



# Annual Report

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## 2018

**Making  
Lives  
Better**

# Making Lives **Better**

## Historic Strength

First Bank Financial Centre enters its 160<sup>th</sup> year on the momentum of a profitable and productive 2018 across all aspects of our business. With robust earnings, significant strategic accomplishments, and active engagement in our communities, we delivered on being the best community bank for our customers, who are at the center of everything we do. We are carefully executing our long-held strategy by investing in technology, improving product offerings, enhancing our profitability and rewarding our shareholders. We are 160 years strong, and our best years are yet to come.



## 160 Years in the Making

Our bank has been dedicated to making lives better in the communities it serves since before Wisconsin sent its sons and daughters to serve our young republic in the Civil War. The bank's founders were wise beyond their time and set in place the core values that define our vision: that a bank should be a financial resource that evolves to meet the changing needs of its customers. A bank should be a catalyst for growth, development and well-being for its communities. It should empower every employee to achieve his or her fullest potential; and it should provide a consistent and dependable return on investment to its shareholders.

With such ideals in mind, our founders saw a need in their community and opened the institution's doors in 1859 as Summit Bank, with \$25,000 in capital, 15 years before Oconomowoc became a city. We were this community's first bank—hence the origin of our entrepreneurial institution's name today.

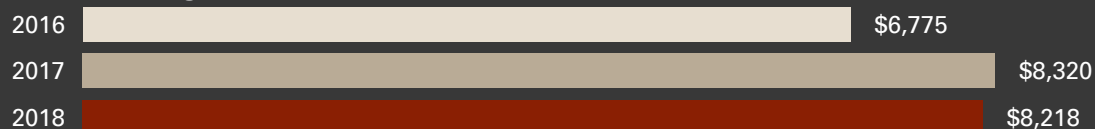
From our entrepreneurial start, being an innovator has been part of our DNA. In 1963, we opened Wisconsin's first "state of the art" TV-monitor drive-thru auto bank, recognizing early on our customers' growing desire for convenience and speed. Our advances continue today, with an unyielding commitment to a customer centric culture, driving our latest digital platform transformation strategy, including investments in technology to anticipate and exceed the demands of our customers through our branch, online and mobile delivery channels.

With \$1.2 billion in assets and \$89 million in capital at the close of 2018, our bank has come a long way in size while remaining unchanged at its core. Many of the families we serve have been customers of this institution for multiple generations. We're proud to continue the tradition of hometown, community banking, while incorporating the many innovations and improvements that have become commonplace in our lives over the years.



# Financial Highlights (IN THOUSANDS)

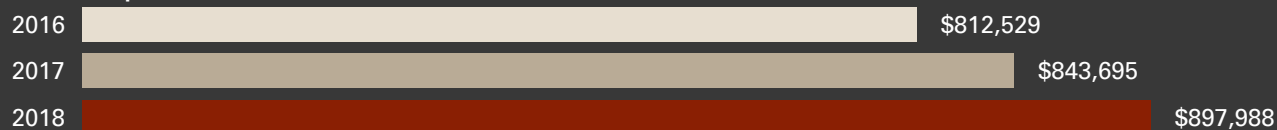
## Earnings



## Capital



## Deposits



## Assets



## On & Off Balance Sheet Loans



## Productive and Profitable Growth

Oconomowoc Bancshares, Inc., the holding company for FBFC, continues to perform at a high level. 2018 was the bank's strongest year ever by a number of measures, with its balance sheet, loan production, and revenues again reaching record highs.

Deposits grew to a record \$898.0 million at December 31, 2018, an increase of 6.4 percent from one year prior. Deposits reflected steady growth in our number of households with deposit accounts, which expanded to 18,100 at year-end 2018, up from about 17,500 in 2017.

Deposit balances from consumer accounts increased \$20 million, or 3.0 percent, in 2018, to \$709 million. We also saw our customers shift their funds toward higher-yielding time accounts to reflect the rise in interest rates last year. Growth on the business side was strong as well, with 6.9 percent business deposit growth reflecting targeted enhancements to our treasury management products and services designed for established business and municipal customers.

Robust deposit activity reflects the successful execution of our retail banking and treasury management growth strategies. Retaining and expanding existing households and businesses is important, and we focus on deepening these relationships, through the advancement and introduction of new technology and through continued emphasis on referral programs to benefit customers. We are proud of these efforts, which continue to evolve and enhance our customer experience.



The bank's liquidity position continued to be strong through 2018, with cash and investments totaling \$188.2 million at year end. While cash and investments declined from \$232.2 million at

the end of 2017, this resulted from our proactive sales of lower-yielding investment securities, in favor of funding higher-yielding loans, while using our solid funding base to provide ample liquidity to continue sound loan growth.

Loans totaled a record \$925.4 million on our balance sheet at December 31, 2018, an increase of 9.7 percent from one year prior. Growth in loan balances reflects the success of our strategic efforts to increase balances of Small Business Administration (SBA) 504-program commercial real estate loans in order to meet customer demand, enhance the risk profile of our balance sheet, and increase margin revenues.



Overall loan production expanded to \$590 million in 2018, marking another record year with an increase of 11.7 percent over 2017. This included 15.9 percent growth in mortgage loan production in 2018, to \$292 million, along with 47.6 percent growth in SBA production, to \$164.1 million. Our total on and off balance sheet assets totaled \$1.63 billion at December 31, 2018.

The company's balance sheet growth and composition allowed us to grow total revenues to a record \$64.7 million in 2018, an increase of 6.5 percent over the year before. The largest component of the bank's revenue is net interest income from loans and other earning assets, which grew 7.1 percent to a record \$37.9 million, more than offsetting an 11.3 percent decline in non-interest income from fees and gains to \$15.6 million in 2018. The increase in net interest income and decrease in non-interest income largely reflect our recent strategic shift toward holding more SBA loan balances in our portfolio—earning interest income—while utilizing more limited SBA loan sales than in years prior, given less attractive pricing for these saleable assets, industry-wide. Accordingly, SBA



loan sale income declined by \$3.2 million, or 40.1 percent, in 2018, while SBA interest income increased by \$5.0 million, or 44.5 percent, from 2017.

Other sources of non-interest income were growing across FBFC's mortgage, business lending and wealth management businesses, as well as our treasury management services for business and municipalities. Our regional mortgage platform's loan and servicing fees increased by 14.5 percent to \$4.8 million in 2018, compared to the year prior. Wealth management revenues grew by 22.8 percent to \$963 thousand, reflecting the value and service we provide to customers and small business owners and the 10 percent increase in assets under management they entrusted to our care during 2018.

Growth in total revenues outpaced a modest increase in operating expenses in 2018, as we made concerted efforts to control spending on projects and personnel while continuing to invest in FBFC's local, regional and national business platforms and programs. Non-interest expense increased just 1.9 percent to \$43.9 million last year. We continue to leverage our partnerships with third party vendors to integrate platforms to meet customer needs, create efficiencies and generate revenues.

Asset quality remained a priority in 2018. While nonperforming loans as a percent of FBFC's total loans increased to 2.12 percent at the close of 2018, up from 0.85 percent at the end of the prior year, early stage past due loans represented just 0.13 percent of total loans and increased modestly from 0.11 for 2017. Nearly 75 percent of the non-accrual loan balances carry a government guarantee.

During 2018, we also continued to conservatively manage our balance sheet, taking advantage of the rising interest rate environment created by Federal Reserve Board policymaking decisions and Fed Funds target rate hikes since late 2016. Given rising rates, we continued to shift our earning asset mix toward a greater proportion of higher-yielding loans, growing year-end loan balances by \$81.0 million. At the same time, we continued to reduce our portfolio of lower-

yielding securities, by \$41.8 million, to \$165.2 million. Together, these actions drove controlled overall growth of \$39.6 million, or 3.5 percent, in balance sheet assets, to \$1.18 billion at the close of 2018. In tandem, our net interest margin increased to 3.50 percent, from 3.42 percent for 2017.

Our solid strategic execution and strong financial performance continued to build long-term value for our shareholders. Total stockholders' equity increased to \$89.0 million at year end, up from \$83.0 million one year prior, while retained earnings grew to \$83.8 million from \$76.8 million in 2017. Book value grew to \$266 per share at December 31, 2018, an increase of 7.7 percent from one year prior. The Bank's return on average assets took a small dip, to 0.71 percent, while return on average equity declined to 9.70 percent, from 10.51 percent for 2017. We continue to execute on growth opportunities to enhance our profitability metrics in future periods.

2018 marked our second consecutive year of delivering net income exceeding \$8.0 million. Consolidated net income totaled \$8.22 million for 2018, following record net income of \$8.32 million in 2017—which included the \$1.6 million non-cash accounting benefit related to the enactment of the Tax Cuts and Jobs Act in December 2017. We are very pleased to report that continued strength in bottom line earnings again supported the eighth consecutive year of increased cash dividends for our shareholders. Dividend payout grew to \$1.21 million, or \$3.62 per share, an increase of \$0.10 per share over the prior year.



## A Strong Community Partner

Our founders instilled a culture of civic engagement at FBFC, and we take seriously our responsibility to improve our communities. Our employees spend over 12,000 hours a year volunteering with local non-profit organizations, with active participation by more than 80 percent of our team members—including every member of our management team.

In recent years we've donated over \$1 million in the communities we serve, supporting the activities and causes that make everyday life just a little bit better. Youth sports events, movie nights in the park, elderly transportation services, local holiday parades—we're proud to be a part of it all. Through our sponsorship of "The Blend Gives Back" on WTMJ-TV, we're also able to shine a light on local non-profits who continue to raise the bar of civic stewardship, both through on-air recognition and with a donation.



Education is especially important to the future of our communities, and we heavily support financial literacy across all ages. FBFC employees regularly serve as instructors, tutors and mentors to young people in our schools and communities, and we provide financial support to job training and vocational programs for low- to moderate-income adults. In 2018 we were immensely proud to achieve Ruby Level status with Junior Achievement for our hours spent volunteering with the organization dedicated to giving young people the knowledge and skills they need to own their economic success, plan for their futures, and make smart academic and economic choices.

Additionally, in 2018 we continued to expand the tools and content available through our website's Financial Education Centre, which we launched in 2017. Complete with self-guided learning modules and free financial literacy tools, our Financial Education Centre was honored with the 2018 Wisconsin Bankers Association Innovation Award.



## Financial Education Centre

Another example of FBFC's commitment to being a catalyst for community growth is our loan pool program. We are particularly proud of our continued partnership 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. Since 2010, FBFC has made 123 loans totaling more than \$2.8 million through this program.

Our work in our communities is gratifying in itself, and we were humbled to be named a finalist for the *BizTimes* Corporate Citizen of the Year Award in 2018. Additionally, we were named Large Business of the Year in Ozaukee County, and Business of the Year in West Bend. You can count on us continuing to lift up our communities for years to come.

## Spotlight on Employees

We believe engaged employees drive better outcomes for our company and our communities. We aim to be the best employer, the best community partner, the best investment, and the best bank around—and our people are at the heart of it all. Every FBFC employee has the opportunity to achieve his or her fullest potential, with a variety of work schedules to help balance their work/life needs, extensive health and wellness offerings, robust training and mentoring programs, challenging work responsibilities and a supportive environment overall.

Our commitment to our employees was recognized by *American Banker* for the third consecutive year in 2018, when FBFC was named one of the “Best Banks to Work For” in the United States. We are very proud to represent our community in this prestigious ranking, as once again we were the only Southeast Wisconsin bank to earn this distinction from the national trade publication. We were also proud to be recognized by the *Milwaukee Journal Sentinel* as a Top Workplace again, for the ninth consecutive year.



## 160 Years and Counting

We’re humbled by our rich history, and excited for the growth, prosperity and change to come in our next era. We can only imagine what tomorrow will bring.

While the incredible tools and technology available to our customers today was inconceivable to our founders 160 years ago, the respect, commitment and care our customers enjoy is unchanged. Through independent leadership, collaborative partnerships and dynamic innovation, our evolution as a community bank continues as strong as ever. Importantly, the core of our corporate vision is invincible to age and time. Our mission for 160 years has been to make lives better, and our team is committed to building on First Bank Financial Centre’s historic strength to earn our stakeholders’ continuing trust and confidence every day. We have no intention of slowing down, and we’re so grateful you’re with us for the ride.



Mark W. Mohr

A handwritten signature of Mark W. Mohr in black ink.

President and CEO



Nate Zastrow

A handwritten signature of Nate Zastrow in black ink.

Executive Vice President  
and CFO





## It's Our Mission

Our mission statement, “Make Lives Better”, isn’t just a saying on a wall in our corporate office. It’s what drives us each and every day. Our employees live the mission and actively demonstrate our commitment to the communities we serve. Your investment, as a shareholder, allows us to positively impact those around us.

We proudly spend more than 12,000 hours a year volunteering with local non-profit organizations. Each year we educate children, feed the hungry, and stand side-by-side with hundreds of organizations that improve the quality of life in Southeast Wisconsin.





# Condensed Financial Statement

(In thousands, except per share data) as of December 31

## Balance Sheet

Assets	2016	2017	2018
Cash and cash equivalents	16,620	25,246	22,975
Investments	256,484	206,994	165,197
Loans, net	750,829	831,229	912,303
Premises and equipment	32,988	31,745	31,400
Servicing Assets	13,362	14,905	15,768
Other Real Estate	3,278	3,749	2,999
Other Assets	24,068	23,119	25,994
<b>Total Assets</b>	<b>1,097,629</b>	<b>1,136,987</b>	<b>1,176,636</b>

Liabilities & Capital	2016	2017	2018
Deposits	812,529	843,695	897,988
Borrowed Funds	189,440	189,622	168,160
Subordinated debentures	17,988	17,984	18,010
Other Liabilities	2,567	2,747	3,495
Capital	75,105	82,939	88,983
<b>Total Liabilities &amp; Capital</b>	<b>1,097,629</b>	<b>1,136,987</b>	<b>1,176,636</b>

Income Statement	2016	2017	2018
Interest income	37,845	43,194	49,108
Interest expense	(6,431)	(7,822)	(11,243)
Net interest income	31,414	35,372	37,865
Provision for loan losses	(150)	(925)	(630)
Net interest income after provision for loan losses	31,264	34,447	37,235
Non-interest income	16,447	17,561	15,750
Non-interest expense	(39,036)	(43,122)	(43,945)
Income before income tax expense	8,675	8,886	8,860
Income tax expense	(1,900)	(566)	(642)
Net income	6,775	8,320	8,218
Earnings per share	\$20.22	\$24.83	\$24.52

Selected Other Data	2016	2017	2018
Book Value Per Share	\$224	\$247	\$266
Return on average assets	0.67%	0.75%	0.71%
Return on average equity	9.13%	10.51%	9.70%
Net interest margin	3.39%	3.42%	3.50%
Non-performing assets to total assets	0.77%	0.85%	2.12%
Allowance for loan losses as a percent of total loans	0.80%	0.62%	0.60%
Leverage Ratio	7.47%	7.80%	8.14%
Risk Based Capital Ratio	13.49%	13.16%	12.20%





## Board of Directors

*(Listed left to right, Back row first)*

**Mark T. McCune**  
*First Bank Financial Centre*

**Mark W. Mohr**  
*First Bank Financial Centre*

**Craig S. Schiefelbein**  
*Observation Tower LLC*

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

**Pat Hammer**  
*Rogers Behavioral Health System*

**James P. Siepmann**  
*Siepmann Realty Corporation*

**Peter G. Roehl**  
*Roehl Corporation*

**Monica Stern**  
*Village of Grafton*

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

**Maureen Stapleton**  
*Stapleton Realty and Appraisal*

**Larry Tomsyck**  
*Ernst & Young LLC (retired)*

## Board of Directors

Dear Shareholders,

A community bank is a special place. And First Bank Financial Centre is, in my humble opinion, the most special of them all.

How many other businesses have the type of local impact that we have every year? I am truly honored to stand before you each April and share how our employees have made lives better throughout our footprint.

At a time when some banks are in the spotlight for all the wrong reasons, we continue to stay true to the values that our founders held 160 years ago. We provide high quality products and services to help our customers achieve their dreams, with customer service that consistently ranks at the top of our industry.

Yet we're hardly resting on our laurels. Our industry is much different than it was 160 years ago, and I'm confident we'll continue to offer the right mix of in-person service and technology. Our bank continues to grow and evolve to meet the changing needs of today's customers, providing them

the opportunity to bank through their mobile device, chat with us on social media, and open accounts online.

As shareholders, you expect a reasonable return on your investment. As a Board, we are committed to helping you achieve that goal. It is extremely satisfying to know that our community bank can meet your expectations while exceeding the expectations of our customers—however they choose to engage us.

When I walk out of First Bank Financial Centre and into the streets of Oconomowoc, I hold my head high knowing that we make a true difference every day. I hope you feel the same sense of pride knowing that your investment allows our remarkable employees to continue to Make Lives Better.

Robert W. Snyder  
Chairman

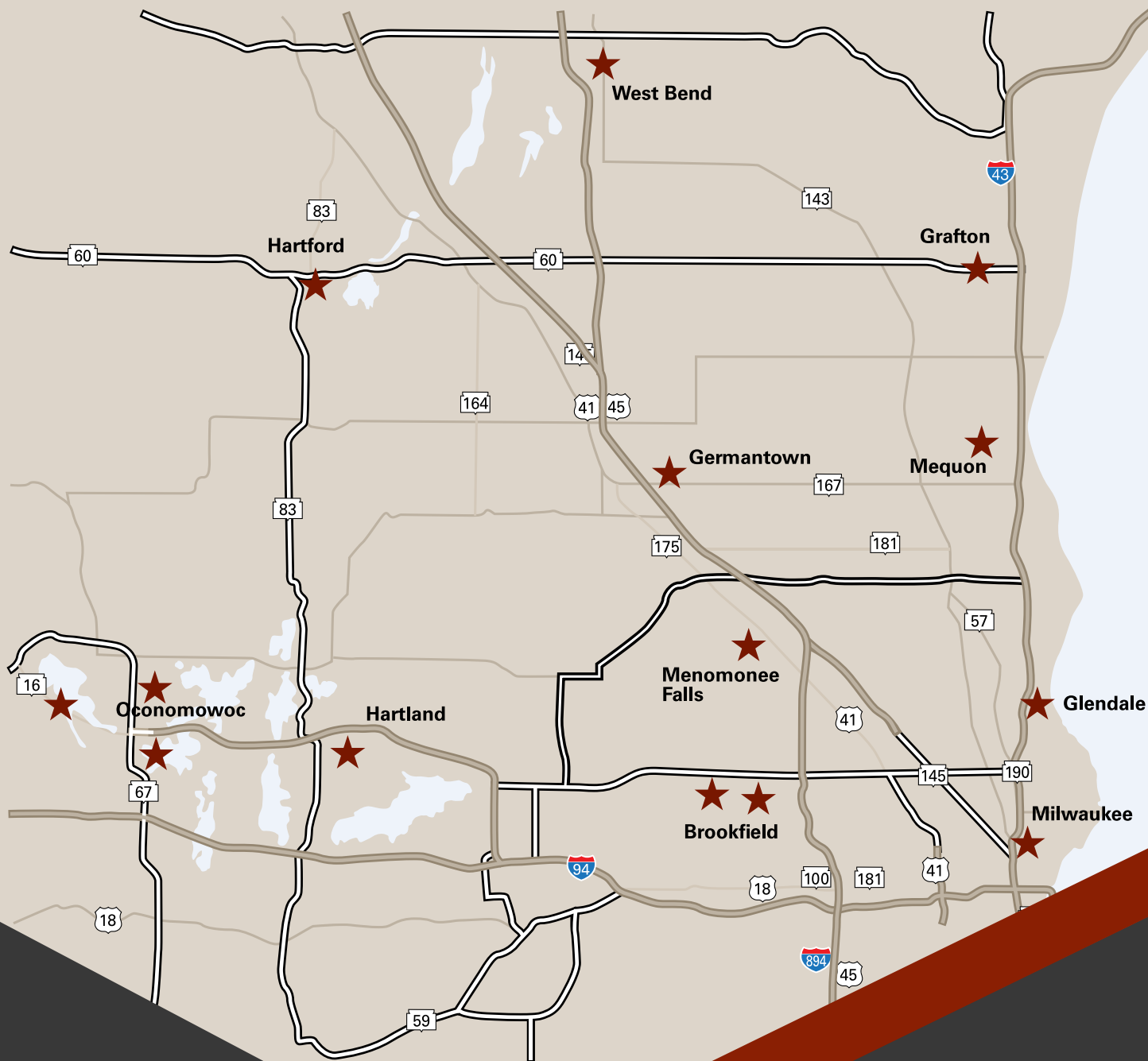
## Executive Management

**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*





# Bank — Locations —

To find a branch near you, visit  
[FBFCWI.com](http://FBFCWI.com)