.

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

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| | (Dollars in Thousands) | | | | |
| Allowance at beginning of period | $20,912 | $16,316 | $14,329 | $13,901 | $15,400 |
| Charge-offs: | | | | | |
| Commercial real estate | | | | | |
| Commercial real estate — owner occupied | (9) | (41) | — | — | — |
| Commercial real estate — non-owner occupied | (80) | — | (653) | (631) | (792) |
| Construction and land development | — | (948) | — | — | (71) |
| Multi-family | — | — | — | — | — |
| 1-4 family | (38) | (205) | (120) | — | (33) |
| Commercial and industrial | (8,621) | (2,273) | (701) | (600) | (14) |
| Direct financing leases | — | — | — | — | — |
| Consumer and other | | | | | |
| Home equity and second mortgage | — | (114) | (32) | — | — |
| Other | (92) | (13) | (7) | (2) | (4) |
| Total charge-offs | (8,840) | (3,594) | (1,513) | (1,233) | (914) |
| Recoveries: | | | | | |
| Commercial real estate | | | | | |
| Commercial real estate — owner occupied | 42 | — | 2 | 8 | 1 |
| Commercial real estate — non-owner occupied | 2 | 74 | — | 5 | 61 |
| Construction and land development | 102 | 129 | 70 | — | 281 |
| Multi-family | — | — | — | 14 | — |
| 1-4 family | 7 | 71 | 32 | 17 | 10 |
| Commercial and industrial | 323 | 91 | 5 | 369 | 11 |
| Direct financing leases | — | — | — | — | 5 |
| Consumer and other | | | | | |
| Home equity and second mortgage | 3 | 4 | 4 | 12 | 5 |
| Other | 40 | 3 | 1 | — | — |
| Total recoveries | 519 | 372 | 114 | 425 | 374 |
| Net charge-offs | (8,321) | (3,222) | (1,399) | (808) | (540) |
| Provision for loan and lease losses | 6,172 | 7,818 | 3,386 | 1,236 | (959) |
| Allowance at end of period | $18,763 | $20,912 | $16,316 | $14,329 | $13,901 |
| Net charge-offs as a percent of average gross loans and leases | 0.57% | 0.22% | 0.10% | 0.08% | 0.06% |

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.

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The table below shows our allocation of the allowance for loan and lease losses by loan portfolio segments at the dates indicated. 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, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2015 | | 2014 | | 2013 | |
| | Balance | (a) | Balance | (a) | Balance | (a) | Balance | (a) | Balance | (a) |
| | (Dollars in Thousands) | | | | | | | | | |
| Loan and lease segments: | | | | | | | | | | |
| Commercial real estate | $10,131 | 1.00% | $12,384 | 1.31% | $11,220 | 1.24% | $8,619 | 1.06% | $9,055 | 1.40% |
| Commercial and industrial | 8,225 | 1.79% | 7,970 | 1.66% | 4,387 | 0.87% | 5,492 | 1.22% | 4,573 | 1.43% |
| Consumer and other | 407 | 1.60% | 558 | 2.26% | 709 | 2.89% | 218 | 1.14% | 273 | 1.58% |
| Total allowance for loan and lease losses | $18,763 | 1.25% | $20,912 | 1.44% | $16,316 | 1.14% | $14,329 | 1.12% | $13,901 | 1.42% |

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

The allowance for loan and lease losses allocated to the commercial real estate portfolio decreased in 2017 primarily due to the reversal of a $1.8 million specific reserve based on the full repayment of the aforementioned Kansas City-based construction loan. This segment also benefited from a net recovery position during 2017, which reduced the historical loss rates applied to the quantitative general reserve. The allowance for loan and lease losses allocated to the commercial and industrial portfolio increased in both 2017 and 2016. These increases were primarily due to elevated specific reserves, as well as 2017 and 2016 net charge-offs of $8.3 million and $2.2 million, respectively, which increased the historical loss rates applied to the quantitative general reserve.

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, 2017, there can be no assurance that future adjustments to the allowance will not be necessary.

Deposits

As of December 31, 2017, deposits decreased by $144.5 million to $1.394 billion from $1.539 billion at December 31, 2016. The decrease in deposits was primarily due to a decrease in the level of wholesale deposits, specifically brokered certificates of deposit and deposits gathered through internet deposit listing services, which declined by $108.7 million to $308.0 million at December 31, 2017 from $416.7 million at December 31, 2016. Consistent with our funding philosophy to match-fund long-term fixed rate loans with the most cost effective source of wholesale funds, in 2017 we began replacing maturing brokered certificate of deposit with the more cost effective FHLB advances in order to lower our FDIC assessment rate. While we expect to continue this strategy in 2018, we do not expect brokered certificates of deposit as a percentage of total assets to go below 10%.

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

| | As of December 31, | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | | 2015 | | | 2014 | | | 2013 | |
| | Balance | % of Total Deposits | | Balance | % of Total Deposits | | Balance | % of Total Deposits | | Balance | % of Total Deposits | | Balance | % of Total Deposits |
| | (Dollars in Thousands) | | | | | | | | | | | | | |
| Non-interest-bearing transaction accounts | $277,445 | 19.9 | % | $252,638 | 16.4 | % | $231,199 | 14.7 | % | $204,328 | 14.2 | % | $151,275 | 13.4% |
| Interest-bearing transaction accounts | 217,625 | 15.6 | | 183,992 | 12.0 | | 165,921 | 10.5 | | 104,199 | 7.2 | | 77,004 | 6.8 |
| Money market accounts | 515,077 | 36.9 | | 627,090 | 40.8 | | 612,642 | 38.8 | | 575,766 | 40.0 | | 456,065 | 40.4 |
| Certificates of deposit | 76,199 | 5.5 | | 58,454 | 3.8 | | 79,986 | 5.1 | | 126,635 | 8.8 | | 51,979 | 4.6 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Wholesale deposits | 307,985 | 22.1 | 416,681 | 27.1 | 487,483 | 30.9 | 427,340 | 29.8 | 393,532 | 34.8 |
| Total deposits | 1,394,331 | 100.0 % | 1,538,855 | 100.0 % | 1,577,231 | 100.0 % | 1,438,268 | 100.0 % | 1,129,855 | |