

2016
Annual Report



Generations of Success.

*Achieving Milestone
Accomplishments.*

One Bank | One Resource



A Billion Dollar Bank. Thanks to You.

Crossing the \$1 billion asset threshold in 2016 allows us the opportunity to say thank you, to you, our shareholders. Many of your families have been our customers since our founding in 1859, and our success is a reflection of your commitment.

We appreciate the trust you place in us to be excellent stewards of your bank and your investment. It's why our employees work tirelessly to protect and promote the financial well being of our customers. In return, our employees look to us to provide an environment where they can build rewarding and successful careers.

Yet our commitment extends beyond our customers and employees. We are proud to be good corporate citizens in the communities we serve through lending, charitable giving, and volunteerism. To continue to enhance the quality of life throughout the region, we are committed to producing consistent, long-term returns while maintaining a culture that allows us to remain a strong, independent and local financial institution.

Together, we'll continue to support all our stakeholders for years to come.

Getting better, not just bigger

Growing assets by 12.8 percent during 2016, to \$1.1 billion at December 31, is an achievement for all of our stakeholders to celebrate. Yet, our objective is not simply to get bigger. Our growth is an outcome of doing all the right things for our customers. Our top priority is to constantly get better at how we serve all our stakeholders, and to that end, greater scale allows us to strategically direct our investments and capital into a few key areas: technology, talent and business platforms.

Technology continues to be an area of focused investment. Ongoing work to enhance our customer experience gives FBFC a competitive advantage against other financial institutions. Importantly, our digital strategy is fully integrated across

all of the bank's functional areas, meaning that every department is directly responsible for seeing that technology is seamlessly integrated to enhance the customer experience, create efficiencies and generate revenues. Our team takes great care to focus our investments on those that utilize proven technologies. In 2016, some of our notable successes were instant issuance debit card printers, CardValet, and responsive web design for mobile and online banking.

- Instant issuance debit card printers are a wonderful convenience for new customers, as well as current customers in need of replacement cards due to loss or theft. We are one of the first and few financial local institutions whose customers can visit any branch to receive a new EMV chip technology debit card on the spot.
- We also introduced the CardValet app in 2016, allowing debit card customers to set spending limits, activate and deactivate a card in the event it is lost or stolen, set real time alerts, and opt in to other features to help them manage their account anytime and anywhere from their smart phones.
- And in December, the bank launched a new website that provides an optimal experience no matter what mobile device or computer customers are using to interact with FBFC.

Growth and scale also enables us to invest in our people, which today number more than 325. The best employees, whether they are long tenured at FBFC or new to our bank, are passionate advocates for their customers.



Our new website highlights our interactive technology and enhanced customer experience.

Our culture of high expectations for customer service and responsiveness is enabled by a flat organizational structure, local decision making, leading-edge technology, rigorous processes and outstanding underwriting expertise. These are powerful differentiators, helping our employees to win new business, deepen existing customer relationships, and enjoy rewarding careers with our bank. This sentiment was once again validated by the *Milwaukee Journal Sentinel*, which recognized FBFC as a Top Workplace for the seventh time in 2016.



Of course, crossing the \$1 billion mark also allows us to help even more customers as we continue to drive growth across FBFC's local, regional and national banking platforms.

Our local community banking platform remains squarely focused on Southeastern Wisconsin, where we maintain 14 full-service branches and continue to expand the breadth and depth of our relationships to help individuals, businesses and communities prosper. Community banking also provides valuable relationship-based deposits, which help fuel our lending activity.

Our regional mortgage platform is helping a growing number of families achieve their home ownership goals, not only across Wisconsin, but also into neighboring areas of Minnesota and Illinois, while providing FBFC with increased revenue diversity. To that end, we've increased our number of mortgage lenders from 15 in 2014 to 47 at the end of 2016, and FBFC now operates 17 mortgage production offices.

FBFC's national platform provides growing numbers of entrepreneurs with the funding they need to succeed, while providing the bank with increased geographic diversity, as well as capital and liquidity benefits. At the same time, we protect FBFC's asset quality by specifically focusing our bank's national SBA lending on a few specific industries with particularly low loss rates. The successful growth of our SBA lending platform is highlighted by FBFC's No. 1 ranking in Wisconsin and our position as one of the top 30 lenders in the nation who participate in the U.S. Small Business Administration's popular 7(a) Loan Program.

Growing, and giving back

Our ability to serve an expanded number of customers – locally, regionally and nationally – is illustrated by our balance sheet growth and financial results last year. We grew deposits to a record \$812.5 million at December 31, 2016, an increase of 10.9 percent from one year prior. Consumer deposits were boosted by steady increases in account openings, number of households and average balances per account. Business and municipal deposit levels benefited from increased use of our cash management products and services by FBFC's established commercial customer base.

Robust deposit growth also provided a low-cost source of funding for continued expansion of lending to consumer and business customers last year. Loan production grew 31.1 percent to \$500.2 million in 2016, our best year ever. Total loans reached a record \$750.8 million at December 31, 2016, an increase of 9.8 percent from one year prior.

The increased number of homeowners served by FBFC was reflected in our mortgage loan and servicing fees, which grew 60.7 percent in 2016, compared to the year prior. Gains on SBA loan sales increased by 25.0 percent last year, compared to 2015, and all non-interest income derived from SBA lending increased by 15.1 percent in 2016.

A growing number of customers are also taking advantage of our wealth management expertise and services. Assets under management grew to \$148 million at December 31, 2016, an increase of 22.3 percent from one year prior. Accordingly, revenues increased to \$891,000 in 2016, up 10.6 percent compared to the year prior.

In addition to providing our local consumers, businesses and municipalities with ready access to capital and financial services, giving back to our communities has long been central to who we are at FBFC.

A wonderful example of the bank's work as a leading corporate citizen is our community loan pool program. FBFC partners with local economic and governmental leaders to provide low-interest loans for redevelopment projects aimed at putting commercial properties back on the tax rolls and increasing the number of local small businesses in urban neighborhoods.

In 2016 we expanded the community loan pool in Oconomowoc from \$500,000 to \$750,000, and in this one city alone the program has provided 25 entrepreneurs with the capital needed to start or grow their small businesses.



Kelsey Krimmer opened her restaurant with the help of the West Bend loan pool.



FBFC employees volunteer by providing meals at Thanksgiving.

Our people also personally devote themselves to their communities, with over 80 percent of FBFC's employees volunteering their time to about 425 local charitable organizations and activities.

Performance matters

As proud as we are to be able to help a growing number of customers and communities, getting bigger is only better if we further our track record of delivering consistent returns and strong dividend yields for shareholders of Oconomowoc Bancshares, Inc., the holding company for FBFC. Indeed, our 2016 financial performance reflected our unwavering focus on creating long-term value for our shareholders.

Total revenues grew to a record \$54.3 million in 2016, an increase of 16.2 percent over the prior year, driven by double-digit increases in both net interest income (what the bank earns from lending activity) and non-interest income (service revenues and other fees).

Financial Highlights (in thousands)

Earnings



Capital



Deposits



Assets



On & Off Balance Sheet Loans



Net interest income increased 9.2 percent to \$31.4 million last year, as loan growth more than offset the impact of the low rate environment in 2016. Non-interest income grew 26.7 percent to \$16.4 million, increased by fees from our growing mortgage lending, SBA lending and wealth management businesses, as well as cash management services for business and municipalities.

In 2016 non-interest expense increased 17.3 percent to \$39.0 million, but given continued investments in local, regional and national business platforms, revenue expansion more than offset operating expense growth.

FBFC achieved record earnings for the third straight year with net income growing to \$6.8 million in 2016, an increase of 12.0 percent over the prior year. In turn, we continued to improve return on average assets, to 0.67 percent, and return on average equity, to 9.13 percent.

Earnings growth also supported the company's sixth consecutive year of increasing cash dividends, which grew to \$3.45 per share, up 25 cents or 7.8 percent over the prior year. Over the last six years, cash dividend distributions to shareholders have exceeded \$6.0 million.

Total stockholders' equity increased to \$75.1 million at year end, up from \$71.1 million one year prior, while retained earnings grew to \$69.4 million from \$63.8 million in 2015. Book value also grew to \$224.12 per share at December 31, 2016, an increase of 5.6 percent from one year prior.

Importantly, we delivered impressive growth in 2016 while maintaining very strong credit quality metrics, including the bank's ratio of adversely classified loans to total loans improving to its lowest level in a decade. We deploy time, expertise and technology to allow for both a rigorous review of loan applications and borrower creditworthiness, and a quick "yes or no" decision for the customer, enabling us to put on the highest quality loans at origination.

The bank recorded net recoveries in 2016, which allowed the company to keep provision expense for loan losses to just \$150,000 last year. Having recoveries exceed charge offs on loans in a given year is not common for a bank, and cannot be expected to be a regular occurrence, but we believe it reflects the exceptionally high quality of the assets on our balance sheet today, our extremely rigorous underwriting processes, and risk management culture FBFC has in place.

Our liquidity position remained very strong, with cash and investments increasing 22.7 percent last year to \$273.1 million on December 31, 2016. As noted earlier, we achieved 10.9 percent growth in deposits, particularly lower cost core deposits, as well as 31.1 percent growth in repurchase agreements utilized by municipalities and other commercial customers. We also continue to have ample room for Federal Home Loan Bank borrowing.

True to independent community bank roots

In the last decade, banks and other businesses have needed to respond to revolutionary developments in regulation, the economy, communications, and technology, resulting in a record number of consolidations. In Wisconsin, the number of banks and thrifts headquartered in this state dropped from about 193 in 2013 to fewer than 170 by the end of 2016. Through this, FBFC stands fiercely independent and stronger than ever.

This reminds us that we must never be complacent. As a bank, we must and will continue to embrace change, guided by thoughtful, long-term and strategic decision making. At the same time, as we continue our growth beyond the \$1 billion mark, we must never lose sight of where we came from, the independent community banking culture we and our predecessors have nurtured since 1859, and the generations of customers, employees and shareholders who are responsible for the success FBFC enjoys today.



Mark W. Mohr



President and CEO



Nate Zastrow



Executive Vice President
and CFO

Achieving Milestone Accomplishments.

From the beginning we have been a community bank. While the name and look has changed, we remain committed to that proud tradition.



Today's First Bank Financial Centre (FBFC) started as Summit Bank in 1859 with \$25,000 in capital. Summit Bank was the community's first bank, 15 years before Oconomowoc became a city. From 1859 to 1870, the bank was located at the site of the old Oconomowoc Library on North Lake Rd.

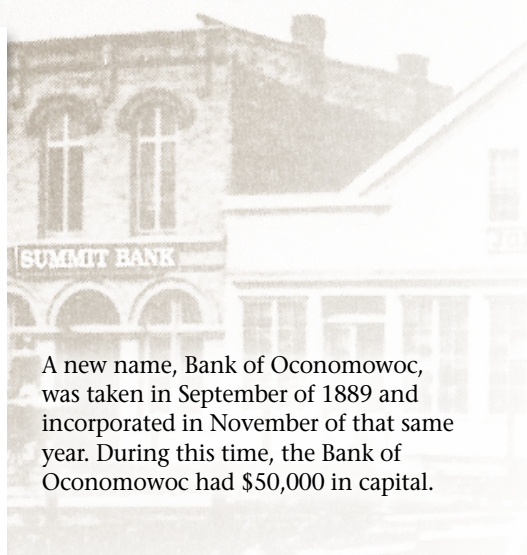
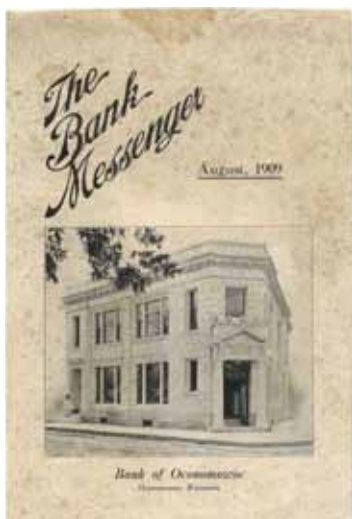
1859



In 1963, the Bank of Oconomowoc leased the Rand building on South Main St. and remodeled it into a TV drive-in auto bank. This was the first installation of a Diebold TV drive-in unit in the state of Wisconsin.

1963

1889



A new name, Bank of Oconomowoc, was taken in September of 1889 and incorporated in November of that same year. During this time, the Bank of Oconomowoc had \$50,000 in capital.



In September of 1998, the bank changed its name again to First Bank Financial Centre, brought about by continuous growth into a variety of communities. Following this name change, the Hartford branch staff relocated to their current building on Bell Ave.



In 2016 FBFC opened its 14th full service branch, 7th loan production office, was named a Top Workplace by the *Milwaukee Journal Sentinel* for the 7th year in a row, hired its 340th employee, and reached \$1 billion in assets.

1985

1998

2008

2016

In October 1985, First Bank of Oconomowoc moved from its corner location to the current location at 155 W. Wisconsin Ave.



FBFC's first loan production office was opened in Menomonee Falls in April of 2008. FBFC's assets totaled more than \$500 million.



Condensed Financial Statement

Assets	2014	2015	2016
Cash and cash equivalents	14,327	16,713	16,620
Investments	179,443	205,903	256,484
Loans, net	613,518	683,509	750,829
Premises and equipment	28,890	29,510	32,988
Servicing Assets	10,520	12,167	13,362
Other Real Estate	3,114	3,216	3,278
Other Assets	21,538	22,211	24,068
Total Assets	871,350	973,229	1,097,629

Liabilities & Capital	2014	2015	2016
Deposits	683,931	732,489	812,529
Borrowed Funds	111,931	149,227	189,440
Subordinated debentures	6,186	17,972	17,988
Other Liabilities	3,140	2,402	2,567
Capital	66,162	71,139	75,105
Total Liabilities & Capital	871,350	973,229	1,097,629

Income Statement	2014	2015	2016
Interest income	31,180	33,724	37,845
Interest expense	(4,600)	(4,953)	(6,431)
Net interest income	26,580	28,771	31,414
Provision for loan losses	(405)	(885)	(150)
Net interest income after provision for loan losses	26,175	27,886	31,264
Non-interest income	8,796	12,986	16,447
Non-interest expense	(28,464)	(33,271)	(39,036)
Income before income tax expense	6,507	7,601	8,675
Income tax expense	(1,272)	(1,553)	(1,900)
Net income	5,235	6,048	6,775
Earnings per share	\$15.62	\$18.05	\$20.22

Selected Other Data:	2014	2015	2016
Book Value Per Share	\$197	\$212	\$224
Return on average assets	0.64%	0.68%	0.67%
Return on average equity	8.24%	8.83%	9.13%
Net interest margin	3.62%	3.58%	3.39%
Non-performing assets to total assets	1.14%	0.69%	0.77%
Allowance for loan losses as a percent of total loans	1.08%	0.82%	0.80%
Leverage Ratio	8.28%	8.03%	7.47%
Risk Based Capital Ratio	11.78%	14.19%	13.49%



Board of Directors

(Listed left to right, Back row first)

Craig S. Schiefelbein
Observation Tower LLC

James P. Siepmann
Siepmann Realty Corporation

Mark W. Mohr
First Bank Financial Centre

Mark T. McCune
First Bank Financial Centre

Charles J. Folkman, Jr.
Vice Chairman
L.F. George, Inc.

Larry Tomsyck
Ernst & Young LLC (retired)

Monica Stern
Village of Grafton

Robert W. Snyder
Board Chairman
Snyder and Ek, S.C.

Maureen Stapleton
Stapleton Realty and Appraisal

Peter G. Roehl
Roehl Corporation

Board of Directors

Dear Shareholders,

Generations of success. It's not something a lot of companies can say, but it's one of the reasons why I am so proud to serve as your Board Chairman.

As an Oconomowoc native and resident, I've seen the impact we have on local communities first-hand. From helping young entrepreneurs establish businesses, to seeing a young couple buy the first home for their family, we have been helping customers make their dreams come true since 1859.

So it's fitting that as we cross the \$1 billion threshold that we take the opportunity to thank you, our shareholders. The commitment you've made to our bank is an integral part of our success.

Likewise, those who have served previously on our Board of Directors deserve our thanks as well, as they laid the foundation for today's growth. In particular, I'd like to remember Jerry Burchardt, who passed away in 2016. Jerry became a Director in 1976 and

served until 2002. In that time, he served on four committees and as Vice Chairman for nine years.

Additionally, I'd like to thank Pete Roehl, whose time on our Board comes to an end in 2017. Pete's contributions over the past 15 years are numerous, and we will miss his expertise and perspective.

In Pete's place we welcome Pat Hammer, President & CEO of Rogers Behavioral Health System to our Board. We will certainly benefit from Pat's 20+ years of experience in behavioral health operations, strategic planning and motivational leadership for years to come.

As we look together toward the future, I am confident that we will continue to thrive as a local, independent financial institution. After all, with your support, we have a strong track record of doing just that.

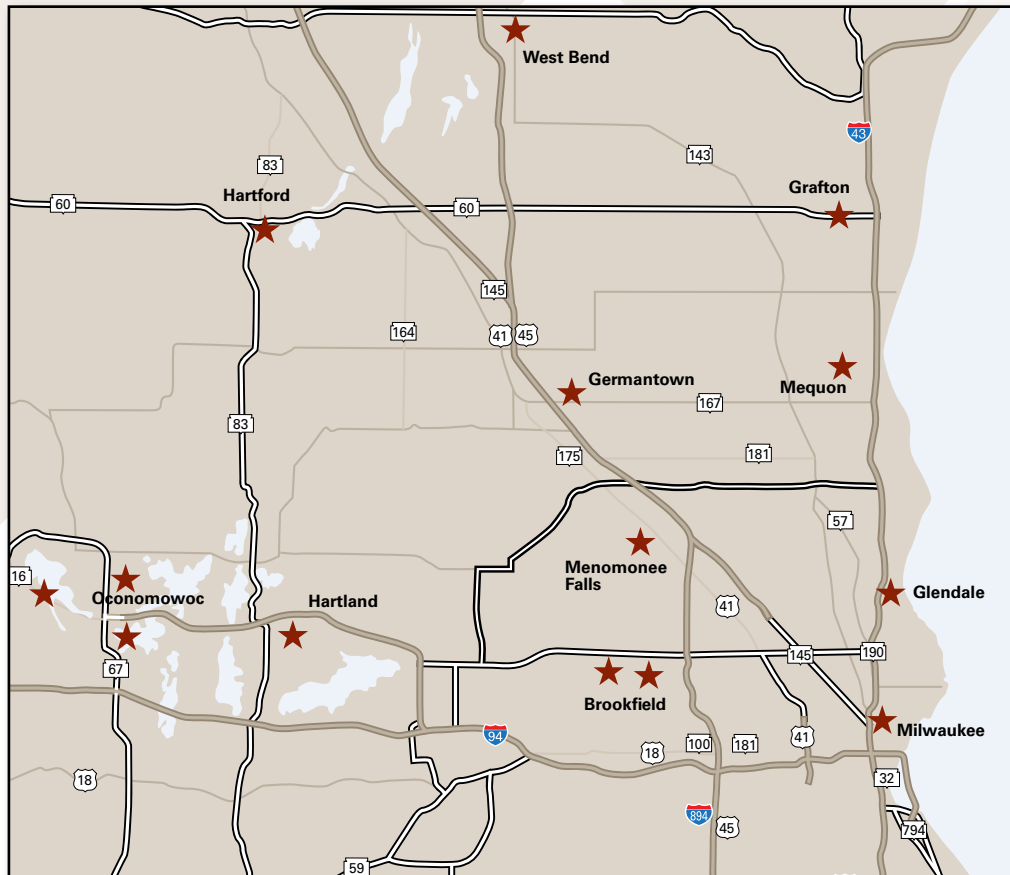
Robert W. Snyder
Chairman

Executive Management

Mark W. Mohr
President,
Chief Executive Officer

Mark T. McCune
Executive Vice President,
Chief Lending Officer

Nate Zastrow
Executive Vice President,
Chief Financial Officer
& Treasurer



Branch Locations

Brookfield

18815 W. Capitol Dr.
(262) 957-3535

12600 W. North Ave.
(262) 957-2150

Germantown

N112 W17100 Mequon Rd.
(262) 250-3800

Glendale

5555 N. Port Washington Rd.
(414) 290-3222

Grafton

2300 Washington St.
(262) 377-2300

Hartford

940 Bell Ave.
(262) 673-0920

Hartland

800 Cardinal Ln.
(262) 369-9900

Menomonee Falls

N56 W14044 Silver Spring Dr.
(262) 252-1302

Mequon

11715 N. Port Washington Rd.
(262) 518-5100

Milwaukee

400 E. Wisconsin Ave.
(414) 290-2800

Oconomowoc

155 W. Wisconsin Ave.
(262) 569-9900
(888) 569-9909

W359 N5900 Brown St.
(262) 569-3055

1300 Summit Ave.
(262) 567-3300

West Bend

1811 W. Washington St.
(262) 338-9900

Lobby and drive-thru hours available anytime at FBFCWI.com

24-hour telephone banking: (888) 569-5066



MEMBER FDIC
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