

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

OR

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

For the transition period from _____ to _____

Commission file number: 001-38676

BANK FIRST CORPORATION

(Exact name of registrant as specified in its charter)

WISCONSIN

(State or other jurisdiction of incorporation or organization)

39-1435359

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

402 North 8th Street, Manitowoc, Wisconsin
(Address of principal executive offices)

54220
(Zip Code)

(920) 652-3100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Non-accelerated filer ☐

Accelerated filer ☒

Smaller reporting company ☐

Emerging growth company ☒

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

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

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

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

The number of shares of the issuer's common stock, par value \$0.01, outstanding as of November 9, 2022 was 9,028,991 shares.

TABLE OF CONTENTS

	<u>Page Number</u>
<u>Part I. Financial Information</u>	3
<u>ITEM 1. Financial Statements</u>	3
Consolidated Balance Sheets – September 30, 2022 (unaudited) and December 31, 2021	3
Consolidated Statements of Income – Three and Nine months Ended September 30, 2022 and 2021 (unaudited)	4
Consolidated Statements of Comprehensive Income – Three and Nine months Ended September 30, 2022 and 2021 (unaudited)	5
Consolidated Statements of Changes in Stockholders' Equity – Three and Nine months Ended September 30, 2022 and 2021 (unaudited)	6
Consolidated Statements of Cash Flows – Nine months Ended September 30, 2022 and 2021 (unaudited)	7
Notes to Unaudited Consolidated Financial Statements	9
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
<u>ITEM 3. Quantitative and Qualitative Disclosures about Market Risk</u>	56
<u>ITEM 4. Controls and Procedures</u>	58
<u>Part II. Other Information</u>	58
<u>ITEM 1. Legal Proceedings</u>	58
<u>ITEM 1A. Risk Factors</u>	58
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	59
<u>ITEM 3. Defaults Upon Senior Securities</u>	59
<u>ITEM 4. Mine Safety Disclosures</u>	59
<u>ITEM 5. Other Information</u>	59
<u>ITEM 6. Exhibits</u>	60
<u>Signatures</u>	61

PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS:

BANK FIRST CORPORATION **Consolidated Balance Sheets** (In thousands, except share and per share data)

	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Assets		
Cash and due from banks	\$ 45,780	\$ 29,171
Interest-bearing deposits	97,661	267,689
Cash and cash equivalents	143,441	296,860
Securities held to maturity, at amortized cost (\$39,134 and \$5,922 fair value at September 30, 2022 and December 31, 2021, respectively)	40,826	5,911
Securities available for sale, at fair value	303,280	212,689
Loans held for sale	1,253	786
Loans, net	2,835,022	2,215,199
Premises and equipment, net	57,019	49,461
Goodwill	111,551	55,357
Other investments	14,905	9,004
Cash value of life insurance	45,761	31,897
Core deposit intangibles, net	17,810	4,035
Mortgage servicing rights ("MSR")	9,563	5,016
Other real estate owned ("OREO")	1,405	150
Investment in minority-owned subsidiaries	44,146	42,935
Other assets	14,772	8,252
TOTAL ASSETS	\$ 3,640,754	\$ 2,937,552
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Interest-bearing deposits	\$ 2,166,398	\$ 1,728,504
Noninterest-bearing deposits	971,803	799,936
Total deposits	3,138,201	2,528,440
Securities sold under repurchase agreements	21,963	41,122
Notes payable	2,569	8,011
Subordinated notes	23,500	17,500
Other liabilities	15,106	19,826
Total liabilities	3,201,339	2,614,899
Stockholders' equity:		
Serial preferred stock - \$0.01 par value		
Authorized - 5,000,000 shares	—	—
Common stock - \$0.01 par value		
Authorized - 20,000,000 shares		
Issued - 10,064,858 and 8,478,383 shares as of September 30, 2022 and December 31, 2021, respectively	101	85
Outstanding - 9,028,630 and 7,616,540 shares as of September 30, 2022 and December 31, 2021, respectively	218,365	93,149
Additional paid-in capital	284,907	258,104
Retained earnings	(45,219)	(32,294)
Treasury stock, at cost - 1,036,228 and 861,843 shares as of September 30, 2022 and December 31, 2021, respectively	(18,739)	3,609
Accumulated other comprehensive income (loss)	439,415	322,653
Total stockholders' equity	3,640,754	2,937,552
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,640,754	\$ 2,937,552

See accompanying notes to consolidated financial statements.

ITEM 1. Financial Statements Continued:

BANK FIRST CORPORATION
Consolidated Statements of Income
(In thousands, except per share data) (Unaudited)

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Interest income:				
Loans, including fees	\$ 28,353	\$ 23,584	\$ 74,131	\$ 69,792
Securities:				
Taxable	1,590	739	4,266	1,953
Tax-exempt	453	465	1,339	1,402
Other	344	110	1,044	196
Total interest income	<u>30,740</u>	<u>24,898</u>	<u>80,780</u>	<u>73,343</u>
Interest expense:				
Deposits	2,637	1,769	5,939	5,906
Securities sold under repurchase agreements	100	3	104	8
Borrowed funds	310	192	1,274	578
Total interest expense	<u>3,047</u>	<u>1,964</u>	<u>7,317</u>	<u>6,492</u>
Net interest income	<u>27,693</u>	<u>22,934</u>	<u>73,463</u>	<u>66,851</u>
Provision for loan losses	—	650	1,700	2,500
Net interest income after provision for loan losses	<u>27,693</u>	<u>22,284</u>	<u>71,763</u>	<u>64,351</u>
Noninterest income:				
Service charges	1,383	1,491	4,246	4,554
Income from Ansay and Associates, LLC (“Ansay”)	671	756	2,316	2,204
Income from UFS, LLC (“UFS”)	852	751	2,120	1,780
Loan servicing income	1,673	599	4,841	2,282
Net gain on sales of mortgage loans	264	1,206	1,338	6,204
Net gain on sales and valuations of OREO	—	—	146	206
Other	323	228	944	791
Total noninterest income	<u>5,166</u>	<u>5,031</u>	<u>15,951</u>	<u>18,021</u>
Noninterest expense:				
Salaries, commissions, and employee benefits	10,812	6,996	24,993	21,208
Occupancy	1,176	1,070	3,505	3,248
Data processing	1,577	1,259	4,353	4,010
Postage, stationery, and supplies	215	204	542	532
Net loss on sale of other investments	—	3	—	3
Advertising	61	50	205	152
Charitable contributions	150	121	553	399
Outside service fees	2,538	741	5,096	2,300
Amortization of intangibles	751	351	1,338	1,053
Other	1,615	1,674	4,260	4,216
Total noninterest expense	<u>18,895</u>	<u>12,469</u>	<u>44,845</u>	<u>37,121</u>
Income before provision for income taxes	<u>13,964</u>	<u>14,846</u>	<u>42,869</u>	<u>45,251</u>
Provision for income taxes	<u>3,431</u>	<u>3,628</u>	<u>10,499</u>	<u>10,971</u>
Net Income	<u>\$ 10,533</u>	<u>\$ 11,218</u>	<u>\$ 32,370</u>	<u>\$ 34,280</u>
Earnings per share - basic	<u>\$ 1.26</u>	<u>\$ 1.46</u>	<u>\$ 4.15</u>	<u>\$ 4.45</u>
Earnings per share - diluted	<u>\$ 1.26</u>	<u>\$ 1.46</u>	<u>\$ 4.15</u>	<u>\$ 4.45</u>
Dividends per share	<u>\$ 0.25</u>	<u>\$ 0.50</u>	<u>\$ 0.69</u>	<u>\$ 0.92</u>

See accompanying notes to unaudited consolidated financial statements

ITEM 1. Financial Statements Continued:

BANK FIRST CORPORATION
Consolidated Statements of Comprehensive Income
(In thousands) (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Net Income	\$ 10,533	\$ 11,218	\$ 32,370	\$ 34,280
Other comprehensive income (loss):				
Unrealized gains (losses) on available for sale securities:				
Unrealized holding losses arising during period	(9,188)	(931)	(30,613)	(1,902)
Amortization of unrealized holding gains on securities transferred from available for sale to held to maturity	—	—	(1)	(1)
Reclassification adjustment for losses included in net income	—	3	—	3
Income tax benefit	2,480	250	8,266	512
Total other comprehensive loss	(6,708)	(678)	(22,348)	(1,388)
Comprehensive income	<u>\$ 3,825</u>	<u>\$ 10,540</u>	<u>\$ 10,022</u>	<u>\$ 32,892</u>

See accompanying notes to unaudited consolidated financial statements.

ITEM 1. Financial Statements Continued:

BANK FIRST CORPORATION
Consolidated Statement of Stockholders' Equity
(In thousands, except share and per share data) (Unaudited)

	Serial Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity
Balance at January 1, 2021	\$ —	\$ 85	\$ 92,847	\$ 221,393	\$ (25,227)	\$ 5,759	\$ 294,857
Net income	—	—	—	11,514	—	—	11,514
Other comprehensive loss	—	—	—	—	—	(1,236)	(1,236)
Purchase of treasury stock	—	—	—	—	(402)	—	(402)
Sale of treasury stock	—	—	—	—	23	—	23
Cash dividends (\$0.21 per share)	—	—	—	(1,618)	—	—	(1,618)
Amortization of stock-based compensation	—	—	304	—	—	—	304
Vesting of restricted stock awards	—	—	(1,046)	—	1,046	—	—
Balance at March 31, 2021	—	85	92,105	231,289	(24,560)	4,523	303,442
Net income	—	—	—	11,548	—	—	11,548
Other comprehensive income	—	—	—	—	—	526	526
Purchase of treasury stock	—	—	—	—	(2,858)	—	(2,858)
Sale of treasury stock	—	—	—	—	21	—	21
Cash dividends (\$0.21 per share)	—	—	—	(1,615)	—	—	(1,615)
Amortization of stock-based compensation	—	—	366	—	—	—	366
Vesting of restricted stock awards	—	—	(45)	—	45	—	—
Balance at June 30, 2021	—	85	92,426	241,222	(27,352)	5,049	311,430
Net income	—	—	—	11,218	—	—	11,218
Other comprehensive loss	—	—	—	—	—	(678)	(678)
Purchase of treasury stock	—	—	—	—	(3,271)	—	(3,271)
Sale of treasury stock	—	—	—	—	21	—	21
Cash dividends (\$0.50 per share)	—	—	—	(3,821)	—	—	(3,821)
Amortization of stock-based compensation	—	—	363	—	—	—	363
Balance at September 30, 2021	\$ —	\$ 85	\$ 92,789	\$ 248,619	\$ (30,602)	\$ 4,371	\$ 315,262
Balance at January 1, 2022	\$ —	\$ 85	\$ 93,149	\$ 258,104	\$ (32,294)	\$ 3,609	\$ 322,653
Net income	—	—	—	10,183	—	—	10,183
Other comprehensive loss	—	—	—	—	—	(8,199)	(8,199)
Purchase of treasury stock	—	—	—	—	(5,018)	—	(5,018)
Sale of treasury stock	—	—	—	—	37	—	37
Cash dividends (\$0.22 per share)	—	—	—	(1,673)	—	—	(1,673)
Amortization of stock-based compensation	—	—	320	—	—	—	320
Vesting of restricted stock awards	—	—	(1,303)	—	1,303	—	—
Balance at March 31, 2022	—	85	92,166	266,614	(35,972)	(4,590)	318,303
Net income	—	—	—	11,654	—	—	11,654
Other comprehensive loss	—	—	—	—	—	(7,441)	(7,441)
Purchase of treasury stock	—	—	—	—	(7,186)	—	(7,186)
Sale of treasury stock	—	—	—	—	23	—	23
Cash dividends (\$0.22 per share)	—	—	—	(1,638)	—	—	(1,638)
Amortization of stock-based compensation	—	—	447	—	—	—	447
Balance at June 30, 2022	—	85	92,613	276,630	(43,135)	(12,031)	314,162
Net income	—	—	—	10,533	—	—	10,533
Other comprehensive loss	—	—	—	—	—	(6,708)	(6,708)
Purchase of treasury stock	—	—	—	—	(2,109)	—	(2,109)
Sale of treasury stock	—	—	—	—	25	—	25
Cash dividends (\$0.25 per share)	—	—	—	(2,256)	—	—	(2,256)
Amortization of stock-based compensation	—	—	448	—	—	—	448
Shares issued in the acquisition of Denmark Bancshares, Inc. (1,586,475 shares)	—	16	125,304	—	—	—	125,320
Balance at September 30, 2022	\$ —	\$ 101	\$ 218,365	\$ 284,907	\$ (45,219)	\$ (18,739)	\$ 439,415

See accompanying notes to unaudited consolidated financial statements.

ITEM 1. Financial Statements Continued:

BANK FIRST CORPORATION
Consolidated Statements of Cash Flows
(In thousands) (Unaudited)

	Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net income	\$ 32,370	\$ 34,280
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,700	2,500
Depreciation and amortization of premises and equipment	1,209	1,384
Amortization of intangibles	1,338	1,053
Net amortization of securities	337	586
Amortization of stock-based compensation	1,215	1,033
Accretion of purchase accounting valuations	(962)	(750)
Net change in deferred loan fees and costs	(946)	(99)
Change in fair value of MSR and other investments	(3,010)	728
Gain on sale and disposal of premises and equipment	—	(43)
Gain on sale of OREO and valuation allowance	(146)	(206)
Proceeds from sales of mortgage loans	74,463	235,023
Originations of mortgage loans held for sale	(73,593)	(232,053)
Gain on sales of mortgage loans	(1,338)	(6,204)
Realized loss on sale of securities	—	3
Undistributed income of UFS joint venture	(2,120)	(1,780)
Undistributed income of Ansay joint venture	(2,316)	(2,204)
Net earnings on life insurance	(636)	(575)
Decrease in other assets	4,206	822
Decrease in other liabilities	(11,776)	(8,835)
Net cash provided by operating activities	19,995	24,663
Cash flows from investing activities, net of effects of business combination:		
Activity in securities available for sale and held to maturity:		
Sales	—	9,087
Maturities, prepayments, and calls	11,836	28,307
Purchases	(138,303)	(22,463)
Net increase in loans	(162,677)	(16,833)
Dividends received from UFS	1,861	1,981
Dividends received from Ansay	1,364	1,368
Proceeds from sale of OREO	320	1,892
Proceeds from sales of other investments	—	264
Net purchases of Federal Home Loan Bank (“FHLB”) stock	(1,171)	—
Net purchases of Federal Reserve Bank (“FRB”) stock	(1,500)	—
Proceeds from sale of premises and equipment	—	548
Purchases of premises and equipment	(5,324)	(2,896)
Net cash received in business combination	154,364	—
Net cash provided by (used in) investing activities	(139,230)	1,255

ITEM 1. Financial Statements Continued:

BANK FIRST CORPORATION
Consolidated Statements of Cash Flows (Continued)
(In thousands) (Unaudited)

	Nine Months Ended September 30,	
	2022	2021
Cash flows from financing activities, net of effects of business combination:		
Net increase in deposits	\$ 5,020	\$ 150,541
Net decrease in securities sold under repurchase agreements	(19,159)	(18,975)
Proceeds from advances of notes payable	3,122,700	5,000
Repayment of notes payable	(3,128,950)	(19,230)
Proceeds from issuance of subordinated notes	6,000	—
Dividends paid	(5,567)	(7,054)
Proceeds from sales of common stock	85	65
Repurchase of common stock	(14,313)	(6,531)
Net cash provided by (used in) financing activities	(34,184)	103,816
Net increase (decrease) in cash and cash equivalents	(153,419)	129,734
Cash and cash equivalents at beginning of period	296,860	170,219
Cash and cash equivalents at end of period	<u>\$ 143,441</u>	<u>\$ 299,953</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 6,985	\$ 7,064
Income taxes	9,835	12,260
Supplemental schedule of noncash activities:		
MSR resulting from sale of loans	658	1,447
Amortization of unrealized holding gains on securities transferred from available for sale to held to maturity recognized in other comprehensive income, net of tax	(1)	(1)
Change in unrealized gains and losses on investment securities available for sale, net of tax	(22,347)	(1,387)
Acquisition:		
Fair value of assets acquired	\$ 685,840	\$ —
Fair value of liabilities assumed	612,700	—
Net assets acquired	<u>\$ 73,140</u>	<u>\$ —</u>
Common stock issued in acquisition	\$ 125,320	\$ —

See accompanying notes to consolidated financial statements.

BANK FIRST CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS **(in thousands, except share and per share data)**

NOTE 1 – BASIS OF PRESENTATION

Bank First Corporation (the “Company”) provides a variety of financial services to individual and corporate customers through its wholly-owned subsidiary, Bank First, N.A. (the “Bank”). The Bank operates as a full-service financial institution with a primary market area including, but not limited to, the counties in which the Bank’s branches are located. The Bank has twenty-six locations located in Manitowoc, Outagamie, Brown, Winnebago, Sheboygan, Shawano, Waupaca, Ozaukee, Monroe, and Jefferson counties in Wisconsin. The Company and Bank are subject to the regulations of certain federal agencies and undergo periodic examinations by those regulatory authorities.

These interim unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and with the instructions to Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures required by GAAP have been omitted or abbreviated. These unaudited consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 (“Annual Report”).

The unaudited consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The results for interim periods are not necessarily indicative of results for a full year.

Critical Accounting Policies and Estimates

Preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. These estimates are based on management’s best knowledge of current events and actions the Company may undertake in the future. Estimates are used in accounting for, among other items, the allowance for loan losses (“ALL”), valuation of loans in acquisition transactions, valuation of mortgage servicing rights, useful lives for depreciation and amortization, fair value of financial instruments, other-than-temporary impairment calculations, valuation of deferred tax assets, uncertain income tax positions and contingencies. Estimates that are particularly susceptible to significant change for the Company include the determination of the ALL, the determination of the valuation of mortgage servicing rights, the determination and assessment of deferred tax assets and liabilities, and the valuation of loans acquired in acquisition transactions; therefore, these are critical accounting policies. Factors that may cause sensitivity to the aforementioned estimates include but are not limited to: external market factors such as market interest rates and employment rates, changes to operating policies and procedures, changes in applicable banking or tax regulations, and changes to deferred tax estimates. Actual results may ultimately differ from estimates, although management does not generally believe such differences would materially affect the consolidated financial statements in any individual reporting period presented.

There have been no material changes or developments with respect to the assumptions or methodologies that the Company uses when applying what management believes are critical accounting policies and developing critical accounting estimates as previously disclosed in the Company’s Annual Report.

Recently Issued Not Yet Effective Accounting Standards

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” Certain aspects of this ASU were updated in November 2018 by the issuance of ASU 2018-19, “Codification Improvements to Topic 326, Financial Instruments-Credit Losses”. The main objective of the ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in the ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. During 2019 FASB issued ASU 2019-10 which delayed the effective date of ASU 2016-13 for smaller, publicly traded companies, until interim and annual periods beginning after December 15, 2022. This delay applies to the Company as it was classified as a “Smaller reporting company”

as defined in Rule 12b-2 of the Exchange Act as of the date ASU 2019-10 was enacted. During the first half of 2019 the Company engaged a third-party partner to assist it in implementation of this standard. Over the last three years significant progress has been made working through the assumptions, drivers, documentation and other mechanics for the calculation of the Company's ALL under ASU 2016-13. Throughout this process, Management has evaluated the impact of this update. Management has begun running a calculation of its allowance under ASU 2016-13 parallel to its current modeling to assess the functioning of the ASU 2016-13 model while also documenting the controls that will be in place around the process when the Company implements this standard. Results of these parallel calculations indicate that the Bank's ALL to total loans coverage ratio would fall within a range of 1.00% to 1.20% under ASU 2016-13 in the current environment, compared to 0.81% as of September 30, 2022 under the current methodology.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. It provides optional expedients and exceptions for applying GAAP to contracts hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The updated guidance is effective for all entities from March 12, 2020 through December 31, 2022. The Company has been diligent in responding to reference rate reform and does not anticipate a significant impact to its financial statements as a result.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. This ASU provides guidance on eliminating the requirement for classification of and disclosures around troubled debt restructurings. The purpose of this guidance is to eliminate unnecessary and overly-complex disclosures of loans that are already incorporated into the allowance for credit losses and related disclosures. This ASU further requires the disclosure of current-period gross charge-offs by year of origination. The updated guidance is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, for all entities which have implemented ASU 2016-13. The Company has historically had very few credit relationships classified as troubled debt restructurings, and as such does not anticipate that the elimination of accounting for and disclosure of these types of credit relationships will have a significant impact to its financial statements upon implementation of ASU 2016-13 beginning with the first quarter of 2023.

NOTE 2 – ACQUISITIONS

On August 12, 2022, the Company completed a merger with Denmark, a bank holding company headquartered in Denmark, Wisconsin, pursuant to the Agreement and Plan of Bank Merger ("Merger Agreement"), dated as of January 18, 2022 by and among the Company and Denmark, whereby Denmark merged with and into the Company, and Denmark State Bank, Denmark's wholly-owned banking subsidiary, merged with and into the Bank. Denmark's principal activity was the ownership and operation of Denmark State Bank, a state-chartered banking institution that operated seven (7) branches in Wisconsin at the time of closing. The merger consideration totaled approximately \$129.3 million.

Pursuant to the terms of the Merger Agreement, Denmark shareholders could elect to receive either 0.5276 shares of the Company's common stock or \$38.10 in cash for each outstanding share of Denmark common stock, subject to a maximum of 20% cash consideration in total, with cash paid in lieu of any remaining fractional share. Company stock issued totaled 1,586,475 shares valued at approximately \$125.3 million, with cash of \$4.0 million comprising the remainder of merger consideration.

The Company accounted for the transaction under the acquisition method of accounting, and thus, the financial position and results of operations of Denmark prior to the consummation date were not included in the accompanying consolidated financial statements. The accounting required assets purchased and liabilities assumed to be recorded at their respective fair values at the date of acquisition. The Company determined the fair value of core deposit intangibles, securities, premises and equipment, loans, other assets and liabilities and deposits with the assistance of third party valuations, appraisals and third party advisors. The estimated fair values will be subject to refinement for up to one year after deal consummation as additional information becomes available relative to the closing date fair values.

[Table of Contents](#)

The fair value of the assets acquired and liabilities assumed on August 12, 2022 was as follows:

(in thousands)	As Recorded by Denmark	Fair Value Adjustments	As Recorded by the Company
Cash, cash equivalents and securities	\$ 188,017	\$ (148)	\$ 187,869
Other investments	3,566	—	3,566
Loans, net	459,413	(2,358)	457,055
Premises and equipment, net	5,980	(1,635)	4,345
Core deposit intangible	—	15,112	15,112
Other assets	17,704	189	17,893
Total assets acquired	<u>\$ 674,680</u>	<u>\$ 11,160</u>	<u>\$ 685,840</u>
Deposits	\$ 604,636	\$ 166	\$ 604,802
Other borrowings	842	—	842
Other liabilities	3,951	3,105	7,056
Total liabilities assumed	<u>\$ 609,429</u>	<u>\$ 3,271</u>	<u>\$ 612,700</u>
Excess of assets acquired over liabilities assumed	<u>\$ 65,251</u>	<u>\$ 7,889</u>	\$ 73,140
Less: purchase price			<u>129,334</u>
Goodwill			<u>\$ 56,194</u>

The following unaudited pro forma information is presented for illustrative purposes only. The pro forma information should not be relied upon as being indicative of the historical results of operations the companies would have had if the merger had occurred before such periods or the future results of operations that the companies will experience as a result of the merger. The pro forma information, although helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the benefits of expected cost savings, opportunities to earn additional revenue, the impact of restructuring and merger-related expenses, or other factors that may result as a consequence of the merger and, accordingly, does not attempt to predict or suggest future results. The unaudited pro forma information set forth below gives effect to the merger as if it had occurred on January 1, 2021, the beginning of the earliest period presented.

(in thousands, except per share data)	Nine Months Ended September 30, 2022	Year Ended December 31, 2021
Total revenue, net of interest expense	\$ 105,099	\$ 140,904
Net income	\$ 34,572	\$ 49,589
Diluted earnings per common share	3.78	5.35

On July 25, 2022, the Company entered into an Agreement and Plan of Merger with Hometown Bancorp, Ltd. (“Hometown”), a Wisconsin Corporation, under which Hometown will merge with and into the Company and Hometown’s banking subsidiary, Hometown Bank, will merge with and into the Bank. The transaction is expected to close during the first quarter of 2023 and is subject to, among other items, approval by the shareholders of Hometown and regulatory agencies. Merger consideration will consist of up to 30% cash and no less than 70% common stock of the Company, and will total approximately \$124 million, subject to the fair market value of the Company’s common stock on the date of closing. Based on results as of September 30, 2022, the combined company would have total assets of approximately \$4.26 billion, loans of approximately \$3.25 billion and deposits of approximately \$3.68 billion.

For more information concerning the Company’s acquisitions, see “Note 2 – Acquisition” in the Company’s audited consolidated financial statements included in the Company’s Annual Report.

NOTE 3 – EARNINGS PER SHARE

The two-class method is used in the calculation of basic and diluted earnings per share. Under the two-class method, earnings available to common shareholders for the period are allocated between common shareholders and participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. There were no anti-dilutive stock options for the nine months ended September 30, 2022 or 2021.

[Table of Contents](#)

The following table presents the factors used in the earnings per share computations for the period indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Basic				
Net income available to common shareholders	\$ 10,533	\$ 11,218	\$ 32,370	\$ 34,280
Less: Earnings allocated to participating securities	(76)	(88)	(247)	(266)
Net income allocated to common shareholders	<u>\$ 10,457</u>	<u>\$ 11,130</u>	<u>\$ 32,123</u>	<u>\$ 34,014</u>
Weighted average common shares outstanding including participating securities	8,265,186	7,665,272	7,796,259	7,698,284
Less: Participating securities (1)	(59,272)	(59,731)	(59,170)	(59,427)
Average shares	<u>8,205,914</u>	<u>7,605,541</u>	<u>7,737,089</u>	<u>7,638,857</u>
Basic earnings per common shares	<u>\$ 1.26</u>	<u>\$ 1.46</u>	<u>\$ 4.15</u>	<u>\$ 4.45</u>
Diluted				
Net income available to common shareholders	<u>\$ 10,533</u>	<u>\$ 11,218</u>	<u>\$ 32,370</u>	<u>\$ 34,280</u>
Weighted average common shares outstanding for basic earnings per common share	8,205,914	7,605,541	7,737,089	7,638,857
Add: Dilutive effects of stock based compensation awards	22,283	19,250	20,637	19,971
Average shares and dilutive potential common shares	<u>8,228,197</u>	<u>7,624,791</u>	<u>7,757,726</u>	<u>7,658,828</u>
Diluted earnings per common share	<u>\$ 1.26</u>	<u>\$ 1.46</u>	<u>\$ 4.15</u>	<u>\$ 4.45</u>

(1) Participating securities are restricted stock awards whereby the stock certificates have been issued, are included in outstanding shares, receive dividends and can be voted, but have not vested.

NOTE 4 – SECURITIES

The following is a summary of available for sale securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2022				
U.S. Treasury securities	\$ 149,601	\$ —	\$ (8,851)	\$ 140,750
Obligations of U.S. Government sponsored agencies	25,281	—	(3,411)	21,870
Obligations of states and political subdivisions	91,217	14	(10,096)	81,135
Mortgage-backed securities	39,840	—	(2,370)	37,470
Corporate notes	21,509	392	(1,314)	20,587
Certificates of deposit	1,503	—	(35)	1,468
Total available for sale securities	<u>\$ 328,951</u>	<u>\$ 406</u>	<u>\$ (26,077)</u>	<u>\$ 303,280</u>
December 31, 2021				
U.S. Treasury securities	\$ 49,574	\$ 121	\$ (193)	\$ 49,502
Obligations of U.S. Government sponsored agencies	26,722	165	(341)	26,546
Obligations of states and political subdivisions	83,019	3,786	(67)	86,738
Mortgage-backed securities	26,143	1,117	(1)	27,259
Corporate notes	20,760	436	(94)	21,102
Certificates of deposit	1,529	13	—	1,542
Total available for sale securities	<u>\$ 207,747</u>	<u>\$ 5,638</u>	<u>\$ (696)</u>	<u>\$ 212,689</u>

[Table of Contents](#)

The following is a summary of held to maturity securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2022				
U.S. Treasury securities	\$ 35,630	\$ —	\$ (1,687)	\$ 33,943
Obligations of states and political subdivisions	5,196	—	(5)	5,191
Total held to maturity securities	<u>\$ 40,826</u>	<u>\$ —</u>	<u>\$ (1,692)</u>	<u>\$ 39,134</u>
December 31, 2021				
Obligations of states and political subdivisions	\$ 5,911	\$ 11	\$ —	\$ 5,922

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

	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2022 - Available for Sale						
U.S. Treasury securities	\$ 140,750	\$ (8,851)	\$ —	\$ —	\$ 140,750	\$ (8,851)
Obligations of U.S. Government sponsored agencies	18,326	(2,429)	3,544	(982)	21,870	(3,411)
Obligations of states and political subdivisions	75,119	(10,096)	—	—	75,119	(10,096)
Mortgage-backed securities	37,470	(2,370)	—	—	37,470	(2,370)
Corporate notes	12,895	(1,314)	—	—	12,895	(1,314)
Certificate of Deposits	1,468	(35)	—	—	1,468	(35)
Totals	<u>\$ 286,028</u>	<u>\$ (25,095)</u>	<u>\$ 3,544</u>	<u>\$ (982)</u>	<u>\$ 289,572</u>	<u>\$ (26,077)</u>
September 30, 2022 - Held to Maturity						
U.S. Treasury securities	\$ 33,943	\$ (1,687)	\$ —	\$ —	\$ 33,943	\$ (1,687)
Obligations of states and political subdivisions	415	(5)	—	—	415	(5)
	<u>\$ 34,358</u>	<u>\$ (1,692)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 34,358</u>	<u>\$ (1,692)</u>
December 31, 2021 - Available for Sale						
U.S. Treasury securities	\$ 34,746	\$ (193)	\$ —	\$ —	\$ 34,746	\$ (193)
Obligations of U.S. Government sponsored agencies	13,185	(86)	4,558	(255)	17,743	(341)
Obligations of states and political subdivisions	8,624	(67)	—	—	8,624	(67)
Mortgage-backed securities	254	(1)	—	—	254	(1)
Corporate notes	8,973	(94)	—	—	8,973	(94)
Totals	<u>\$ 65,782</u>	<u>\$ (441)</u>	<u>\$ 4,558</u>	<u>\$ (255)</u>	<u>\$ 70,340</u>	<u>\$ (696)</u>

As of September 30, 2022, the Company does not consider its securities with unrealized losses to be other-than-temporarily impaired, as the unrealized losses in each category have occurred as a result of changes in interest rates, market spreads and market conditions subsequent to purchase, not credit deterioration. The Company has the intent and ability to hold its securities to maturity or until par is recovered. There were no other-than-temporary impairments charged to earnings during the nine months ended September 30, 2022 or 2021.

[Table of Contents](#)

The following is a summary of amortized cost and estimated fair value of securities by contractual maturity as of September 30, 2022. Contractual maturities will differ from expected maturities for mortgage-backed securities because borrowers may have the right to call or prepay obligations without penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 103,648	\$ 102,497	\$ 1,044	\$ 1,043
Due after one year through 5 years	22,408	21,333	38,028	36,390
Due after 5 years through ten years	91,139	81,108	1,754	1,701
Due after 10 years	71,916	60,872	—	—
Subtotal	289,111	265,810	40,826	39,134
Mortgage-backed securities	39,840	37,470	—	—
Total	<u>\$ 328,951</u>	<u>\$ 303,280</u>	<u>\$ 40,826</u>	<u>\$ 39,134</u>

There were no realized gains or losses on sales of securities available for sale or held to maturity for the nine months ended September 30, 2022. The following is a summary of the proceeds from sales of securities available for sale and held to maturity, as well as gross losses for the nine months ended September 30, 2021.

	2022	2021
Proceeds from sales of securities	\$ —	\$ 9,087
Gross gains on sales	—	—
Gross losses on sales	—	(3)

NOTE 5 – LOANS, ALLOWANCE FOR LOAN LOSSES, AND CREDIT QUALITY

The following table presents total loans by portfolio segment and class of loan as of September 30, 2022 and December 31, 2021:

	September 30, 2022	December 31, 2021
Commercial/industrial	\$ 486,839	\$ 367,284
Commercial real estate - owner occupied	723,964	574,960
Commercial real estate - non-owner occupied	668,505	537,077
Construction and development	209,619	132,675
Residential 1-4 family	706,794	571,749
Consumer	43,953	31,992
Other	19,178	21,489
Subtotals	2,858,852	2,237,226
ALL	(23,045)	(20,315)
Loans, net of ALL	2,835,807	2,216,911
Deferred loan fees and costs	(785)	(1,712)
Loans, net	<u>\$ 2,835,022</u>	<u>\$ 2,215,199</u>

[Table of Contents](#)

A summary of the activity in the ALL by loan type as of September 30, 2022 and 2021 is summarized as follows:

	Commercial / Industrial	Commercial Real Estate - Owner Occupied	Commercial Real Estate - Non - Owner Occupied	Construction and Development	Residential 1-4 Family	Consumer	Other	Total
ALL - January 1, 2022	\$ 3,699	\$ 5,633	\$ 5,151	\$ 984	\$ 4,445	\$ 224	\$ 179	\$ 20,315
Charge-offs	—	—	—	—	(39)	(17)	(27)	(83)
Recoveries	455	74	360	152	6	2	64	1,113
Provision	134	(643)	365	507	1,312	90	(65)	1,700
ALL - September 30, 2022	4,288	5,064	5,876	1,643	5,724	299	151	23,045
ALL ending balance individually evaluated for impairment	150	—	775	—	—	—	—	925
ALL ending balance collectively evaluated for impairment	\$ 4,138	\$ 5,064	\$ 5,101	\$ 1,643	\$ 5,724	\$ 299	\$ 151	\$ 22,120
Loans outstanding - September 30, 2022	\$ 486,839	\$ 723,964	\$ 668,505	\$ 209,619	\$ 706,794	\$ 43,953	\$ 19,178	\$ 2,858,852
Loans ending balance individually evaluated for impairment	487	2,541	1,396	—	211	—	—	4,635
Loans ending balance collectively evaluated for impairment	\$ 486,352	\$ 721,423	\$ 667,109	\$ 209,619	\$ 706,583	\$ 43,953	\$ 19,178	\$ 2,854,217

	Commercial / Industrial	Commercial Real Estate - Owner Occupied	Commercial Real Estate - Non - Owner Occupied	Construction and Development	Residential 1-4 Family	Consumer	Other	Total
ALL - January 1, 2021	\$ 2,049	\$ 6,108	\$ 3,904	\$ 1,027	\$ 3,960	\$ 201	\$ 409	\$ 17,658
Charge-offs	(48)	(289)	—	—	—	—	(21)	(358)
Recoveries	38	343	5	33	12	1	5	437
Provision	971	805	677	(194)	408	30	(197)	2,500
ALL - September 30, 2021	3,010	6,967	4,586	866	4,380	232	196	20,237
ALL ending balance individually evaluated for impairment	93	—	392	—	—	—	—	485
ALL ending balance collectively evaluated for impairment	\$ 2,917	\$ 6,967	\$ 4,194	\$ 866	\$ 4,380	\$ 232	\$ 196	\$ 19,752
Loans outstanding - September 30, 2021	\$ 355,773	\$ 567,906	\$ 542,455	\$ 116,957	\$ 572,821	\$ 33,008	\$ 22,816	\$ 2,211,736
Loans ending balance individually evaluated for impairment	414	3,467	6,617	—	—	—	—	10,498
Loans ending balance collectively evaluated for impairment	\$ 355,359	\$ 564,439	\$ 535,838	\$ 116,957	\$ 572,821	\$ 33,008	\$ 22,816	\$ 2,201,238

The Company's past due loans as of September 30, 2022 is summarized as follows:

	30-89 Days Past Due Accruing	90 Days or more Past Due and Accruing	Non-Accrual	Total
Commercial/industrial	\$ 19	\$ 205	\$ 218	\$ 442
Commercial real estate - owner occupied	—	33	3,609	3,642
Commercial real estate - non-owner occupied	—	—	—	—
Construction and development	—	—	17	17
Residential 1-4 family	232	162	516	910
Consumer	19	3	10	32
Other	—	—	—	—
	\$ 270	\$ 403	\$ 4,370	\$ 5,043

[Table of Contents](#)

The Company's past due loans as of December 31, 2021 is summarized as follows:

	30-89 Days Past Due Accruing	90 Days or more Past Due and Accruing	Non-Accrual	Total
Commercial/industrial	\$ 12	\$ 738	\$ 247	\$ 997
Commercial real estate - owner occupied	—	—	5,884	5,884
Commercial real estate - non-owner occupied	65	—	650	715
Construction and development	—	—	19	19
Residential 1-4 family	2,002	245	439	2,686
Consumer	2	16	2	20
Other	—	—	—	—
	<u>\$ 2,081</u>	<u>\$ 999</u>	<u>\$ 7,241</u>	<u>\$ 10,321</u>

The Company utilizes a numerical risk rating system for commercial relationships. All other types of relationships (ex: residential, consumer, other) are assigned a "Pass" rating, unless they have fallen 90 days past due or more, at which time they receive a rating of 7. The Company uses split ratings for government guaranties on loans. The portion of a loan that is supported by a government guaranty is included with other Pass credits.

The determination of a commercial loan risk rating begins with completion of a matrix, which assigns scores based on the strength of the borrower's debt service coverage, collateral coverage, balance sheet leverage, industry outlook, and customer concentration. A weighted average is taken of these individual scores to arrive at the overall rating. This rating is subject to adjustment by the loan officer based on facts and circumstances pertaining to the borrower. Risk ratings are subject to independent review.

Commercial borrowers with ratings between 1 and 5 are considered Pass credits, with 1 being most acceptable and 5 being just above the minimum level of acceptance.

Commercial borrowers rated 6 have potential weaknesses which may jeopardize repayment ability.

Borrowers rated 7 have a well-defined weakness or weaknesses such as the inability to demonstrate significant cash flow for debt service based on analysis of the company's financial information. These loans remain on accrual status provided full collection of principal and interest is reasonably expected. Otherwise they are deemed impaired and placed on nonaccrual status. Borrowers rated 8 are the same as 7 rated credits with one exception: collection or liquidation in full is not probable.

The breakdown of loans by risk rating as of September 30, 2022 is as follows:

	Pass (1-5)	6	7	8	Total
Commercial/industrial	\$ 466,355	\$ 304	\$ 20,180	\$ —	\$ 486,839
Commercial real estate - owner occupied	678,288	333	45,343	—	723,964
Commercial real estate - non-owner occupied	664,162	—	4,343	—	668,505
Construction and development	208,463	—	1,156	—	209,619
Residential 1-4 family	703,391	—	3,403	—	706,794
Consumer	43,951	—	2	—	43,953
Other	19,178	—	—	—	19,178
	<u>\$ 2,783,788</u>	<u>\$ 637</u>	<u>\$ 74,427</u>	<u>\$ —</u>	<u>\$ 2,858,852</u>

The breakdown of loans by risk rating as of December 31, 2021 is as follows:

	Pass (1-5)	6	7	8	Total
Commercial/industrial	\$ 355,469	\$ —	\$ 11,815	\$ —	\$ 367,284
Commercial real estate - owner occupied	551,801	—	23,159	—	574,960
Commercial real estate - non-owner occupied	532,077	—	5,000	—	537,077
Construction and development	131,429	—	1,246	—	132,675
Residential 1-4 family	570,022	83	1,644	—	571,749
Consumer	31,988	—	4	—	31,992
Other	21,489	—	—	—	21,489
	<u>\$ 2,194,275</u>	<u>\$ 83</u>	<u>\$ 42,868</u>	<u>\$ —</u>	<u>\$ 2,237,226</u>

The ALL represents management's estimate of probable and inherent credit losses in the loan portfolio. Estimating the amount of the ALL requires the exercise of significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogenous loans based on historical loss experience, and consideration of other qualitative factors such as current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset on the consolidated balance sheets. Loan losses are charged off against the ALL, while recoveries of amounts previously charged off are credited to the ALL. A provision for loan losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors.

The ALL consists of specific reserves for certain individually evaluated impaired loans and general reserves for collectively evaluated non-impaired loans. Specific reserves reflect estimated losses on impaired loans from management's analyses developed through specific credit allocations. The specific reserves are based on regular analyses of impaired, non-homogenous loans greater than \$250,000. These analyses involve a high degree of judgment in estimating the amount of loss associated with specific loans, including estimating the amount and timing of future cash flows and collateral values. The general reserve is based in part on the Bank's historical loss experience which is updated quarterly. The general reserve portion of the ALL also includes consideration of certain qualitative factors such as 1) changes in lending policies and/or underwriting practices, 2) national and local economic conditions, 3) changes in portfolio volume and nature, 4) experience, ability and depth of lending management and other relevant staff, 5) levels of and trends in past-due and nonaccrual loans and quality, 6) changes in loan review and oversight, 7) impact and effects of concentrations and 8) other issues deemed relevant.

There are many factors affecting ALL; some are quantitative while others require qualitative judgment. The process for determining the ALL (which management believes adequately considers potential factors which might possibly result in credit losses) includes subjective elements and, therefore, may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses could be required that could adversely affect the Company's earnings or financial position in future periods. Allocations of the ALL may be made for specific loans but the entire ALL is available for any loan that, in management's judgment, should be charged off or for which an actual loss is realized. As an integral part of their examination process, various regulatory agencies review the ALL as well. Such agencies may require that changes in the ALL be recognized when such regulators' credit evaluations differ from those of management based on information available to the regulators at the time of their examinations.

[Table of Contents](#)

A summary of impaired loans individually evaluated as of September 30, 2022 is as follows:

	Commercial/ Industrial	Commercial Real Estate - Owner Occupied	Commercial Real Estate - Non - Owner Occupied	Construction and Development	Residential 1-4 Family	Consumer	Other	Total
<u>With an allowance recorded:</u>								
Recorded investment	\$ 202	\$ —	\$ 1,285	\$ —	\$ —	\$ —	\$ —	\$ 1,487
Unpaid principal balance	202	—	1,285	—	—	—	—	1,487
Related allowance	150	—	775	—	—	—	—	925
<u>With no related allowance recorded:</u>								
Recorded investment	\$ 285	\$ 2,541	\$ 111	\$ —	\$ 211	\$ —	\$ —	\$ 3,148
Unpaid principal balance	285	2,541	111	—	211	—	—	3,148
Related allowance	—	—	—	—	—	—	—	—
<u>Total:</u>								
Recorded investment	\$ 487	\$ 2,541	\$ 1,396	\$ —	\$ 211	\$ —	\$ —	\$ 4,635
Unpaid principal balance	487	2,541	1,396	—	211	—	—	4,635
Related allowance	150	—	775	—	—	—	—	925
Average recorded investment	\$ 463	\$ 3,753	\$ 1,457	\$ —	\$ 242	\$ —	\$ —	\$ 5,915

A summary of impaired loans individually evaluated as of December 31, 2021 is as follows:

	Commercial/ Industrial	Commercial Real Estate - Owner Occupied	Commercial Real Estate - Non - Owner Occupied	Construction and Development	Residential 1-4 Family	Consumer	Other	Total
<u>With an allowance recorded:</u>								
Recorded investment	\$ 357	\$ —	\$ 1,406	\$ —	\$ —	\$ —	\$ —	\$ 1,763
Unpaid principal balance	357	—	1,406	—	—	—	—	1,763
Related allowance	70	—	894	—	—	—	—	964
<u>With no related allowance recorded:</u>								
Recorded investment	\$ 82	\$ 4,966	\$ 113	\$ —	\$ 273	\$ —	\$ —	\$ 5,434
Unpaid principal balance	82	4,966	113	—	273	—	—	5,434
Related allowance	—	—	—	—	—	—	—	—
<u>Total:</u>								
Recorded investment	\$ 439	\$ 4,966	\$ 1,519	\$ —	\$ 273	\$ —	\$ —	\$ 7,197
Unpaid principal balance	439	4,966	1,519	—	273	—	—	7,197
Related allowance	70	—	894	—	—	—	—	964
Average recorded investment	\$ 459	\$ 3,069	\$ 5,098	\$ —	\$ 267	\$ —	\$ —	\$ 8,893

Interest recognized while these loans were impaired is considered immaterial to the consolidated financial statements for the nine months ended September 30, 2022 and 2021.

[Table of Contents](#)

The following table presents loans acquired with deteriorated credit quality as of September 30, 2022 and December 31, 2021. No loans in this table had a related allowance at either date, and therefore, the below disclosures were not expanded to include loans with and without a related allowance.

	September 30, 2022		December 31, 2021	
	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance
Commercial & Industrial	\$ 730	\$ 1,180	\$ 596	\$ 685
Commercial real estate - owner occupied	2,566	2,873	2,664	3,146
Commercial real estate - non-owner occupied	—	—	1,018	1,150
Construction and development	—	—	—	—
Residential 1-4 family	827	1,060	863	1,124
Consumer	—	—	—	—
Other	—	—	—	—
	<u>\$ 4,123</u>	<u>\$ 5,113</u>	<u>\$ 5,141</u>	<u>\$ 6,105</u>

Due to the nature of these loan relationships, prepayment expectations have not been considered in the determination of future cash flows. Management regularly monitors these loan relationships, and if information becomes available that indicates expected cash flows will differ from initial expectations, it may necessitate reclassification between accretable and non-accretable components of the original discount calculation.

The following table represents the change in the accretable and non-accretable components of discounts on loans acquired with deteriorated credit quality for the nine months ended September 30, 2022, and year ended December 31, 2021:

	September 30, 2022		December 31, 2021	
	Accretable discount	Non-accretable discount	Accretable discount	Non-accretable discount
Balance at beginning of period	\$ 813	\$ 149	\$ 1,250	\$ 176
Acquired balance, net	292	211	—	—
Reclassifications between accretable and non-accretable	61	(61)	27	(27)
Accretion to loan interest income	(476)	—	(464)	—
Balance at end of period	<u>\$ 690</u>	<u>\$ 299</u>	<u>\$ 813</u>	<u>\$ 149</u>

A troubled debt restructuring (“TDR”) includes a loan modification where a borrower is experiencing financial difficulty and we grant a concession to that borrower that we would not otherwise consider except for the borrower’s financial difficulties. These concessions may include modifications of the terms of the debt such as deferral of payments, extension of maturity, reduction of principal balance, reduction of the stated interest rate other than normal market rate adjustments, or a combination of these concessions. Debt may be bifurcated with separate terms for each tranche of the restructured debt. Restructuring a loan in lieu of aggressively enforcing the collection of the loan may benefit the Company by increasing the ultimate probability of collection.

A TDR may be either on accrual or nonaccrual status based upon the performance of the borrower and management’s assessment of collectability. If a TDR is placed on nonaccrual status, which could occur based on the same criteria as non-TDR loans, it remains there until a sufficient period of performance under the restructured terms has occurred at which it returned to accrual status, generally 6 months.

As of September 30, 2022 and December 31, 2021 the Company had negligible specific reserves for TDRs.

As a result of the COVID-19 pandemic, the Bank experienced an increase in customer requests for loan modifications and payment deferrals. The Coronavirus Aid, Relief, and Economic Security (CARES) act, signed into law on March 27, 2020, allowed financial institutions the option to exempt loan modifications related to the COVID-19 pandemic that would otherwise be categorized as a TDR from consideration for TDR treatment. Modifications in the scope of the exemption include forbearance agreements, interest-rate modifications, repayment plan changes and any other similar arrangements that would delay payments of principal or interest. This relief is allowable on modifications on loans which were not more than 30 days past due as of December 31, 2019, and that occur after March 1, 2020, and before the earlier of 60 days after the date on which the national emergency related to the COVID-19 outbreak is terminated.

The Bank had no new TDRs during the nine months ended September 30, 2022 or 2021.

NOTE 6 – MORTGAGE SERVICING RIGHTS

Loans serviced for others are not included in the accompanying consolidated balance sheets. MSR's are recognized as separate assets when loans sold in the secondary market are sold with servicing retained. The Company utilizes a third-party consulting firm to determine an accurate assessment of the MSR's fair value. The third-party firm collects relevant data points from numerous sources. Some of these data points relate directly to the pricing level or relative value of the mortgage servicing while other data points relate to the assumptions used to derive fair value. In addition, the valuation evaluates specific collateral types, and current and historical performance of the collateral in question. The valuation process focuses on the non-distressed secondary servicing market, common industry practices and current regulatory standards. The primary determinants of the fair value of MSR's are servicing fee percentage, ancillary income, expected loan life or prepayment speeds, discount rates, costs to service, delinquency rates, foreclosure losses and recourse obligations. The valuation data also contains interest rate shock analyses for monitoring fair value changes in differing interest rate environments.

Following is an analysis of activity in the MSR asset:

	Nine Months Ended September 30, 2022	Year Ended December 31, 2021
Fair value at beginning of period	\$ 5,016	\$ 3,726
Servicing asset additions	658	1,862
Loan payments and payoffs	(660)	(1,319)
Changes in valuation inputs and assumptions used in the valuation model	2,848	747
Amount recognized through earnings	2,846	1,290
MSR asset acquired	1,701	—
Fair value at end of period	<u>\$ 9,563</u>	<u>\$ 5,016</u>
Unpaid principal balance of loans serviced for others	\$ 873,383	\$ 705,462
Mortgage servicing rights as a percent of loans serviced for others	1.09	0.71

The primary economic assumptions utilized by the Company in measuring the value of MSR's were constant prepayment speeds of 8.1 and 13.8 months and discount rates of 10.2% and 10.3% as of September 30, 2022 and December 31, 2021.

NOTE 7 – NOTES PAYABLE

From time to time the Company utilizes FHLB advances to fund liquidity. At September 30, 2022 and December 31, 2021, the Company had outstanding balances borrowed from the FHLB of \$2.6 million and \$8.0 million, respectively. The advances, rate, and maturities of FHLB advances were as follows:

	Maturity	Rate	September 30, 2022	December 31, 2021
Fixed rate, fixed term	01/24/2022	2.51 %	\$ —	\$ 250
Fixed rate, fixed term	05/02/2022	2.98 %	—	500
Fixed rate, fixed term	05/16/2022	0.00 %	—	5,000
Fixed rate, fixed term	06/08/2022	2.92 %	—	500
Fixed rate, fixed term	11/21/2022	3.02 %	600	600
Fixed rate, fixed term	06/01/2023	1.79 %	842	—
Fixed rate, fixed term	11/21/2023	3.06 %	600	600
Fixed rate, fixed term	04/22/2030	0.00 %	508	508
			2,550	7,958
Adjustment due to purchase accounting			19	53
			<u>\$ 2,569</u>	<u>\$ 8,011</u>

Future maturities of borrowings were as follows:

	September 30, 2022	December 31, 2021
1 year or less	\$ 1,442	\$ 6,850
1 to 2 years	600	600
2 to 3 years	—	—
3 to 4 years	—	—
4 to 5 years	—	—
Over 5 years	508	508
	<u>\$ 2,550</u>	<u>\$ 7,958</u>

The Company maintains a \$7.5 million line of credit with a commercial bank, which was entered into on May 15, 2022. There were no outstanding balances on this note at September 30, 2022 or December 31, 2021. Any future borrowings will require monthly payments of interest at a variable rate, and will be due in full on May 15, 2024.

NOTE 8 – SUBORDINATED NOTES

During September 2017, the Company entered into subordinated note agreements with three separate commercial banks. The Company had outstanding balances of \$11.5 million under these agreements as of September 30, 2022 and December 31, 2021. These notes were all issued with 10-year maturities, carry interest at a variable rate payable quarterly, are callable on or after the sixth anniversary of the issuance dates, and qualify for Tier 2 capital for regulatory purposes.

During July 2020, the Company entered into subordinated note agreements with two separate commercial banks. The Company had outstanding balances of \$6.0 million under these agreements as of September 30, 2022 and December 31, 2021. These notes were issued with 10-year maturities, carry interest at a fixed rate of 5.0% through June 30, 2025, and at a variable rate thereafter, payable quarterly. These notes are callable on or after January 1, 2026 and qualify for Tier 2 capital for regulatory purposes.

During August 2022, the Company entered into subordinated note agreements with an individual. The Company had outstanding balances of \$6.0 million under these agreements as of September 30, 2022. These notes were issued with 10-year maturities, carry interest at a fixed rate of 5.25% through August 6, 2027, and at a variable rate thereafter, payable quarterly. These notes are callable on or after August 6, 2027 and qualify for Tier 2 capital for regulatory purposes.

NOTE 9 – REGULATORY MATTERS

Banks and certain bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

The Economic Growth, Regulatory Relief, and Consumer Protection Act, signed into law in May 2018 raised the threshold for those bank holding companies subject to the Federal Reserve’s Small Bank Holding Company Policy Statement to \$3 billion. As a result, as of the effective date of that change in 2018, the Company was no longer required to comply with the risk-based capital rules applicable to the Bank. The Federal Reserve may, however, require smaller bank holding companies to maintain certain minimum capital levels, depending upon general economic conditions and a bank holding company’s particular condition, risk profile and growth plans. Due to the acquisition of Denmark the Company is subject to compliance with risk-based capital rules beginning with the third quarter of 2022, and will remain so as long as it remains above the \$3 billion threshold.

Under regulatory guidance for non-advanced approaches institutions, the Bank is required to maintain minimum amounts and ratios of common equity Tier I capital to risk-weighted assets, including an additional conservation buffer determined by banking regulators. As of September 30, 2022 and December 31, 2021, this buffer was 2.5%. As of September 30, 2022 and December 31, 2021, the Bank met all capital adequacy requirements to which they are subject.

[Table of Contents](#)

Actual and required capital amounts and ratios are presented below at period-end:

	Actual		For Capital Adequacy Purposes		Minimum Capital Adequacy with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2022								
Total capital (to risk-weighted assets):								
Company	\$ 375,338	11.92 %	\$ 252,010	8.00 %	\$ 330,763	10.50 %	\$ 315,012	10.00 %
Bank	\$ 362,876	11.52 %	\$ 251,900	8.00 %	\$ 330,619	10.50 %	\$ 314,876	10.00 %
Tier 1 capital (to risk-weighted assets):								
Company	\$ 328,793	10.44 %	\$ 189,007	6.00 %	\$ 267,761	8.50 %	\$ 252,010	8.00 %
Bank	\$ 339,831	10.79 %	\$ 188,925	6.00 %	\$ 267,644	8.50 %	\$ 251,900	8.00 %
Common Equity Tier 1 capital (to risk-weighted assets):								
Company	\$ 328,793	10.44 %	\$ 141,756	4.50 %	\$ 220,509	7.00 %	\$ 204,758	6.50 %
Bank	\$ 339,831	10.79 %	\$ 141,694	4.50 %	\$ 220,413	7.00 %	\$ 204,669	6.50 %
Tier 1 capital (to average assets):								
Company	\$ 328,793	10.22 %	\$ 128,705	4.00 %	\$ 128,705	4.00 %	\$ 160,881	5.00 %
Bank	\$ 339,831	10.63 %	\$ 127,821	4.00 %	\$ 127,821	4.00 %	\$ 159,776	5.00 %
December 31, 2021								
Total capital (to risk-weighted assets):								
Company	\$ 297,467	12.44 %	NA	NA	NA	NA	NA	NA
Bank	\$ 291,994	12.21 %	\$ 191,339	8.00 %	\$ 251,133	10.50 %	\$ 239,174	10.00 %
Tier 1 capital (to risk-weighted assets):								
Company	\$ 259,652	10.86 %	NA	NA	NA	NA	NA	NA
Bank	\$ 271,679	11.36 %	\$ 143,505	6.00 %	\$ 203,298	8.50 %	\$ 191,339	8.00 %
Common Equity Tier 1 capital (to risk-weighted assets):								
Company	\$ 259,652	10.86 %	NA	NA	NA	NA	NA	NA
Bank	\$ 271,679	11.36 %	\$ 107,628	4.50 %	\$ 167,422	7.00 %	\$ 155,463	6.50 %
Tier 1 capital (to average assets):								
Company	\$ 259,652	9.29 %	NA	NA	NA	NA	NA	NA
Bank	\$ 271,679	9.72 %	\$ 111,825	4.00 %	\$ 111,825	4.00 %	\$ 139,781	5.00 %

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The Company enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate-lock commitments). Rate-lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in the net gain or loss on sale of mortgage loans. Fair value is based on fees currently charged to enter into similar agreements and for fixed rate commitments also considers the difference between current levels of interest rates and committed rates. The notional amount of rate-lock commitments at September 30, 2022 and December 31, 2021 was approximately \$7.1 million and \$21.9 million, respectively.

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

[Table of Contents](#)

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

The following commitments were outstanding:

	Notional Amount	
	September 30, 2022	December 31, 2021
Commitments to extend credit:		
Fixed	\$ 147,480	\$ 90,036
Variable	522,367	412,095
Credit card arrangements	16,787	10,916
Letters of credit	11,889	9,062

NOTE 11 – FAIR VALUE MEASUREMENTS

Accounting guidance establishes a fair value hierarchy to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

- Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Information regarding the fair value of assets measured at fair value on a recurring basis is as follows:

	Instruments Measured At Fair Value	Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2022				
Assets				
Securities available for sale				
U.S. Treasury securities	\$ 140,750	\$ —	\$ 140,750	\$ —
Obligations of U.S. Government sponsored agencies	21,870	—	21,870	—
Obligations of states and political subdivisions	81,135	—	81,135	—
Mortgage-backed securities	37,470	—	37,470	—
Corporate notes	20,587	—	20,587	—
Certificates of deposit	1,468	—	1,468	—
Mortgage servicing rights	9,563	—	9,563	—
December 31, 2021				
Assets				
Securities available for sale				
U.S. Treasury securities	\$ 49,502	\$ —	\$ 49,502	\$ —
Obligations of U.S. Government sponsored agencies	26,546	—	26,546	—
Obligations of states and political subdivisions	86,738	—	86,738	—
Mortgage-backed securities	27,259	—	27,259	—
Corporate notes	21,102	—	21,102	—
Certificates of deposit	1,542	—	1,542	—
Mortgage servicing rights	5,016	—	5,016	—

[Table of Contents](#)

There were no assets measured on a recurring basis using significant unobservable inputs (Level 3) during these periods.

Information regarding the fair value of assets measured at fair value on a non-recurring basis is as follows:

	Assets Measured At Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>September 30, 2022</u>				
OREO	\$ 1,405	\$ —	\$ —	\$ 1,405
Impaired Loans, net of impairment reserve	3,710	—	—	3,710
	<u>\$ 5,115</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,115</u>
<u>December 31, 2021</u>				
OREO	\$ 150	\$ —	\$ —	\$ 150
Impaired Loans, net of impairment reserve	6,233	—	—	6,233
	<u>\$ 6,383</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,383</u>

The following is a description of the valuation methodologies used by the Company for the items noted in the table above, including the general classification of such instruments in the fair value hierarchy. For individually evaluated impaired loans, the amount of impairment is based upon the present value of expected future cash flows discounted at the loan's effective interest rate, the estimated fair value of the underlying collateral for collateral-dependent loans, or the estimated liquidity of the note. For OREO, the fair value is based upon the estimated fair value of the underlying collateral adjusted for the expected costs to sell. The following table shows significant unobservable inputs used in the fair value measurement of Level 3 assets:

As of	Valuation Technique	Unobservable Inputs	Range of Discounts	Weighted Average Discount
<u>September 30, 2022</u>				
Other real estate owned	Third party appraisals, sales contracts or brokered price options	Collateral discounts and estimated costs to sell	0 %	0 %
Impaired loans	Third party appraisals and discounted cash flows	Collateral discounts and discount rates	0% - 74 %	20.0 %
<u>December 31, 2021</u>				
Other real estate owned	Third party appraisals, sales contracts or brokered price options	Collateral discounts and estimated costs to sell	18% - 97 %	18.0 %
Impaired loans	Third party appraisals and discounted cash flows	Collateral discounts and discount rates	0% - 100 %	7.4 %

The following methods and assumptions were used by the Company to estimate fair value of financial instruments.

Cash and cash equivalents — Fair value approximates the carrying amount.

Securities — The fair value measurement is obtained from an independent pricing service and is based on recent sales of similar securities and other observable market data.

Loans held for sale — Fair value is based on commitments on hand from investors or prevailing market prices.

Loans — Fair value of variable rate loans that reprice frequently are based on carrying value. Fair value of other loans is estimated by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings. Fair

[Table of Contents](#)

value of impaired and other nonperforming loans are estimated using discounted expected future cash flows or the fair value of the underlying collateral, if applicable.

Other investments — The carrying amount reported in the consolidated balance sheets for other investments approximates the fair value of these assets.

Mortgage servicing rights — Fair values were determined using the present value of future cash flows.

Cash value of life insurance — The carrying amount approximates its fair value.

Deposits — Fair value of deposits with no stated maturity, such as demand deposits, savings, and money market accounts, by definition, is the amount payable on demand on the reporting date. Fair value of fixed-rate time deposits is estimated using discounted cash flows applying interest rates currently offered on similar time deposits.

Securities sold under repurchase agreements — The fair value of securities sold under repurchase agreements with variable rates or due on demand is the amount payable at the reporting date. The fair value of securities sold under repurchase agreements with fixed terms is estimated using discounted cash flows with discount rates at interest rates currently offered for securities sold under repurchase agreements of similar remaining values.

Notes payable and subordinated notes — Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing debt. Fair value of borrowings is estimated by discounting future cash flows using the current rates at which similar borrowings would be made. Fair value of borrowed funds due on demand is the amount payable at the reporting date.

Off-balance-sheet instruments — Fair value is based on quoted market prices of similar financial instruments where available. If a quoted market price is not available, fair value is based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and the company's credit standing. Since this amount is immaterial, no amounts for fair value are presented.

The carrying value and estimated fair value of financial instruments at September 30, 2022 and December 31, 2021 follows:

September 30, 2022	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	\$ 143,441	\$ 143,441	\$ —	\$ —	\$ 143,441
Securities held to maturity	40,826	—	39,134	—	39,134
Securities available for sale	303,280	—	303,280	—	303,280
Loans held for sale	1,253	—	—	1,253	1,253
Loans, net	2,835,022	—	—	2,801,373	2,801,373
Other investments, at cost	14,905	—	—	14,905	14,905
Mortgage servicing rights	9,563	—	9,563	—	9,563
Cash surrender value of life insurance	45,761	45,761	—	—	45,761
Financial liabilities:					
Deposits	\$ 3,138,201	\$ —	\$ —	\$ 2,801,549	\$ 2,801,549
Securities sold under repurchase agreements	21,963	—	21,963	—	21,963
Notes payable	2,569	—	2,569	—	2,569
Subordinated notes	23,500	—	23,500	—	23,500

December 31, 2021	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets:					
Cash and cash equivalents	\$ 296,860	\$ 296,860	\$ —	\$ —	\$ 296,860
Securities held to maturity	5,911	—	5,922	—	5,922
Securities available for sale	212,689	—	212,689	—	212,689
Loans held for sale	786	—	—	786	786
Loans, net	2,215,199	—	—	2,210,593	2,210,593
Other investments, at cost	9,004	—	—	9,004	9,004
Mortgage servicing rights	5,016	—	5,016	—	5,016
Cash surrender value of life insurance	31,897	31,897	—	—	31,897
Financial liabilities:					
Deposits	\$ 2,528,440	\$ —	\$ —	\$ 2,457,287	\$ 2,457,287
Securities sold under repurchase agreements	41,122	—	41,122	—	41,122
Notes payable	8,011	—	8,011	—	8,011
Subordinated notes	17,500	—	17,500	—	17,500

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

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters that could affect the estimates. Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments.

Deposits with no stated maturities are defined as having a fair value equivalent to the amount payable on demand. This prohibits adjusting fair value derived from retaining those deposits for an expected future period of time. This component, commonly referred to as a deposit base intangible, is neither considered in the above amounts nor is it recorded as an intangible asset on the consolidated balance sheet. Significant assets and liabilities that are not considered financial assets and liabilities include premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

NOTE 12 – STOCK BASED COMPENSATION

The Company has made restricted share grants pursuant to the Bank First Corporation 2011 Equity Plan and the Bank First Corporation 2020 Equity Plan, which replaced the 2011 Plan. The purpose of the Plan is to provide financial incentives for selected employees and for the non-employee Directors of the Company, thereby promoting the long-term growth and financial success of the Company. The number of shares of Company stock that may be issued pursuant to awards under the 2020 Plan shall not exceed, in the aggregate, 700,000. As of September 30, 2022, 50,867 shares of Company stock have been awarded under the 2020 Plan. Compensation expense for restricted stock is based on the fair value of the awards of Bank First Corporation common stock at the time of grant. The value of restricted stock grants that are expected to vest is amortized into expense over the vesting periods. For the nine months ended September 30, 2022 and 2021, compensation expense of \$1.2 million and \$1.0 million, respectively, was recognized related to restricted stock awards.

[Table of Contents](#)

As of September 30, 2022, there was \$2.6 million of unrecognized compensation cost related to non-vested restricted stock awards granted under the plan. That cost is expected to be recognized over a weighted average period of 1.74 years. The aggregate grant date fair value of restricted stock awards that vested during the nine months ended September 30, 2022, was approximately \$1.3 million.

	For the year ended September 30, 2022		For the year ended September 30, 2021	
	Shares	Weighted- Average Grant- Date Fair Value	Shares	Weighted- Average Grant- Date Fair Value
Restricted Stock				
Outstanding at beginning of year	58,611	\$ 61.44	57,175	\$ 53.08
Granted	25,451	69.73	25,416	70.67
Vested	(20,785)	60.52	(21,755)	50.15
Forfeited or cancelled	(4,005)	60.50	(1,105)	62.23
Outstanding at end of year	<u>59,272</u>	<u>\$ 65.85</u>	<u>59,731</u>	<u>\$ 61.46</u>

NOTE 13 – LEASES

Accounting standards require lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements, establishing a right-of-use (“ROU”) model that requires a lessee to recognize a ROU lease asset and liability on the balance sheet for all leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

Lessee Leases

The Company’s lessee leases are operating leases, and consist of leased real estate for branches. Options to extend and renew leases are generally exercised under normal circumstances. Advance notification is required prior to termination, and any noticing period is often limited to the months prior to renewal. Rent escalations are generally specified by a payment schedule, or are subject to a defined formula. The Company also elected the practical expedient to not separate lease and non-lease components for all leases, the majority of which consist of real estate common area maintenance expenses. Generally, leases do not include guaranteed residual values, but instead typically specify that the leased premises are to be returned in satisfactory condition with the Company liable for damages.

For operating leases, the lease liability and ROU asset (before adjustments) are recorded at the present value of future lease payments. Accounting standards require the use of the lease interest rate; however, this rate is typically not known. As an alternative, the use of an entity’s fully secured incremental borrowing rate is permitted. The Company is electing to utilize the Wall Street Journal Prime Rate on the date of lease commencement.

	Nine-month period ended	
	September 30, 2022	September 30, 2021
Amortization of ROU Assets - Operating Leases	\$ (1)	\$ 10
Interest on Lease Liabilities - Operating Leases	74	65
Operating Lease Cost (Cost resulting from lease payments)	73	75
Weighted Average Lease Term (Years) - Operating Leases	24.68	32.25
Weighted Average Discount Rate - Operating Leases	5.50 %	5.50 %

[Table of Contents](#)

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total operating lease liabilities as of September 30, 2022 is as follows:

	September 30, 2022
Operating lease payments due:	
Within one year	\$ 201
After one but within two years	201
After two but within three years	200
After three but within four years	207
After four years but within five years	161
After five years	3,206
Total undiscounted cash flows	4,176
Discount on cash flows	(2,092)
Total operating lease liabilities	\$ 2,084

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2021, included in our Annual Report and with our unaudited condensed accompanying notes set forth in this Quarterly Report on Form 10-Q for the quarterly period September 30, 2022.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report are forward-looking statements within the meaning of and subject to the safe harbor protections of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements relating to the Company's assets, business, cash flows, condition (financial or otherwise), credit quality, financial performance, liquidity, short and long-term performance goals, prospects, results of operations, strategic initiatives, potential future acquisitions, disposition and other growth opportunities. These statements, which are based upon certain assumptions and estimates and describe the Company's future plans, results, strategies and expectations, can generally be identified by the use of the words and phrases "may," "will," "should," "could," "would," "goal," "plan," "potential," "estimate," "project," "believe," "intend," "anticipate," "expect," "target," "aim," "predict," "continue," "seek," "projection" and other variations of such words and phrases and similar expressions. These forward-looking statements are not historical facts, and are based upon current expectations, estimates and projections about the Company's industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond the Company's control. The inclusion of these forward-looking statements should not be regarded as a representation by the Company or any other person that such expectations, estimates and projections will be achieved. Accordingly, the Company cautions investors that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict and that are beyond the Company's control. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable as of the date of this report, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements. A number of factors could cause actual results to differ materially from those contemplated by the forward-looking statement in this report including, without limitation, the risks and other factors set forth in the Company's Registration Statements under the captions "Cautionary Note Regarding Forward-Looking Statements" and "Risk factors." Many of these factors are beyond the Company's ability to control or predict. If one or more events related to these or other risks or uncertainties materialize, or if the Company's underlying assumptions prove to be incorrect, actual results may differ materially from the forward-looking statements. Accordingly, investors should not place undue reliance on any such forward-looking statements. Any forward-looking statements speaks only as of the date of this report, and the Company does not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law. New risks and uncertainties may emerge from time to time, and it is not possible for the Company to predict their occurrence or how they will affect the Company.

We qualify all of our forward-looking statements by these cautionary statements.

OVERVIEW

Bank First Corporation is a Wisconsin corporation that was organized primarily to serve as the holding company for Bank First, N.A. Bank First, N.A., which was incorporated in 1894, is a nationally-chartered bank headquartered in Manitowoc, Wisconsin. It is a member of the Board of Governors of the Federal Reserve System ("Federal Reserve"), and is regulated by the Office of the Comptroller of the Currency ("OCC"). Including its headquarters in Manitowoc, Wisconsin, the Bank has 26 banking locations in Manitowoc, Outagamie, Brown, Winnebago, Sheboygan, Shawano, Waupaca, Ozaukee, Monroe, and Jefferson counties in Wisconsin. The Bank offers loan, deposit and treasury management products at each of its banking locations.

[Table of Contents](#)

As with most community banks, the Bank derives a significant portion of its income from interest received on loans and investments. The Bank's primary source of funding is deposits, both interest-bearing and noninterest-bearing. In order to maximize the Bank's net interest income, or the difference between the income on interest-earning assets and the expense of interest-bearing liabilities, the Bank must not only manage the volume of these balance sheet items, but also the yields earned on interest-earning assets and the rates paid on interest-bearing liabilities. To account for credit risk inherent in all loans, the Bank maintains an ALL to absorb possible losses on existing loans that may become uncollectible. The Bank establishes and maintains this allowance by charging a provision for loan losses against operating earnings. Beyond its net interest income, the Bank further receives income through the net gain on sale of loans held for sale as well as servicing income which is retained on those sold loans. In order to maintain its operations and bank locations, the Bank incurs various operating expenses which are further described within the "Results of Operations" later in this section.

The Bank is a 49.8% member of a data processing subsidiary, UFS, which provides core data processing, endpoint management private cloud services, cyber security and digital banking solutions for over 60 Midwest banks. The Bank, through its 100% owned subsidiary TVG Holdings, Inc., also holds a 40% ownership interest in Ansay, an insurance agency providing clients throughout Wisconsin with insurance and risk management solutions. These unconsolidated subsidiary interests contribute noninterest income to the Bank through their underlying annual earnings.

On August 12, 2022, the Company consummated its merger with Denmark pursuant to the Agreement and Plan of Bank Merger, dated as of January 18, 2022, by and among the Company and Denmark, whereby Denmark was merged with and into the Company, and Denmark State Bank, Denmark's wholly owned banking subsidiary, was merged with and into the Bank. The system integration was completed, and five branches of Denmark State Bank opened on August 15, 2022 as a branch of the Bank, expanding the Bank's presence in Manitowoc, Brown, Outagamie and Shawano County.

On July 25, 2022, the Company entered into an Agreement and Plan of Merger with Hometown, a Wisconsin Corporation, pursuant to which Hometown will merge with and into the Company and Hometown's banking subsidiary, Hometown Bank, will merge with and into the Bank. The transaction is expected to close during the first quarter of 2023 and is subject to, among other items, approval by the shareholders of Hometown and regulatory agencies. Merger consideration will consist of up to 30% cash and no less than 70% of the common stock of the Company, and will total approximately \$124 million, subject to the fair market value of the Company's common stock on the date of closing. Based on results as of September 30, 2022, the combined company would have total assets of approximately \$4.26 billion, loans of approximately \$3.25 billion, and deposits of approximately \$3.68 billion.

The Company accounts for these transactions under the acquisition method of accounting, and thus, the financial position and results of operations of acquired institutions prior to the consummation date are not included in the accompanying consolidated financial statements. The acquisition method of accounting required assets purchased and liabilities assumed to be recorded at their respective fair values at the date of acquisition. The Company determines the fair value of core deposit intangibles, securities, premises and equipment, loans, other assets and liabilities, deposits and borrowings with the assistance of third party valuations, appraisals, and third party advisors. The estimated fair values are subject to refinement for up to one year after the consummation as additional information becomes available relative to the closing date fair values.

The U.S. economy contracted in the first half of 2020, ending the longest expansionary period in U.S. history, due to the COVID-19 pandemic. During March 2020, in an effort to lessen the impact of COVID-19 on consumers and businesses, the Federal Reserve reduced the federal funds rate 1.5 percentage points to 0.00 to 0.25 percent and the U.S. government enacted the CARES Act, the largest economic stimulus package in the nation's history. The Company responded to the pandemic, beginning in March 2020, by supporting our clients, employees, and communities with such measures as remote work capabilities and branch service enhancements, loan payment deferrals, and accelerated investments in several technology initiatives that provided more convenience and a better digital experience as clients adapted to this highly virtual environment. The Company participated in the PPP and funded approximately 2,998 loans totaling approximately \$377.5 million under the programs available in both 2020 and 2021.

Additional government spending measures and the availability of vaccines improved consumer confidence and demand, and the economy largely reopened in 2021, leading to a reduction in the unemployment rate and accelerated GDP growth. While 2021 and 2022 have seen a recovery in the U.S. economy compared to 2020, uncertainty and market disruptions such as additional coronavirus variants, pandemic-related supply chain issues and labor shortages persist. The economic expansion has been met with inflationary pressures which have resulted in the Federal Open Market Committee aggressively tightening monetary policy during 2022, beginning in March 2022 and likely including more interest rate hikes in the future. With an asset-sensitive balance sheet and our strong position in our markets, we expect increases in loan demand and interest rates should improve returns going forward.

[Table of Contents](#)

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following tables present certain selected historical consolidated financial data as of the dates or for the period indicated:

(In thousands, except per share data)	At or for the Three Months Ended					At or for the Nine Months Ended	
	9/30/2022	6/30/2022	3/31/2022	12/31/2021	9/30/2021	9/30/2022	9/30/2021
Results of Operations:							
Interest income	\$ 30,740	\$ 25,820	\$ 24,220	\$ 25,043	\$ 24,898	\$ 80,780	\$ 73,343
Interest expense	3,047	2,340	1,930	1,812	1,964	7,317	6,492
Net interest income	27,693	23,480	22,290	23,231	22,934	73,463	66,851
Provision for loan losses	—	500	1,200	600	650	1,700	2,500
Net interest income after provision for loan losses	27,693	22,980	21,090	22,631	22,284	71,763	64,351
Noninterest income	5,166	5,551	5,234	5,520	5,031	15,951	18,021
Noninterest expense	18,895	13,219	12,731	13,435	12,469	44,845	37,121
Income before income tax expense	13,964	15,312	13,593	14,716	14,846	42,869	45,251
Income tax expense	3,431	3,658	3,410	3,553	3,628	10,499	10,971
Net income	\$ 10,533	\$ 11,654	\$ 10,183	\$ 11,163	\$ 11,218	\$ 32,370	\$ 34,280
Earnings per common share - basic	\$ 1.26	\$ 1.55	\$ 1.34	\$ 1.46	\$ 1.46	\$ 4.15	\$ 4.45
Earnings per common share - diluted	1.26	1.55	1.34	1.46	1.46	4.15	4.45
Common Shares:							
Basic weighted average	8,205,914	7,457,443	7,540,264	7,570,128	7,605,541	7,737,089	7,638,857
Diluted weighted average	8,228,197	7,472,561	7,559,844	7,595,052	7,624,791	7,757,726	7,658,828
Outstanding	9,028,629	7,470,255	7,570,766	7,616,540	7,641,771	9,028,629	7,641,771
Noninterest income / noninterest expense:							
Service charges	\$ 1,383	\$ 1,441	\$ 1,422	\$ 1,574	\$ 1,491	\$ 4,246	\$ 4,554
Income from Ansay	671	819	826	383	756	2,316	2,204
Income from UFS	852	563	705	776	751	2,120	1,780
Loan servicing income	1,673	2,106	1,062	1,557	599	4,841	2,282
Net gain on sales of mortgage loans	264	403	671	1,167	1,206	1,338	6,204
Net gain (loss) on sales and valuations of other real estate owned	(25)	(171)	(186)	(186)	146	206	—
Other noninterest income	323	244	377	249	228	944	791
Total noninterest income	\$ 5,166	\$ 5,551	\$ 5,234	\$ 5,520	\$ 5,031	\$ 15,951	\$ 18,021
Personnel expense	\$ 10,812	\$ 7,006	\$ 7,175	\$ 7,307	\$ 6,996	\$ 24,993	\$ 21,208
Occupancy, equipment and office	1,176	1,214	1,115	950	1,070	3,505	3,248
Data processing	1,577	1,431	1,345	1,334	1,259	4,353	4,010
Postage, stationery and supplies	215	144	183	181	204	542	532
Net loss on sales of securities	—	—	—	—	3	—	3
Advertising	61	55	89	75	50	205	152
Charitable contributions	150	235	168	135	121	553	399
Outside service fees	2,538	1,386	1,172	776	741	5,096	2,300
Amortization of intangibles	751	294	293	352	351	1,338	1,053
Other noninterest expense	1,615	1,454	1,191	2,325	1,674	4,260	4,216
Total noninterest expense	\$ 18,895	\$ 13,219	\$ 12,731	\$ 13,435	\$ 12,469	\$ 44,845	\$ 37,121
Period-end balances:							
Loans	\$ 2,859,293	\$ 2,387,617	\$ 2,316,688	\$ 2,235,515	\$ 2,208,915	\$ 2,859,293	\$ 2,208,915
Allowance for loan losses	23,045	22,699	21,749	20,315	20,237	23,045	20,237
Investment securities available-for-sale, at fair value	303,280	292,426	297,063	212,689	148,376	303,280	148,376
Investment securities held-to-maturity, at cost	40,826	33,867	5,841	5,911	5,912	40,826	5,912
Goodwill and other intangibles, net	129,361	58,805	59,099	59,392	59,743	129,361	59,743
Total assets	3,640,754	2,961,027	2,924,936	2,937,552	2,846,605	3,640,754	2,846,605
Deposits	3,138,201	2,601,479	2,557,106	2,528,440	2,472,258	3,138,201	2,472,258
Stockholders' equity	439,415	314,162	318,303	322,653	315,262	439,415	315,262
Book value per common share	48.67	42.06	42.04	42.36	41.26	48.67	41.26
Tangible book value per common share (1)	34.34	34.18	34.24	34.56	33.44	34.34	33.44
Average balances:							
Loans	\$ 2,640,397	\$ 2,341,954	\$ 2,271,956	\$ 2,207,615	\$ 2,218,324	\$ 2,419,451	\$ 2,220,570
Interest-earning assets	3,062,921	2,975,376	3,001,174	2,695,175	2,659,584	3,013,382	2,614,140
Total assets	3,349,615	3,186,384	3,209,202	2,901,685	2,861,959	3,249,469	2,816,409
Deposits	2,911,561	2,566,520	2,543,471	2,513,918	2,479,799	2,675,199	2,430,068
Interest-bearing liabilities	2,034,158	2,053,369	2,080,172	1,759,437	1,738,895	2,055,732	1,719,162
Goodwill and other intangibles, net	90,962	58,987	59,285	59,614	59,969	69,861	60,368
Stockholders' equity	401,130	317,484	322,852	318,837	313,868	347,442	307,517
Financial ratios (2):							
Return on average assets	1.25 %	1.47 %	1.27 %	1.53 %	1.57 %	1.33 %	1.62 %
Return on average common equity	10.42 %	14.72 %	12.62 %	13.89 %	14.30 %	12.46 %	14.86 %
Average equity to average assets	11.98 %	9.96 %	10.06 %	10.99 %	10.97 %	10.69 %	10.92 %
Stockholders' equity to assets	12.07 %	10.61 %	10.88 %	10.98 %	11.08 %	12.07 %	11.08 %
Tangible equity to tangible assets (1)	8.83 %	8.80 %	9.04 %	9.15 %	9.17 %	8.83 %	9.17 %
Loan yield	4.29 %	4.06 %	4.02 %	4.25 %	4.25 %	4.13 %	4.24 %
Earning asset yield	4.03 %	3.53 %	3.32 %	3.74 %	3.76 %	3.63 %	3.80 %
Cost of funds	0.59 %	0.46 %	0.38 %	0.41 %	0.45 %	0.48 %	0.50 %
Net interest margin, taxable equivalent	3.63 %	3.21 %	3.06 %	3.47 %	3.47 %	3.30 %	3.47 %
Net loan charge-offs to average loans	-0.05%	-0.08%	-0.04%	0.02 %	-0.01%	-0.04%	0.00 %
Nonperforming loans to total loans	0.17 %	0.22 %	0.24 %	0.37 %	0.53 %	0.17 %	0.53 %
Nonperforming assets to total assets	0.17 %	0.18 %	0.19 %	0.28 %	0.42 %	0.18 %	0.42 %
Allowance for loan losses to loans	0.81 %	0.95 %	0.94 %	0.91 %	0.92 %	0.81 %	0.92 %

- (1) These measures are not measures prepared in accordance with GAAP, and are therefore considered to be non-GAAP financial measures. See "GAAP reconciliation and management explanation of non-GAAP financial measures" for a reconciliation of these measures to their most comparable GAAP measures.
- (2) Income statement-related ratios for partial year periods are annualized.

GAAP RECONCILIATION AND MANAGEMENT EXPLANATION OF NON-GAAP FINANCIAL MEASURES

We identify certain financial measures discussed in the Report as being “non-GAAP financial measures.” The non-GAAP financial measures presented in this Report are tangible book value per common share and tangible equity to tangible assets.

In accordance with the SEC’s rules, we classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with GAAP as in effect from time to time in the United States in our statements of income, balance sheets or statements of cash flows.

The non-GAAP financial measures that we discuss in this Report should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP. Moreover, the manner in which we calculate the non-GAAP financial measures that we discuss in our selected historical consolidated financial data may differ from that of other companies reporting measures with similar names. You should understand how such other banking organizations calculate their financial measures similar or with names similar to the non-GAAP financial measures we have presented in our selected historical consolidated financial data when comparing such non-GAAP financial measures. The following discussion and reconciliations provide a more detailed analysis of these non-GAAP financial measures.

Tangible book value per common share and tangible equity to tangible assets are non-GAAP measures that exclude the impact of goodwill and other intangibles used by the Company’s management to evaluate capital adequacy. Because intangible assets such as goodwill and other intangibles vary extensively from company to company, we believe that the presentation of this information allows investors to more easily compare the Company’s capital position to other companies. The most directly comparable financial measures calculated in accordance with GAAP are book value per common share, return on average common equity and stockholders’ equity to total assets.

(In thousands, except per share data)	At or for the Three Months Ended					At or for the Nine Months Ended	
	9/30/2022	6/30/2022	3/31/2022	12/31/2021	9/30/2021	9/30/2022	9/30/2021
Tangible Assets							
Total assets	\$ 3,640,754	\$ 2,961,027	\$ 2,924,936	\$ 2,937,552	\$ 2,846,605	\$ 3,640,754	\$ 2,846,605
Adjustments:							
Goodwill	(111,551)	(55,357)	(55,357)	(55,357)	(55,357)	(111,551)	(55,357)
Core deposit intangible, net of amortization	(17,810)	(3,448)	(3,742)	(4,035)	(4,386)	(17,810)	(4,386)
Tangible assets	<u>\$ 3,511,393</u>	<u>\$ 2,902,222</u>	<u>\$ 2,865,837</u>	<u>\$ 2,878,160</u>	<u>\$ 2,786,862</u>	<u>\$ 3,511,393</u>	<u>\$ 2,786,862</u>
Tangible Common Equity							
Total stockholders’ equity	\$ 439,415	\$ 314,162	\$ 318,303	\$ 322,653	\$ 315,262	\$ 439,415	\$ 315,262
Adjustments:							
Goodwill	(111,551)	(55,357)	(55,357)	(55,357)	(55,357)	(111,551)	(55,357)
Core deposit intangible, net of amortization	(17,810)	(3,448)	(3,742)	(4,035)	(4,386)	(17,810)	(4,386)
Tangible common equity	<u>\$ 310,054</u>	<u>\$ 255,357</u>	<u>\$ 259,204</u>	<u>\$ 263,261</u>	<u>\$ 255,519</u>	<u>\$ 310,054</u>	<u>\$ 255,519</u>
Book value per common share	\$ 48.67	\$ 42.06	\$ 42.04	\$ 42.36	\$ 41.26	\$ 48.67	\$ 41.26
Tangible book value per common share	34.34	34.18	34.24	34.56	33.44	34.34	33.44
Total stockholders’ equity to total assets	12.07 %	10.61 %	10.88 %	10.98 %	11.08 %	12.07 %	11.08 %
Tangible common equity to tangible assets	8.83 %	8.80 %	9.04 %	9.15 %	9.17 %	8.83 %	9.17 %

RESULTS OF OPERATIONS

Results of Operations for the Three Months Ended September 30, 2022 and September 30, 2021

General. Net income decreased \$0.7 million to \$10.5 million for three months ended September 30, 2022, compared to \$11.2 million for the same period in 2021. This decrease was primarily due to an increase in noninterest expense from one-time costs related to the acquisition of Denmark in the third quarter of 2022 as well as increased scale of operations from that acquisition impacting approximately half of the quarter. These increased expenses more than offset a rise in net interest income in the year-over-year third quarters.

Net Interest Income. The management of interest income and expense is fundamental to our financial performance. Net interest income, the difference between interest income and interest expense, is the largest component of the Company’s total revenue. Management closely monitors both total net interest income and the net interest margin (net interest income divided by average

earning assets). We seek to maximize net interest income without exposing the Company to an excessive level of interest rate risk through our asset and liability policies. Interest rate risk is managed by monitoring the pricing, maturity and repricing options of all classes of interest-bearing assets and liabilities. Our net interest margin can also be adversely impacted by the reversal of interest on nonaccrual loans and the reinvestment of loan payoffs into lower yielding investment securities and other short-term investments.

Net interest and dividend income increased by \$4.8 million to \$27.7 million for the three months ended September 30, 2022 compared to \$22.9 million for three months ended September 30, 2021. The increase in net interest income was primarily due to growth in interest earning assets over the last twelve months as well as increasing net interest margin in the year-over-year third quarters. Total average interest-earning assets was \$3.06 billion for the three months ended September 30, 2022, up from \$2.66 billion for the same period in 2021. Tax equivalent net interest margin increased 0.16% to 3.63% for the three-months ended September 30, 2022, up from 3.47% for the same period in 2021. Net interest margin and net interest income are influenced by internal and external factors. Internal factors include balance sheet changes on both volume and mix and pricing decisions, and external factors include changes in market interest rates, competition and the shape of the interest rate yield curve.

Interest Income. Total interest income increased \$5.8 million, or 23.5%, to \$30.7 million for the three months ended September 30, 2022 compared to \$24.9 million for the same period in 2021. The increase in total interest income was primarily due to the aforementioned growth in interest earnings assets over the last twelve months along with an increase in the average interest rate earned on these assets. The average balance of interest-earning assets increased by \$403.3 million during the three months ended September 30, 2022 compared to the same period in 2021 and the average interest rate earned on these assets increased by 0.27% in the year-over-year third quarters.

Interest Expense. Interest expense increased \$1.1 million, or 55.1%, to \$3.0 million for the three months ended September 30, 2022 compared to \$2.0 million for the same period in 2021. The increase in interest expense was primarily due to elevated interest bearing liabilities and higher crediting interest rates on those liabilities.

Interest expense on interest-bearing deposits increased by \$0.8 million to \$2.6 million for the three months ended September 30, 2022 from \$1.8 million for the same period in 2021. The average balance and average cost of interest-bearing deposits was \$2.0 million and 0.52% for the three months ended September 30, 2022, compared to \$1.7 million and 0.42% for the same period in 2021.

Provision for Loan Losses. Credit risk is inherent in the business of making loans. We establish an ALL through charges to earnings, which are shown in the statements of operations as the provision for loan losses. Specifically identifiable and quantifiable known losses are promptly charged off against the allowance. The provision for loan losses is determined by conducting a quarterly evaluation of the adequacy of our ALL and charging the shortfall or excess, if any, to the current quarter's expense. This has the effect of creating variability in the amount and frequency of charges to earnings. The provision for loan losses and level of allowance for each period are dependent upon many factors, including loan growth, net charge-offs, changes in the composition of the loan portfolio, delinquencies, management's assessment of the quality of the loan portfolio, the valuation of problem loans and the general economic conditions in our market area. The determination of the amount is complex and involves a high degree of judgment and subjectivity.

We did not record a provision for loan loss during the three months ended September 30, 2022 compared to a provision of \$0.7 million for the same period in 2021. We recorded net recoveries of \$0.3 million for the three months ended September 30, 2022 compared to negligible net recoveries for the same period in 2021. The ALL was \$23.0 million, or 0.81% of total loans, at September 30, 2022 compared to \$20.2 million, or 0.92% of total loans at September 30, 2021. The decreased ALL coverage was the result of a significant increase in total purchased loans, due to the Denmark acquisition during the third quarter of 2022, which carry a fair value mark in lieu of a portion of the ALL until they are paid off or renewed.

Noninterest Income. Noninterest income is an important component of our total revenues. A significant portion of our noninterest income is associated with service charges and income from the Bank's unconsolidated subsidiaries, Ansay and UFS. Other sources of noninterest income include loan servicing fees and gains on sales of mortgage loans.

Noninterest income increased \$0.1 million to \$5.2 million for the three months ended September 30, 2022 compared to \$5.0 million for the same period in 2021. This increase was primarily the result of higher loan servicing income, which includes the impact of valuation updates to the Company's MSRs, offset by a significant reduction in net gains on sales of mortgage loans quarter-over-quarter as the Company, and the banking industry as a whole, saw a slowdown in residential mortgage lending. MSR valuation updates added \$0.9 million to servicing income during the third quarter of 2022, compared to no change during the prior year third quarter.

The major components of our noninterest income are listed below:

	Three Months Ended September 30,			
	2022	2021	\$ Change	% Change
	(In thousands)			
Noninterest Income				
Service charges	\$ 1,383	\$ 1,491	\$ (108)	(7)%
Income from Ansay	671	756	(85)	(11)%
Income from UFS	852	751	101	13 %
Loan servicing income	1,673	599	1,074	179 %
Net gain on sales of mortgage loans	264	1,206	(942)	(78)%
Other	323	228	95	42 %
Total noninterest income	<u>\$ 5,166</u>	<u>\$ 5,031</u>	<u>\$ 135</u>	<u>3 %</u>

Noninterest Expense. Noninterest expense increased \$6.4 million to \$18.9 million for the three months ended September 30, 2022 compared to \$12.5 million for the same period in 2021. Significant one-time expenses from the Company's acquisition of Denmark during the third quarter of 2022 caused large increases in salaries, data processing and outside service fees. The added scale resulting from this transaction, which impacted approximately one-half of the third quarter of 2022, further increased salaries, occupancy and data processing. Finally, the acquisition of Denmark resulted in the recording of a core deposit intangible totaling \$15.1 million. Amortization of this core deposit intangible began during the third quarter of 2022 and was the cause of the increase in amortization of intangibles in the year-over-year third quarters.

The major components of our noninterest expense are listed below:

	Three Months Ended September 30,			
	2022	2021	\$ Change	% Change
	(In thousands)			
Noninterest Expense				
Salaries, commissions, and employee benefits	\$10,812	\$ 6,996	\$ 3,816	55 %
Occupancy	1,176	1,070	106	10 %
Data processing	1,577	1,259	318	25 %
Postage, stationary, and supplies	215	204	11	5 %
Net loss on sales of securities	—	3	(3)	NM
Advertising	61	50	11	22 %
Charitable contributions	150	121	29	24 %
Outside service fees	2,538	741	1,797	243 %
Amortization of intangibles	751	351	400	114 %
Other	1,615	1,674	(59)	(4)%
Total noninterest expenses	<u>\$18,895</u>	<u>\$12,469</u>	<u>\$ 6,426</u>	<u>52 %</u>

Income Tax Expense. We recorded a provision for income taxes of \$3.4 million for the three months ended September 30, 2022 compared to a provision of \$3.6 million for the same period during 2021, reflecting effective tax rates of 24.6% and 24.4%, respectively. The effective tax rates were reduced from the statutory federal and state income tax rates during both periods as a result of tax-exempt interest income produced by certain qualifying loans and investments in the Bank's portfolios.

Results of Operations for the Nine months Ended September 30, 2022 and September 30, 2021

General. Net income decreased \$1.9 million to \$32.4 million for nine months ended September 30, 2022, compared to \$34.3 million for the same period in 2021. This decrease was primarily due to a slowdown in residential mortgage production during the first three quarters of 2022 compared to the same period during the prior year and significant one-time expenses related to the Company's acquisition of Denmark, partially offset by higher net interest income and lower provisions for loan losses during 2022 compared to the prior year period.

Net Interest Income. The management of interest income and expense is fundamental to our financial performance. Net interest income, the difference between interest income and interest expense, is the largest component of the Company's total revenue. Management closely monitors both total net interest income and the net interest margin (net interest income divided by average earning assets). We seek to maximize net interest income without exposing the Company to an excessive level of interest rate risk through our asset and liability policies. Interest rate risk is managed by monitoring the pricing, maturity and repricing options of all classes of interest-bearing assets and liabilities. Our net interest margin can also be adversely impacted by the reversal of interest on nonaccrual loans and the reinvestment of loan payoffs into lower yielding investment securities and other short-term investments.

Net interest and dividend income increased by \$6.6 million to \$73.5 million for the nine months ended September 30, 2022 compared to \$66.9 million for nine months ended September 30, 2021. The increase in net interest income was primarily due to growth in interest earning assets over the last twelve months. Total average interest-earning assets was \$3.01 billion for the nine months ended September 30, 2022, up from \$2.61 billion for the same period in 2021. Tax equivalent net interest margin decreased 0.17% to 3.30% for the nine months ended September 30, 2022, down from 3.47% for the same period in 2021. The decrease in net interest margin was primarily caused by a short-term net interest income enhancement strategy which was in place for much of the first two quarters of 2022. This strategy utilized \$300.0 million in short-term borrowings which were invested in short-term, risk-free investments. Investments and borrowings utilized in this strategy had a net interest margin less than 0.20%. While this strategy increased net interest income, it had a detrimental impact on net interest margin. Net interest margin and net interest income are influenced by internal and external factors. Internal factors include balance sheet changes on both volume and mix and pricing decisions, and external factors include changes in market interest rates, competition and the shape of the interest rate yield curve.

Interest Income. Total interest income increased \$7.4 million, or 10.1%, to \$80.8 million for the nine months ended September 30, 2022 compared to \$73.3 million for the same period in 2021. The increase in total interest income was primarily due to growth in interest earnings assets over the last twelve months. The average balance of interest-earning assets increased by \$399.2 million during the first nine months of 2022 compared to the same period in 2021.

Interest Expense. Interest expense increased \$0.8 million, or 12.7%, to \$7.3 million for the nine months ended September 30, 2022 compared to \$6.5 million for the same period in 2021. The increase in interest expense was primarily due growth in interest-bearing liabilities over the last twelve months. The average balance of interest-bearing liabilities increased by \$336.6 million during the first nine months of 2022 compared to the same period in 2021.

Interest expense on interest-bearing deposits totaled \$5.9 million for the nine months ended September 30, 2022 and 2021. The average cost of interest-bearing deposits was 0.43% for the nine months ended September 30, 2022, compared to 0.48% for the same period in 2021.

Provision for Loan Losses. Credit risk is inherent in the business of making loans. We establish an ALL through charges to earnings, which are shown in the statements of operations as the provision for loan losses. Specifically identifiable and quantifiable known losses are promptly charged off against the allowance. The provision for loan losses is determined by conducting a quarterly evaluation of the adequacy of our ALL and charging the shortfall or excess, if any, to the current quarter's expense. This has the effect of creating variability in the amount and frequency of charges to earnings. The provision for loan losses and level of allowance for each period are dependent upon many factors, including loan growth, net charge-offs, changes in the composition of the loan portfolio, delinquencies, management's assessment of the quality of the loan portfolio, the valuation of problem loans and the general economic conditions in our market area. The determination of the amount is complex and involves a high degree of judgment and subjectivity.

We recorded a provision for loan losses of \$1.7 million for the nine months ended September 30, 2022 compared to \$2.5 million for the same period in 2021. We recorded net recoveries of \$1.0 million for the nine months ended September 30, 2022 compared to net recoveries of \$0.1 million for the same period in 2021. The ALL was \$23.0 million, or 0.81% of total loans, at September 30, 2022 compared to \$20.2 million, or 0.92% of total loans at September 30, 2021. The decreased ALL coverage was the result of a significant

increase in total purchased loans, due to the Denmark acquisition during the third quarter of 2022, which carry a fair value mark in lieu of a portion of the ALL until they are paid off or renewed.

Noninterest Income. Noninterest income is an important component of our total revenues. A significant portion of our noninterest income is associated with service charges and income from the Bank's unconsolidated subsidiaries, Ansay and UFS. Other sources of noninterest income include loan servicing fees and gains on sales of mortgage loans.

Noninterest income decreased \$2.1 million to \$16.0 million for the nine months ended September 30, 2022 compared to \$18.0 million for the same period in 2021. This decrease was caused by a significant reduction in net gains on sales of mortgage loans as the Company, and the banking industry as a whole, saw an extreme slowdown in residential mortgage lending due in part to a higher interest rate environment during 2022 compared to 2021. This decrease was partially offset by higher loan servicing income, which includes the impact of valuation updates to the Company's MSRs. These valuation updates added \$2.8 million to servicing income during the first three quarters of 2022, compared to \$0.6 million during the first three quarters of 2021.

The major components of our noninterest income are listed below:

	Nine Months Ended September 30,			
	2022	2021	\$ Change	% Change
	(In thousands)			
Noninterest Income				
Service charges	\$ 4,246	\$ 4,554	\$ (308)	(7)%
Income from Ansay	2,316	2,204	112	5 %
Income from UFS	2,120	1,780	340	19 %
Loan servicing income	4,841	2,282	2,559	112 %
Net gain on sales of mortgage loans	1,338	6,204	(4,866)	(78)%
Net gain on sales and valuations of other real estate owned	146	206	(60)	(29)%
Other	944	791	153	19 %
Total noninterest income	<u>\$ 15,951</u>	<u>\$ 18,021</u>	<u>\$ (2,070)</u>	<u>(11)%</u>

Noninterest Expense. Noninterest expense increased \$7.7 million to \$44.8 million for the nine months ended September 30, 2022 compared to \$37.1 million for the same period in 2021. Significant one-time expenses from the Company's acquisition of Denmark during the third quarter of 2022 caused large increases in salaries, data processing and outside service fees. The added scale resulting from this transaction, which impacted approximately one-half of the third quarter of 2022, as well as inflationary pressures further increased salaries, occupancy and data processing. Finally, the acquisition of Denmark resulted in the recording of a core deposit intangible totaling \$15.1 million. Amortization of this core deposit intangible began during the third quarter of 2022 and was the cause of the increase in amortization of intangibles in the year-over-year periods.

The major components of our noninterest expense are listed below:

	Nine Months Ended September 30,			
	2022	2021	\$ Change	% Change
	(In thousands)			
Noninterest Expense				
Salaries, commissions, and employee benefits	\$ 24,993	\$ 21,208	\$ 3,785	18 %
Occupancy	3,505	3,248	257	8 %
Data processing	4,353	4,010	343	9 %
Postage, stationary, and supplies	542	532	10	2 %
Net loss on sales of securities	—	3	(3)	NM
Advertising	205	152	53	35 %
Charitable contributions	553	399	154	39 %
Outside service fees	5,096	2,300	2,796	122 %
Amortization of intangibles	1,338	1,053	285	27 %
Other	4,260	4,216	44	1 %
Total noninterest expenses	<u>\$ 44,845</u>	<u>\$ 37,121</u>	<u>\$ 7,724</u>	<u>21 %</u>

Income Tax Expense. We recorded a provision for income taxes of \$10.5 million for the nine months ended September 30, 2022 compared to a provision of \$11.0 million for the same period during 2021, reflecting effective tax rates of 24.5% and 24.2%, respectively. The effective tax rates were reduced from the statutory federal and state income tax rates during both periods as a result of tax-exempt interest income produced by certain qualifying loans and investments in the Bank's portfolios.

NET INTEREST MARGIN

Net interest income represents the difference between interest earned, primarily on loans and investments, and interest paid on funding sources, primarily deposits and borrowings. Interest rate spread is the difference between the average rate earned on total interest-earning assets and the average rate paid on total interest-bearing liabilities. Net interest margin is the amount of net interest income, on a fully taxable-equivalent basis, expressed as a percentage of average interest-earning assets. The average rate earned on earning assets is the amount of annualized taxable equivalent interest income expressed as a percentage of average earning assets. The average rate paid on interest-bearing liabilities is equal to annualized interest expense as a percentage of average interest-bearing liabilities.

The following tables set forth the distribution of our average assets, liabilities and stockholders' equity, and average rates earned or paid on a fully taxable equivalent basis for each of the periods indicated:

	Three Months Ended					
	September 30, 2022			September 30, 2021		
	Average Balance	Interest Income/ Expenses (1)	Rate Earned/ Paid (1)	Average Balance	Interest Income/ Expenses (1)	Rate Earned/ Paid (1)
	(dollars in thousands)					
ASSETS						
Interest-earning assets						
Loans (2)						
Taxable	\$ 2,545,855	\$ 109,147	4.29 %	\$ 2,132,765	\$ 90,476	4.24 %
Tax-exempt	94,542	4,227	4.47 %	85,559	3,910	4.57 %
Securities						
Taxable (available for sale)	240,261	5,453	2.27 %	88,821	2,933	3.30 %
Tax-exempt (available for sale)	81,355	2,143	2.63 %	70,253	2,187	3.11 %
Taxable (held to maturity)	31,014	853	2.75 %	—	—	—
Tax-exempt (held to maturity)	5,196	134	2.58 %	5,912	150	2.54 %
Cash and due from banks	64,698	1,366	2.11 %	276,274	435	0.16 %
Total interest-earning assets	3,062,921	123,323	4.03 %	2,659,584	100,091	3.76 %
Non interest-earning assets	309,925			222,385		
Allowance for loan losses	(23,231)			(20,010)		
Total assets	<u>\$ 3,349,615</u>			<u>\$ 2,861,959</u>		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing deposits						
Checking accounts	\$ 262,003	\$ 1,359	0.52 %	\$ 203,736	\$ 248	0.12 %
Savings accounts	750,027	3,224	0.43 %	521,635	1,927	0.37 %
Money market accounts	682,260	2,957	0.43 %	683,275	2,111	0.31 %
Certificates of deposit	297,622	2,725	0.92 %	260,581	2,373	0.91 %
Brokered deposits	6,781	199	2.93 %	12,461	359	2.88 %
Total interest-bearing deposits	1,998,693	10,464	0.52 %	1,681,688	7,018	0.42 %
Other borrowed funds	35,465	1,625	4.58 %	57,207	773	1.35 %
Total interest-bearing liabilities	2,034,158	12,089	0.59 %	1,738,895	7,791	0.45 %
Non-interest bearing liabilities						
Demand deposits	912,868			798,111		
Other liabilities	1,459			11,085		
Total liabilities	2,948,485			2,548,091		
Shareholders' equity	401,130			313,868		
Total liabilities & shareholders' equity	<u>\$ 3,349,615</u>			<u>\$ 2,861,959</u>		
Net interest income on a fully taxable equivalent basis		111,234			92,300	
Less taxable equivalent adjustment		(1,366)			(1,312)	
Net interest income		<u>\$ 109,868</u>			<u>\$ 90,988</u>	
Net interest spread (3)			3.43 %			3.32 %
Net interest margin (4)			<u>3.63 %</u>			<u>3.47 %</u>

(1). Annualized on a fully taxable equivalent basis calculated using a federal tax rate of 21% for the three months ended September 30, 2022 and 2021.

[Table of Contents](#)

- (2). Nonaccrual loans are included in average amounts outstanding.
- (3). Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (4). Net interest margin represents net interest income on a fully tax equivalent basis as a percentage of average interest-earning assets.

	Nine Months Ended					
	September 30, 2022			September 30, 2021		
	Average Balance	Interest Income/ Expenses (1)	Rate Earned/ Paid (1)	Average Balance	Interest Income/ Expenses (1)	Rate Earned/ Paid (1)
(dollars in thousands)						
ASSETS						
Interest-earning assets						
Loans (2)						
Taxable	\$ 2,323,410	\$ 95,783	4.12 %	\$ 2,132,037	\$ 90,072	4.22 %
Tax-exempt	96,041	4,215	4.39 %	88,533	4,100	4.63 %
Securities						
Taxable (available for sale)	223,506	5,180	2.32 %	97,677	2,612	2.67 %
Tax-exempt (available for sale)	81,067	2,126	2.62 %	70,546	2,217	3.14 %
Taxable (held to maturity)	19,685	524	2.66 %	—	—	—
Tax-exempt (held to maturity)	5,464	141	2.58 %	6,161	156	2.53 %
Cash and due from banks	264,209	1,395	0.53 %	219,186	262	0.12 %
Total interest-earning assets	3,013,382	109,364	3.63 %	2,614,140	99,419	3.80 %
Non interest-earning assets	258,122			221,231		
Allowance for loan losses	(22,035)			(18,962)		
Total assets	<u>\$ 3,249,469</u>			<u>\$ 2,816,409</u>		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing deposits						
Checking accounts	\$ 244,615	\$ 688	0.28 %	\$ 212,197	\$ 252	0.12 %
Savings accounts	643,841	2,494	0.39 %	480,285	1,752	0.36 %
Money market accounts	679,091	2,343	0.35 %	656,922	2,183	0.33 %
Certificates of deposit	255,197	2,147	0.84 %	288,805	3,266	1.13 %
Brokered deposits	9,217	269	2.92 %	15,607	444	2.84 %
Total interest-bearing deposits	1,831,961	7,941	0.43 %	1,653,816	7,897	0.48 %
Other borrowed funds	223,771	1,842	0.82 %	65,346	784	1.20 %
Total interest-bearing liabilities	2,055,732	9,783	0.48 %	1,719,162	8,681	0.50 %
Non-interest bearing liabilities						
Demand deposits	843,238			776,252		
Other liabilities	3,057			13,478		
Total liabilities	2,902,027			2,508,892		
Shareholders' equity	347,442			307,517		
Total liabilities & shareholders' equity	<u>\$ 3,249,469</u>			<u>\$ 2,816,409</u>		
Net interest income on a fully taxable equivalent basis		99,581			90,738	
Less taxable equivalent adjustment		(1,361)			(1,359)	
Net interest income		<u>\$ 98,220</u>			<u>\$ 89,379</u>	
Net interest spread (3)			3.15 %			3.30 %
Net interest margin (4)			<u>3.30 %</u>			<u>3.47 %</u>

- (1). Annualized on a fully taxable equivalent basis calculated using a federal tax rate of 21% for the nine months ended September 30, 2022 and 2021.
- (2). Nonaccrual loans are included in average amounts outstanding.
- (3). Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (4). Net interest margin represents net interest income on a fully tax equivalent basis as a percentage of average interest-earning assets.

Rate/Volume Analysis

The following tables describe the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected our interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volumes (changes in average balance multiplied by prior year average rate) and (ii) changes attributable to changes in rate (change in average interest rate multiplied by prior year average balance), while (iii) changes attributable to the combined impact of volumes and rates have been allocated proportionately to separate volume and rate categories.

	Three Months Ended September 30, 2022 Compared with Three Months Ended September 30, 2021 Increase/(Decrease) Due to Change in			Nine Months Ended September 30, 2022 Compared with Nine Months Ended September 30, 2021 Increase/(Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
	(dollars in thousands)			(dollars in thousands)		
Interest income						
Loans						
Taxable	\$ 17,701	\$ 970	\$ 18,671	\$ 7,931	\$ (2,220)	\$ 5,711
Tax-exempt	403	(86)	317	336	(221)	115
Securities						
Taxable (AFS)	3,679	(1,159)	2,520	2,958	(390)	2,568
Tax-exempt (AFS)	319	(363)	(44)	305	(396)	(91)
Taxable (HTM)	853	—	853	524	—	524
Tax-exempt (HTM)	(18)	2	(16)	(18)	3	(15)
Cash and due from banks	(573)	1,504	931	64	1,069	1,133
Total interest income	22,364	868	23,232	12,100	(2,155)	9,945
Interest expense						
Deposits						
Checking accounts	\$ 90	\$ 1,021	\$ 1,111	\$ 44	\$ 392	\$ 436
Savings accounts	944	353	1,297	628	114	742
Money market accounts	(3)	849	846	75	85	160
Certificates of deposit	339	13	352	(350)	(769)	(1,119)
Brokered Deposits	(167)	7	(160)	(186)	11	(175)
Total interest bearing deposits	1,203	2,243	3,446	211	(167)	44
Other borrowed funds	(390)	1,242	852	1,372	(314)	1,058
Total interest expense	813	3,485	4,298	1,583	(481)	1,102
Change in net interest income	\$ 21,551	\$ (2,617)	\$ 18,934	\$ 10,517	\$ (1,674)	\$ 8,843

CHANGES IN FINANCIAL CONDITION

Total Assets. Total assets increased \$703.2 million, or 23.9%, to \$3.64 billion at September 30, 2022, from \$2.94 billion at December 31, 2021.

Cash and Cash Equivalents. Cash and cash equivalents decreased by \$153.4 million to \$143.4 million at September 30, 2022 from \$296.9 million at December 31, 2021, the result of significant loan growth during the first two quarters of 2022 as well as investing approximately \$100.0 million in one-year treasury notes during the first quarter of 2022.

Investment Securities. The carrying value of total investment securities increased by \$125.5 million to \$344.1 million at September 30, 2022, from \$218.6 million at December 31, 2021.

Loans. Net loans increased by \$619.8 million, totaling \$2.84 billion at September 30, 2022 compared to \$2.22 billion at December 31, 2021.

Bank-Owned Life Insurance. At September 30, 2022, our investment in bank-owned life insurance was \$45.8 million, an increase of \$13.9 million from \$31.9 million at December 31, 2021.

Deposits. Deposits increased \$609.8 million, or 24.1%, to \$3.14 billion at September 30, 2022 from \$2.53 billion at December 31, 2021.

Borrowings. At September 30, 2022, borrowings consisted of advances from the FHLB of Chicago, as well as subordinated debt to other banks and an individual. FHLB borrowings decreased to \$2.6 million at September 30, 2022, from \$8.0 million at December 31, 2021. Subordinated debt increased to \$23.5 million at September 30, 2022 compared to \$17.5 million at December 31, 2021.

Stockholders' Equity. Total stockholders' equity increased \$116.8 million, or 36.2%, to \$439.4 million at September 30, 2022, from \$322.7 million at December 31, 2021. The primary driver of this increase was the Denmark acquisition, which added \$125.3 million to stockholders' equity. Strong earnings through the first three quarters of 2022 were offset by valuation adjustments to the Bank's available for sale investment portfolio, which is accounted for through the comprehensive income component of equity, due to significant movements in the interest rate environment. Further offsetting the strong earnings was \$13.8 million in repurchases of its common stock by the Company.

LOANS

Our lending activities are conducted principally in Wisconsin. The Bank makes commercial and industrial loans, commercial real estate loans, construction and development loans, residential real estate loans, and a variety of consumer loans and other loans. Much of the loans made by the Bank are secured by real estate collateral. The Bank's commercial business loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower, with liquidation of the underlying real estate collateral typically being viewed as the primary source of repayment in the event of borrower default. Although commercial business loans are also often collateralized by equipment, inventory, accounts receivable, or other business assets, the liquidation of collateral in the event of default is often an insufficient source of repayment. Repayment of the Bank's residential loans are generally dependent on the health of the employment market in the borrowers' geographic areas and that of the general economy with liquidation of the underlying real estate collateral being typically viewed as the primary source of repayment in the event of borrower default.

Our loan portfolio is our most significant earning asset, comprising 78.5% and 76.1% of our total assets as of September 30, 2022 and December 31, 2021, respectively. Our strategy is to grow our loan portfolio by originating quality commercial and consumer loans that comply with our credit policies and that produce revenues consistent with our financial objectives. We believe our loan portfolio is well-balanced, which provides us with the opportunity to grow while monitoring our loan concentrations.

Loans increased \$622.6 million, or 27.8%, to \$2.86 billion as of September 30, 2022 as compared to \$2.24 billion as of December 31, 2021. This increase during the first nine months of 2022 was primarily driven by the acquisition of Denmark, which included approximately \$457.1 million in loan balances, and has been comprised of an increase of \$120.5 million or 32.9% in commercial and industrial loans, an increase of \$149.0 million or 25.9% in owner occupied commercial real estate loans, an increase of \$131.4 million or 24.5% in non-owner occupied commercial real estate, an increase of \$76.8 million or 58.0% in construction and development loans, an increase of \$135.1 million or 23.6% in residential 1-4 family loans and an increase of \$9.7 million or 18.1% in consumer and other loans.

The following table presents the balance and associated percentage of each major category in our loan portfolio at September 30, 2022, December 31, 2021, and September 30, 2021:

	September 30,		December 31,		September 30,	
	2022	% of Total	2021	% of Total	2021	% of Total
	(dollars in thousands)					
Commercial & industrial	\$ 486,696	17 %	\$ 366,166	16 %	\$ 353,614	16 %
Commercial real estate						
Owner occupied	723,524	25 %	574,565	26 %	567,507	26 %
Non-owner occupied	668,337	23 %	536,892	24 %	542,258	25 %
Construction & development	209,270	7 %	132,454	6 %	116,759	5 %
Residential 1-4 family	706,956	25 %	571,845	26 %	572,875	26 %
Consumer	44,113	2 %	32,131	1 %	33,145	1 %
Other loans	19,171	1 %	21,461	1 %	22,757	1 %
Total Loans	<u>\$ 2,858,067</u>	<u>100 %</u>	<u>\$ 2,235,514</u>	<u>100 %</u>	<u>\$ 2,208,915</u>	<u>100 %</u>

Our directors and officers and their associates are customers of, and have other transactions with, the Bank in the normal course of business. All loans and commitments included in such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than normal risk of collection or present other unfavorable features. At September 30, 2022 and December 31, 2021, total loans outstanding to such directors and officers and their associates were \$72.1 million and \$73.5 million, respectively. During the nine months ended September 30, 2022, \$36.3 million of additions and \$37.7 million of repayments were made to these loans. At September 30, 2022 and December 31, 2021, all of the loans to directors and officers were performing according to their original terms, other than standard and customary payment deferrals allowed under the CARES act, which were provided under the same terms as all other customers of the Bank.

Loan categories

The principal categories of our loan portfolio are discussed below:

Commercial and Industrial (C&I). Our C&I portfolio totaled \$486.7 million and \$366.2 million at September 30, 2022 and December 31, 2021, respectively, and represented 17% and 16% of our total loans at those dates.

Our C&I loan customers represent various small and middle-market established businesses involved in professional services, accommodation and food services, health care, financial services, wholesale trade, manufacturing, distribution, retailing and non-profits. Most clients are privately owned with markets that range from local to national in scope. Many of the loans to this segment are secured by liens on corporate assets and the personal guarantees of the principals. The regional economic strength or weakness impacts the relative risks in this loan category. There is little concentration in any one business sector, and loan risks are generally diversified among many borrowers.

Commercial Real Estate (CRE). Our CRE loan portfolio totaled \$1.39 billion and \$1.11 billion at September 30, 2022 and December 31, 2021, respectively, and represented 49% and 50% of our total loans at those dates.

Our CRE loans are secured by a variety of property types including multifamily dwellings, retail facilities, office buildings, commercial mixed use, lodging and industrial and warehouse properties. We do not have any specific industry or customer concentrations in our CRE portfolio. Our commercial real estate loans are generally for terms up to ten years, with loan-to-values that generally do not exceed 80%. Amortization schedules are long term and thus a balloon payment is generally due at maturity. Under most circumstances, the Bank will offer to rewrite or otherwise extend the loan at prevailing interest rates.

Construction and Development (C&D). Our C&D loan portfolio totaled \$209.3 million and \$132.5 million at September 30, 2022 and December 31, 2021, respectively, and represented 7% and 6% of our total loans at those dates.

Our C&D loans are generally for the purpose of creating value out of real estate through construction and development work, and also include loans used to purchase recreational use land. Borrowers typically provide a copy of a construction or development contract which is subject to bank acceptance prior to loan approval. Disbursements are handled by a title company. Borrowers are required to inject their own equity into the project prior to any note proceeds being disbursed. These loans are, by their nature, intended to be short term and are refinanced into other loan types at the end of the construction and development period.

Residential 1 – 4 Family. Residential 1 – 4 family loans held in portfolio amounted to \$707.0 million and \$571.8 million at September 30, 2022 and December 31, 2021, respectively, and represented 25% and 26% of our total loans at those dates.

We offer fixed and adjustable-rate residential mortgage loans with maturities up to 30 years. One-to-four family residential mortgage loans are generally underwritten according to Fannie Mae guidelines, and we refer to loans that conform to such guidelines as “conforming loans.” We generally originate both fixed and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Federal Housing Finance Agency, which is generally \$424,100 for one-unit properties. In addition, we also offer loans above conforming lending limits typically referred to as “jumbo” loans. These loans are typically underwritten to the same guidelines as conforming loans; however, we may choose to hold a jumbo loan within its portfolio with underwriting criteria that does not exactly match conforming guidelines.

We do not offer reverse mortgages nor do we offer loans that provide for negative amortization of principal, such as “Option ARM” loans, where the borrower can pay less than the interest owed on his loan, resulting in an increased principal balance during the life of the loan. We also do not offer “subprime loans” (loans that are made with low down payments to borrowers with weakened

credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios) or Alt-A loans (defined as loans having less than full documentation).

Residential real estate loans are originated both for sale to the secondary market as well as for retention in the Bank's loan portfolio. The decision to sell a loan to the secondary market or retain within the portfolio is determined based on a variety of factors including but not limited to our asset/liability position, the current interest rate environment, and customer preference. Servicing rights are retained on all loans sold to the secondary market.

We were servicing mortgage loans sold to others without recourse of approximately \$873.4 million at September 30, 2022 and \$705.5 million at December 31, 2021.

Loans sold with the retention of servicing assets result in the capitalization of servicing rights. Loan servicing rights are included in other assets and are carried at fair value. The net balance of capitalized servicing rights amounted to \$9.6 million and 5.0 million at September 30, 2022 and December 31, 2021, respectively.

Consumer Loans. Our consumer loan portfolio totaled \$44.1 million and \$32.1 million at September 30, 2022 and December 31, 2021, respectively, and represented 2% and 1% of our total loans at those dates. Consumer loans include secured and unsecured loans, lines of credit and personal installment loans.

Consumer loans generally have greater risk compared to longer-term loans secured by improved, owner-occupied real estate, particularly consumer loans that are secured by rapidly depreciable assets. In these cases, any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance. As a result, consumer loan repayments are dependent on the borrower's continuing financial stability and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

Other Loans. Our other loans totaled \$19.2 million at September 30, 2022 and December 31, 2021, respectively, and are immaterial to the overall loan portfolio. The other loans category consists primarily of over-drafted depository accounts, loans utilized to purchase or carry securities and loans to nonprofit organizations.

Loan Portfolio Maturities.

The following tables summarize the dollar amount of loans maturing in our portfolio based on their loan type, fixed or variable rate of interest, and contractual terms to maturity at September 30, 2022. The tables do not include any estimate of prepayments, which can significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown

below. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

	One Year or Less	One to Five Years	Five to Fifteen Years	Over Fifteen Years	Total
	(dollars in thousands)				
Commercial & industrial	\$ 137,814	\$ 213,370	\$ 131,714	\$ 3,798	\$ 486,696
Commercial real estate					
Owner Occupied	81,392	301,930	298,043	42,159	723,524
Non-owner Occupied	39,301	260,281	350,451	18,304	668,337
Construction & Development	23,993	70,896	70,679	43,702	209,270
Residential 1-4 family	10,773	85,107	225,779	385,297	706,956
Consumer and other	6,442	37,944	15,456	3,442	63,284
Total	<u>\$ 299,715</u>	<u>\$ 969,528</u>	<u>\$ 1,092,122</u>	<u>\$ 496,702</u>	<u>\$ 2,858,067</u>
Fixed Rate Loans:					
Commercial & industrial	\$ 22,617	\$ 168,405	\$ 94,867	\$ 3,333	\$ 289,222
Commercial real estate					
Owner Occupied	48,537	281,070	135,473	10,533	475,613
Non-owner Occupied	35,296	250,294	221,166	6,650	513,406
Construction & Development	14,453	44,467	57,597	37,664	154,181
Residential 1-4 family	3,308	75,480	195,009	224,417	498,214
Consumer and other	4,063	37,162	15,120	3,442	59,787
Total	<u>\$ 128,274</u>	<u>\$ 856,878</u>	<u>\$ 719,232</u>	<u>\$ 286,039</u>	<u>\$ 1,990,423</u>
Floating Rate Loans:					
Commercial & industrial	\$ 115,197	\$ 44,965	\$ 36,847	\$ 465	\$ 197,474
Commercial real estate					
Owner Occupied	32,855	20,860	162,570	31,626	247,911
Non-owner Occupied	4,005	9,987	129,285	11,654	154,931
Construction & Development	9,540	26,429	13,082	6,038	55,089
Residential 1-4 family	7,465	9,627	30,770	160,880	208,742
Consumer and other	2,379	782	336	—	3,497
Total	<u>\$ 171,441</u>	<u>\$ 112,650</u>	<u>\$ 372,890</u>	<u>\$ 210,663</u>	<u>\$ 867,644</u>

NONPERFORMING ASSETS

In order to operate with a sound risk profile, we focus on originating loans that we believe to be of high quality. We have established loan approval policies and procedures to assist us in maintaining the overall quality of our loan portfolio. When delinquencies in our loans exist, we rigorously monitor the levels of such delinquencies for any negative or adverse trends. From time to time, we may modify loans to extend the term or make other concessions to help a borrower with a deteriorating financial condition stay current on their loan and to avoid foreclosure. We generally do not forgive principal or interest on loans or modify the interest rates on loans to rates that are below market rates. Furthermore, we are committed to collecting on all of our loans and, as a result, at times have lower net charge-offs compared to many of our peer banks. We believe that our commitment to collecting on all of our loans results in higher loan recoveries.

[Table of Contents](#)

Our nonperforming assets consist of nonperforming loans and foreclosed real estate. Nonperforming loans are those on which the accrual of interest has stopped, as well as loans that are contractually 90 days past due on which interest continues to accrue. The composition of our nonperforming assets is as follows:

	As of September 30, 2022	As of December 31, 2021	As of September 30, 2021
		(dollars in thousands)	
Nonperforming loans			
Nonaccrual loans			
Commercial & industrial	\$ 218	\$ 247	\$ 285
Commercial real estate			
Owner Occupied	3,609	5,884	3,373
Non-owner Occupied	—	650	7,413
Construction & Development	17	19	19
Residential 1-4 family	516	439	456
Consumer and other	10	2	3
Total nonaccrual loans	4,370	7,241	11,549
Loans past due > 90 days, but still accruing			
Commercial & industrial	205	738	—
Commercial real estate			
Owner Occupied	33	—	—
Non-owner Occupied	—	—	—
Construction & Development	—	—	—
Residential 1-4 family	162	245	310
Consumer and other	3	16	2
Total loans past due > 90 days, but still accruing	403	999	312
Total nonperforming loans	\$ 4,773	\$ 8,240	\$ 11,861
OREO			
Commercial real estate owned	\$ —	\$ —	\$ —
Residential real estate owned	—	10	197
Bank property real estate owned	1,405	140	—
Total OREO	\$ 1,405	\$ 150	\$ 197
Total nonperforming assets ("NPAs")	\$ 6,178	\$ 8,390	\$ 12,058
Accruing troubled debt restructured loans	\$ 450	\$ 484	\$ 1,232
Ratios			
Nonaccrual loans to total loans	0.15 %	0.32 %	0.52 %
NPAs to total loans plus OREO	0.21 %	0.38 %	0.54 %
NPAs to total assets	0.17 %	0.28 %	0.42 %
ALL to nonaccrual loans	527 %	281 %	175 %
ALL to total loans	0.81 %	0.91 %	0.92 %

At September 30, 2022 and December 31, 2021, impaired loans had specific reserves of \$0.9 million and \$0.8 million, respectively.

Nonaccrual Loans

Loans are typically placed on nonaccrual status when any payment of principal and/or interest is 90 days or more past due, unless the collateral is sufficient to cover both principal and interest and the loan is in the process of collection. Loans are also placed on nonaccrual status when management believes, after considering economic and business conditions, that the principal or interest will not be collectible in the normal course of business. We monitor closely the performance of our loan portfolio. In addition to the monitoring and review of loan performance internally, we have also contracted with an independent organization to review our commercial and retail loan portfolios. The status of delinquent loans, as well as situations identified as potential problems, is reviewed on a regular basis by senior management.

Troubled Debt Restructurings

A troubled debt restructuring includes a loan modification where a borrower is experiencing financial difficulty and we grant a concession to that borrower that we would not otherwise consider except for the borrower's financial difficulties. These concessions may include modifications of the terms of the debt such as deferral of payments, extension of maturity, reduction of principal balance, reduction of the stated interest rate other than normal market rate adjustments, or a combination of these concessions. Debt may be bifurcated with separate terms for each tranche of the restructured debt. Restructuring a loan in lieu of aggressively enforcing the collection of the loan may benefit the Company by increasing the ultimate probability of collection.

A TDR may be either on accrual or nonaccrual status based upon the performance of the borrower and management's assessment of collectability. If a TDR is placed on nonaccrual status, which would occur based on the same criteria as non-TDR loans, it remains there until a sufficient period of performance under the restructured terms has occurred at which it returned to accrual status, generally 6 months.

As of September 30, 2022 and December 31, 2021 the Company had specific reserves of \$7,000 for TDRs, and none of them have subsequently defaulted.

ALLOWANCE FOR LOAN LOSSES

ALL represents management's estimate of probable and inherent credit losses in the loan portfolio. Estimating the amount of the ALL require the exercise of significant judgment and the use of estimates related to the amount and timing of expected future cash flows or impaired loans, estimated losses on pools of homogenous loans based on historical loss experience, and consideration of other qualitative factors such as current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset on the consolidated balance sheets. Loan losses are charged off against the ALL, while recoveries of amounts previously charged off are credited to the ALL. A provision for loan losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors.

The ALL consists of specific reserves for certain individually evaluated impaired loans and general reserves for collectively evaluated non-impaired loans. Specific reserves reflect estimated losses on impaired loans from management's analyses developed through specific credit allocations. The specific reserves are based on regular analyses of impaired, non-homogenous loans greater than \$250,000. These analyses involve a high degree of judgment in estimating the amount of loss associated with specific loans, including estimating the amount and timing of future cash flows and collateral values. The general reserve is based in part on the Bank's historical loss experience which is updated quarterly. The general reserve portion of the ALL also includes consideration of certain qualitative factors such as (1) changes in lending policies and/or underwriting practices, (2) national and local economic conditions, (3) changes in portfolio volume and nature, (4) experience, ability and depth of lending management and other relevant staff, (5) levels of and trends in past-due and nonaccrual loans and quality, (6) changes in loan review and oversight, (7) impact and effects of concentrations and (8) other issues deemed relevant.

There are many factors affecting ALL; some are quantitative while others require qualitative judgment. The process for determining the ALL (which management believes adequately considers potential factors which might possibly result in credit losses) includes subjective elements and, therefore, may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provision for loan losses could be required that could adversely affect our earnings or financial position in future periods. Allocations of the ALL may be made for specific loans but the entire ALL is available for any loan that, in management's judgment, should be charged off or for which an actual loss is realized. As an integral part of their examination process, various regulatory agencies review the ALL as well. Such agencies may require that changes in the ALL be recognized when such regulators' credit evaluations differ from those of management based on information available to the regulators at the time of their examinations.

[Table of Contents](#)

The following table summarizes the changes in our ALL for the periods indicated:

	Nine months ended September 30, 2022	Year ended December 31, 2021	Nine months ended September 30, 2021
		(dollars in thousands)	
Balance of ALL at the beginning of period	\$ 20,315	\$ 17,658	\$ 17,658
Net loans charged-off (recovered):			
Commercial & industrial	(455)	180	10
Commercial real estate - owner occupied	(74)	275	(54)
Commercial real estate - non-owner occupied	(360)	(5)	(5)
Construction & Development	(152)	(143)	(33)
Residential 1-4 family	33	110	(12)
Consumer	15	6	(1)
Other Loans	(37)	20	16
Total net loans charged-off	(1,030)	443	(79)
Provision charged to operating expense	1,700	3,100	2,500
Balance of ALL at end of period	\$ 23,045	\$ 20,315	\$ 20,237
Ratio of net charge-offs (recoveries) to average loans by loan composition			
Commercial & industrial	(0.11)%	0.05 %	0.00 %
Commercial real estate - owner occupied	(0.01)%	0.05 %	(0.01)%
Commercial real estate - non-owner occupied	(0.06)%	0.00 %	(0.00)%
Construction & Development	(0.09)%	(0.11)%	(0.03)%
Residential 1-4 family	0.01 %	0.02 %	(0.00)%
Consumer	0.04 %	0.02 %	(0.00)%
Other Loans	(0.19)%	0.07 %	0.05 %
Total net charge-offs to average loans	(0.04)%	0.02 %	(0.00)%

The level of charge-offs depends on many factors, including the national and regional economy. Cyclical lagging factors may result in charge-offs being higher than historical levels. Although the allowance is allocated between categories, the entire allowance is available to absorb losses attributable to all loan categories. Management believes that the current ALL is adequate.

The following table summarizes an allocation of the ALL and the related percentage of loans outstanding in each category for the periods below.

	September 30, 2022		December 31, 2021		September 30, 2021	
(in thousands, except %)	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans
Loan Type:						
Commercial & industrial	\$ 4,288	17 %	\$ 3,699	16 %	\$ 3,010	16 %
Commercial real estate - owner occupied	5,064	25 %	5,633	26 %	6,967	26 %
Commercial real estate - non-owner occupied	5,876	23 %	5,151	24 %	4,586	25 %
Construction & development	1,643	7 %	984	6 %	866	5 %
Residential 1-4 family	5,724	25 %	4,445	26 %	4,380	26 %
Consumer	299	2 %	224	1 %	232	1 %
Other loans	151	1 %	179	1 %	196	1 %
Total allowance	\$ 23,045	100 %	\$ 20,315	100 %	\$ 20,237	100 %

SOURCES OF FUNDS

General. Deposits traditionally have been our primary source of funds for our investment and lending activities. We also borrow from the FHLB of Chicago to supplement cash needs, to lengthen the maturities of liabilities for interest rate risk management purposes and to manage our cost of funds. Our additional sources of funds are scheduled payments and prepayments of principal and interest on loans and investment securities and fee income and proceeds from the sales of loans and securities.

Deposits. Our current deposit products include non-interest bearing and interest-bearing checking accounts, savings accounts, money market accounts, and certificate of deposits. As of September 30, 2022, deposit liabilities accounted for approximately 86.2% of our total liabilities and equity. We accept deposits primarily from customers in the communities in which our branches and offices are located, as well as from small businesses and other customers throughout our lending area. We rely on our competitive pricing and products, quality customer service, and convenient locations and hours to attract and retain deposits. Deposit rates and terms are based primarily on current business strategies, market interest rates, liquidity requirements and our deposit growth goals.

Total deposits were \$3.14 billion and \$2.53 billion as of September 30, 2022 and December 31, 2021, respectively. Noninterest-bearing deposits at September 30, 2022 and December 31, 2021, were \$971.8 million and \$799.9 million, respectively, while interest-bearing deposits were \$2.17 billion and \$1.73 billion at September 30, 2022 and December 31, 2021, respectively.

At September 30, 2022, we had a total of \$356.9 million in certificates of deposit, including \$6.7 million of brokered deposits. Based on historical experience and our current pricing strategy, we believe we will retain a majority of these accounts upon maturity, although our long-term strategy is to minimize reliance on certificates of deposits by increasing relationship deposits in lower earning savings and demand deposit accounts.

The following tables set forth the average balances of our deposits for the periods indicated:

	Nine months ended September 30, 2022		Year ended December 31, 2021		Nine months ended September 30, 2021	
	Amount	Percent	Amount	Percent	Amount	Percent
	(dollars in thousands)					
Noninterest-bearing demand deposits	\$ 843,238	31.5 %	\$ 785,364	32.0 %	\$ 776,252	32.0 %
Interest-bearing checking deposits	244,615	9.1 %	209,970	8.6 %	212,197	8.7 %
Savings deposits	643,841	24.1 %	497,958	20.3 %	480,285	19.8 %
Money market accounts	679,091	25.4 %	664,591	27.1 %	656,922	27.0 %
Certificates of deposit	255,197	9.6 %	278,602	11.4 %	288,805	11.9 %
Brokered deposits	9,217	0.3 %	14,718	0.6 %	15,607	0.6 %
Total	<u>\$ 2,675,199</u>	<u>100 %</u>	<u>\$ 2,451,203</u>	<u>100 %</u>	<u>\$ 2,430,068</u>	<u>100 %</u>

The following table provides information on maturities of certificates of deposits which exceed FDIC insurance limits of \$250,000 as of September 30, 2022:

	Time Deposits over FDIC Insurance Limits	Portion of Time Deposits in Excess of FDIC Insurance Limits
	(dollars in thousands)	
3 months or less remaining	\$ 3,467	\$ 717
Over 3 to 6 months remaining	10,271	3,271
Over 6 to 12 months remaining	19,763	11,263
Over 12 months or more remaining	25,505	8,755
Total	<u>\$ 59,006</u>	<u>\$ 24,006</u>

Borrowings

Securities sold under repurchase agreements

The Company has securities sold under repurchase agreements which have contractual maturities up to one year from the transaction date with variable and fixed rate terms. The agreements to repurchase require that the Company (seller) repurchase identical securities as those that are sold. The securities underlying the agreements are under the Company's control.

[Table of Contents](#)

The following table summarizes securities sold under repurchase agreements, and the weighted average interest rates paid:

(dollars in thousands)	Nine months ended September 30, 2022	Year ended December 31, 2021	Nine months ended September 30, 2021
Average daily amount of securities sold under repurchase agreements during the period	\$ 19,109	\$ 34,637	\$ 35,638
Weighted average interest rate on average daily securities sold under repurchase agreements	0.73 %	0.03 %	0.03 %
Maximum outstanding securities sold under repurchase agreements at any month-end	\$ 38,803	\$ 57,915	\$ 57,532
Securities sold under repurchase agreements at period end	\$ 21,963	\$ 41,122	\$ 17,402
Weighted average interest rate on securities sold under repurchase agreements at period end	3.10 %	0.02 %	0.06 %

Borrowings

The Company's borrowings have historically consisted primarily of FHLB of Chicago advances collateralized by a blanket pledge agreement on the Company's FHLB capital stock and retail and commercial loans held in the Company's portfolio. There were \$2.6 million of advances outstanding from the FHLB at September 30, 2022, and \$8.0 million as of December 31, 2021.

The total loans pledged as collateral were \$588.8 million at September 30, 2022 and \$915.5 million at December 31, 2021. There were no outstanding letters of credit from the FHLB at September 30, 2022 and December 31, 2021.

The following table summarizes borrowings, which consist of borrowings from the FHLB, and the weighted average interest rates paid:

(dollars in thousands)	Nine months ended September 30, 2022	Year ended December 31, 2021	Nine months ended September 30, 2021
Average daily amount of borrowings outstanding during the period	\$ 185,740	\$ 11,343	\$ 12,208
Weighted average interest rate on average daily borrowing	0.43 %	0.33 %	0.36 %
Maximum outstanding borrowings at any month-end	\$ 308,756	\$ 15,338	\$ 15,338
Borrowing outstanding at period end	\$ 2,550	\$ 7,958	\$ 9,108
Weighted average interest rate on borrowing at period end	2.02 %	0.91 %	1.07 %

Lines of credit and other borrowings.

We maintain a \$7.5 million line of credit with another commercial bank, which was entered into on May 15, 2022. There were no outstanding balances on this note at September 30, 2022. Any future borrowings will required monthly payments of interest at a variable rate, and will be due in full on May 15, 2024.

During September 2017, the Company entered into subordinated note agreements with three separate commercial banks. As of September 30, 2021 and December 31, 2020, outstanding balances under these agreements totaled \$11.5 million. These notes were all issued with 10-year maturities, carry interest at a variable rate payable quarterly, are callable on or after the sixth anniversary of their issuance dates, and qualify for Tier 2 capital for regulatory purposes.

During July 2020, the Company entered into subordinated note agreements with two separate commercial banks. As of September 30, 2022 and December 31, 2021, outstanding balances under these agreements totaled \$6.0 million. These notes were issued with 10-year maturities, will carry interest at a fixed rate of 5.0% through June 30, 2025, and at a variable rate thereafter, payable quarterly. These notes are callable on or after January 1, 2026 and qualify for Tier 2 capital for regulatory purposes.

During August 2022, the Company entered into subordinated note agreements with an individual. As of September 30, 2022, outstanding balances under these agreements totaled \$6.0 million. These notes were issued with 10-year maturities, will carry interest at a fixed rate of 5.25% through August 6, 2027, and at a variable rate thereafter, payable quarterly. These notes are callable on or after August 6, 2027 and qualify for Tier 2 capital for regulatory purposes.

INVESTMENT SECURITIES

Our securities portfolio consists of securities available for sale and securities held to maturity. Securities are classified as held to maturity or available for sale at the time of purchase. Obligations of states and political subdivisions and mortgage-backed securities, all of which are issued by U.S. government agencies or U.S. government-sponsored enterprises, make up the largest components of the securities portfolio. We manage our investment portfolio to provide an adequate level of liquidity as well as to maintain neutral interest rate-sensitive positions, while earning an adequate level of investment income without taking undue or excessive risk.

Securities available for sale consist of U.S. treasury securities, obligations of states and political subdivision, mortgage-backed securities, and corporate notes. Securities classified as available for sale, which management has the intent and ability to hold for an indefinite period of time, but not necessarily to maturity, are carried at fair value, with unrealized gains and losses, net of related deferred income taxes, included in stockholders' equity as a separate component of other comprehensive income. The fair value of securities available for sale totaled \$303.3 million and included gross unrealized gains of \$0.4 million and gross unrealized losses of \$26.1 at September 30, 2022. At December 31, 2021, the fair value of securities available for sale totaled \$212.7 million and included gross unrealized gains of \$5.6 million and gross unrealized losses of \$0.7 million.

Securities classified as held to maturity consist of U.S. treasury securities and obligations of states and political subdivisions. These securities, which management has the intent and ability to hold to maturity, are reported at amortized cost. Securities held to maturity totaled \$40.8 million at September 30, 2022 and \$5.9 million at December 31, 2021.

The Company had recognized gains or losses on sales of securities of \$0 and \$3,000 during the nine months ended September 30, 2022 and 2021, respectively.

The following tables set forth the composition and maturities of investment securities as of September 30, 2022 and December 31, 2021. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

[Table of Contents](#)

	Within One Year		After One, But Within Five Years		After Five, But Within Ten Years		After Ten Years		Total	
	Amortized Cost	Weighted Average Yield (1)	Amortized Cost	Weighted Average Yield (1)	Amortized Cost	Weighted Average Yield (1)	Amortized Cost	Weighted Average Yield (1)	Amortized Cost	Weighted Average Yield (1)
At September 30, 2022	(dollars in thousands)									
Available for sale securities										
U.S. Treasury securities	\$ 99,991	1.2 %	\$ 9,849	1.2 %	\$ 39,761	1.5 %	\$ —	— %	\$ 149,601	1.3 %
Obligations of U.S. Government sponsored agencies	—	— %	—	— %	13,110	1.5 %	12,171	1.9 %	25,281	1.7 %
Obligations of states and political subdivisions	2,910	2.8 %	6,822	3.6 %	24,060	3.5 %	57,425	3.0 %	91,217	3.2 %
Mortgage-backed securities	3,461	2.4 %	7,464	2.7 %	15,410	3.2 %	13,504	3.4 %	39,839	3.1 %
Corporate notes	—	— %	4,981	3.3 %	14,208	3.6 %	2,320	5.1 %	21,509	3.7 %
Certificates of deposit	747	1.0 %	756	1.2 %	—	— %	—	— %	1,503	1.1 %
Total available for sale securities	\$ 107,109	1.3 %	\$ 29,872	2.5 %	\$ 106,549	2.5 %	\$ 85,420	2.9 %	\$ 328,950	2.2 %
Held to maturity securities										
U.S. Treasury securities	\$ —	— %	\$ 34,747	2.7 %	\$ 883	3.1 %	\$ —	— %	\$ 35,630	2.6 %
Obligations of states and political subdivisions	\$ 1,044	2.6 %	\$ 3,281	2.7 %	\$ 871	3.1 %	\$ —	— %	\$ 5,196	2.8 %
Total held to maturity securities	\$ 1,044	2.6 %	\$ 38,028	2.7 %	\$ 1,754	3.1 %	\$ —	— %	\$ 40,826	2.6 %
Total	\$ 108,153	1.3 %	\$ 33,153	2.6 %	\$ 107,420	2.5 %	\$ 85,420	2.9 %	\$ 369,776	2.3 %

	Within One Year		After One, But Within Five Years		After Five, But Within Ten Years		After Ten Years		Total	
	Amortized Cost	Weighted Average Yield (1)	Amortized Cost	Weighted Average Yield (1)	Amortized Cost	Weighted Average Yield (1)	Amortized Cost	Weighted Average Yield (1)	Amortized Cost	Weighted Average Yield (1)
At December 31, 2021	(dollars in thousands)									
Available for sale securities										
U.S. Treasury securities	\$ —	0.0 %	\$ —	0.0 %	\$ 49,574	1.4 %	\$ —	0.0 %	49,574	1.4 %
Obligations of U.S. Government sponsored agencies	304	0.2 %	—	0.0 %	12,967	1.4 %	13,451	1.8 %	26,722	1.6 %
Obligations of states and political subdivisions	—	0.0 %	4,367	3.7 %	14,587	3.4 %	64,065	3.1 %	83,019	3.2 %
Mortgage-backed securities	60	2.6 %	10,559	2.5 %	10,508	3.0 %	5,016	2.5 %	26,143	2.7 %
Corporate notes	—	0.0 %	4,972	3.3 %	14,311	3.6 %	1,477	5.1 %	20,760	3.6 %
Certificates of deposit	503	0.9 %	1,026	1.2 %	—	0.0 %	—	0.0 %	1,529	1.1 %
Total available for sale securities	\$ 867	0.7 %	\$ 20,924	2.9 %	\$ 101,947	2.1 %	\$ 84,009	2.9 %	\$ 207,747	2.5 %
Held to maturity securities										
Obligations of states and political subdivisions	\$ 715	2.3 %	\$ 3,492	2.6 %	\$ 1,704	3.0 %	\$ —	0.0 %	\$ 5,911	2.7 %
Total	\$ 1,582	1.5 %	\$ 24,416	2.8 %	\$ 103,651	2.1 %	\$ 84,009	2.9 %	\$ 213,658	2.5 %

(1) Weighted Average Yield is shown on a fully taxable equivalent basis using a federal tax rate of 21% at September 30, 2022 and December 31, 2021, respectively.

The Company evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (1) credit quality of individual securities and their issuers are assessed; (2) the length of time and the extent to which the fair value has been less than cost; (3) the financial condition and near-term prospects of the issuer; and (4) that the Company does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis.

As of September 30, 2022, 270 debt securities had gross unrealized losses, with an aggregate depreciation of 7.8% from our amortized cost basis. The largest unrealized loss percentage of any single security was 22.5% (or \$0.6 million) of its amortized cost. The largest unrealized dollar loss of any security was \$1.6 million (or 17.1%).

As of December 31, 2021, 26 debt securities had gross unrealized losses, with an aggregate depreciation of 0.98% from our amortized cost basis. The largest unrealized loss percentage of any single security was 5.31% (or \$0.3 million) of its amortized cost. This was also the largest unrealized dollar loss of any single security.

The unrealized losses on these debt securities arose primarily due to changing interest rates and are considered to be temporary.

LIQUIDITY AND CAPITAL RESOURCES

Impact of Inflation and Changing Prices. Our consolidated financial statements and related notes have been prepared in accordance with GAAP. GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration of changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on our performance than they would on industrial companies.

Liquidity. Liquidity is defined as the Company's ability to generate adequate cash to meet its needs for day-to-day operations and material long and short-term commitments. Liquidity is the risk of potential loss if we were unable to meet our funding requirements at a reasonable cost. We are expected to maintain adequate liquidity at the Bank to meet the cash flow requirements of customers who may be either depositors wishing to withdraw funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs. Our asset and liability management policy is intended to cause the Bank to maintain adequate liquidity and, therefore, enhance our ability to raise funds to support asset growth, meet deposit withdrawals and lending needs, maintain reserve requirements and otherwise sustain our operations.

We continuously monitor our liquidity position to ensure that assets and liabilities are managed in a manner that will meet all of our short-term and long-term cash requirements. We manage our liquidity based on demand and specific events and uncertainties to meet current and future financial obligations of a short-term nature. We also monitor our liquidity requirements in light of interest rate trends, changes in the economy and the scheduled maturity and interest rate sensitivity of the investment and loan portfolios and deposits. Our objective in managing liquidity is to respond to the needs of depositors and borrowers as well as to increase earnings enhancement opportunities in a changing marketplace.

Our liquidity is maintained through investment portfolio, deposits, borrowings from the FHLB, and lines available from correspondent banks. Our highest priority is placed on growing noninterest bearing deposits through strong community involvement in the markets that we serve. Borrowings and brokered deposits are considered short-term supplements to our overall liquidity but are not intended to be relied upon for long-term needs. We believe that our present position is adequate to meet our current and future liquidity needs, and management knows of no trend or event that will have a material impact on the Company's ability to maintain liquidity at satisfactory levels.

Capital Adequacy. Total stockholders' equity was \$439.4 million at September 30, 2022 compared to \$322.7 million at December 31, 2021.

Our capital management consists of providing adequate equity to support our current and future operations. The Bank is subject to various regulatory capital requirements administered by state and federal banking agencies, including the Federal Reserve and the OCC. Failure to meet minimum capital requirements may prompt certain actions by regulators that, if undertaken, could have a direct material adverse effect on our financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measure of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and the classifications are also subject to qualitative judgment by the regulator in regard to components, risk weighting and other factors.

[Table of Contents](#)

The Bank is subject to the following risk-based capital ratios: a common equity Tier 1 (“CET1”) risk-based capital ratio, a Tier 1 risk-based capital ratio, which includes CET1 and additional Tier 1 capital, and a total capital ratio, which includes Tier 1 and Tier 2 capital. CET1 is primarily comprised of the sum of common stock instruments and related surplus net of treasury stock, retained earnings, and certain qualifying minority interests, less certain adjustments and deductions, including with respect to goodwill, intangible assets, mortgage servicing assets and deferred tax assets subject to temporary timing differences. Additional Tier 1 capital is primarily comprised of noncumulative perpetual preferred stock, tier 1 minority interests and grandfathered trust preferred securities. Tier 2 capital consists of instruments disqualified from Tier 1 capital, including qualifying subordinated debt, other preferred stock and certain hybrid capital instruments, and a limited amount of loan loss reserves up to a maximum of 1.25% of risk-weighted assets, subject to certain eligibility criteria. The capital rules also define the risk-weights assigned to assets and off-balance sheet items to determine the risk-weighted asset components of the risk-based capital rules, including, for example, certain “high volatility” commercial real estate, past due assets, structured securities and equity holdings.

The leverage capital ratio, which serves as a minimum capital standard, is the ratio of Tier 1 capital to quarterly average assets net of goodwill, certain other intangible assets, and certain required deduction items. The required minimum leverage ratio for all banks is 4%.

Failure to be well-capitalized or to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have an adverse material effect on our operations or financial condition. For example, only a well-capitalized depository institution may accept brokered deposits without prior regulatory approval. Failure to be well-capitalized or to meet minimum capital requirements could also result in restrictions on the Bank’s ability to pay dividends or otherwise distribute capital or to receive regulatory approval of applications or other restrictions on its growth.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), among other things, requires the federal bank regulatory agencies to take “prompt corrective action” regarding depository institutions that do not meet minimum capital requirements. FDICIA establishes five regulatory capital tiers: “well capitalized”, “adequately capitalized”, “undercapitalized”, “significantly undercapitalized”, and “critically undercapitalized”. A depository institution’s capital tier will depend upon how its capital levels compare to various relevant capital measures and certain other factors, as established by regulation. FDICIA generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the depository institution would thereafter be undercapitalized. The FDICIA imposes progressively more restrictive restraints on operations, management and capital distributions, depending on the category in which an institution is classified. Undercapitalized depository institutions are subject to restrictions on borrowing from the Federal Reserve System. In addition, undercapitalized depository institutions may not accept brokered deposits absent a waiver from the FDIC, are subject to growth limitations and are required to submit capital restoration plans for regulatory approval. A depository institution’s holding company must guarantee any required capital restoration plan, up to an amount equal to the lesser of 5 percent of the depository institution’s assets at the time it becomes undercapitalized or the amount of the capital deficiency when the institution fails to comply with the plan. Federal banking agencies may not accept a capital plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution’s capital. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. All of the federal bank regulatory agencies have adopted regulations establishing relevant capital measures and relevant capital levels for federally insured depository institutions. The Bank was well capitalized at September 30, 2022, and brokered deposits are not restricted.

To be well-capitalized, the Bank must maintain at least the following capital ratios:

- 6.5% CET1 to risk-weighted assets;
- 8.0% Tier 1 capital to risk-weighted assets;
- 10.0% Total capital to risk-weighted assets; and
- 5.0% leverage ratio.

The Bank’s regulatory capital ratios were above the applicable well-capitalized standards and met the then-applicable capital conservation buffer. Based on current estimates, we believe that the Bank will continue to exceed all applicable well-capitalized regulatory capital requirements and the capital conservation buffer in 2022.

The Economic Growth, Regulatory Relief, and Consumer Protection Act (the “Economic Growth Act”) signed into law in May 2018 scaled back certain requirements of the Dodd-Frank Act and provided other regulatory relief. Among the provisions of the Economic Growth Act was a requirement that the Federal Reserve raise the asset threshold for those bank holding companies subject to the Federal Reserve’s Small Bank Holding Company Policy Statement (“Policy Statement”) to \$3 billion. As a result, as of the effective date of that change in 2018, the Company was no longer required to comply with the risk-based capital rules applicable to the Bank as described above. The Federal Reserve may however, require smaller bank holding companies subject to the Policy Statement to maintain certain minimum capital levels, depending upon general economic conditions and a bank holding company’s particular condition, risk profile and growth plans. Due to the acquisition of Denmark the Company is subject to compliance with risk-based capital rules beginning with the third quarter of 2022, and will remain so as long as it remains above the \$3 billion threshold.

As a result of the Economic Growth Act, the federal banking agencies were also required to develop a “Community Bank Leverage Ratio” (the ratio of a bank’s Tier 1 capital to average total consolidated assets) for financial institutions with assets of less than \$10 billion. A “qualifying community bank” that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered “well capitalized” under prompt corrective action statutes. The federal banking agencies may consider a financial institutions risk profile when evaluation whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies set the minimum capital for the new Community Bank Leverage Ratio at 9%. The Bank does not intend to opt into the Community Bank Leverage Ratio Framework.

On December 21, 2018, federal banking agencies issued a joint final rule to revise their regulatory capital rules to (i) address the upcoming implementation of the “current expected credit losses” (“CECL”) accounting standard under GAAP; (ii) provide an optional three-year phase-in period for the day-one adverse regulatory capital effects that banking organizations are expected to experience upon adopting CECL; and (iii) require the use of CECL in stress tests beginning with the 2020 capital planning and stress testing cycle for certain banking organizations. for more information regarding Accounting Standards Update No. 2016-13, which introduced CECL as the methodology to replace the current “incurred loss” methodology for financial assets measured at amortized cost, and changed the approaches for recognizing and recording credit losses on available-for-sale debt securities and purchased credit impaired financial assets, including the required implementation date for the Company, see the Company’s Annual Report.

Federal banking regulators have issued risk-based capital guidelines, which assign risk factors to asset categories and off-balance-sheet items. The following table reflects capital ratios computed utilizing the implemented Basel III regulatory capital framework discussed above:

	Actual		Minimum Capital Required for Capital Adequacy		Minimum Capital Required for Capital Adequacy Plus Capital Conservation Buffer Basel III Phase-In Schedule		Minimum To Be Well-Capitalized Under prompt corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)								
At September 30, 2022								
Bank First Corporation:								
Total capital (to risk-weighted assets)	\$ 375,338	12.0 %	252,010	8.0 %	330,763	10.5 %	315,012	10.0 %
Tier I capital (to risk-weighted assets)	328,793	10.5 %	189,007	6.0 %	267,761	8.5 %	252,010	8.0 %
Common equity tier I capital (to risk-weighted assets)	328,793	10.5 %	141,756	4.5 %	220,509	7.0 %	204,758	6.5 %
Tier I capital (to average assets)	328,793	10.2 %	128,705	4.0 %	128,705	4.0 %	160,881	5.0 %
Bank First, N.A.:								
Total capital (to risk-weighted assets)	\$ 301,206	11.6 %	250,904	8.0 %	329,312	10.5 %	313,630	10.0 %
Tier I capital (to risk-weighted assets)	278,508	10.8 %	188,178	6.0 %	266,586	8.5 %	250,904	8.0 %
Common equity tier I capital (to risk-weighted assets)	278,508	10.8 %	141,134	4.5 %	219,541	7.0 %	203,860	6.5 %
Tier I capital (to average assets)	278,508	10.6 %	127,821	4.0 %	127,821	4.0 %	159,776	5.0 %
At December 31, 2021								
Bank First Corporation:								
Total capital (to risk-weighted assets)	\$ 297,467	12.4 %	N/A	N/A	N/A	N/A	N/A	N/A
Tier I capital (to risk-weighted assets)	259,652	10.9 %	N/A	N/A	N/A	N/A	N/A	N/A
Common equity tier I capital (to risk-weighted assets)	259,652	10.9 %	N/A	N/A	N/A	N/A	N/A	N/A
Tier I capital (to average assets)	259,652	9.3 %	N/A	N/A	N/A	N/A	N/A	N/A
Bank First, N.A.:								
Total capital (to risk-weighted assets)	\$ 291,994	12.2 %	191,339	8.0 %	251,133	10.50 %	239,174	10.0 %
Tier I capital (to risk-weighted assets)	271,679	11.4 %	143,505	6.0 %	203,298	8.50 %	191,339	8.0 %
Common equity tier I capital (to risk-weighted assets)	271,679	11.4 %	107,628	4.5 %	167,422	7.00 %	155,463	6.5 %
Tier I capital (to average assets)	271,679	9.7 %	111,825	4.0 %	111,825	4.00 %	139,781	5.0 %

As previously mentioned, the Company carried \$23.5 million and \$17.5 million of subordinated debt as of September 30, 2022 and December 31, 2021, respectively, which is included in total capital for the Company in the tables above.

FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

We are party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments primarily include commitments to originate and sell loans, standby and direct pay letters of credit, unused lines of credit and unadvanced portions of construction and development loans. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in these particular classes of financial instruments.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments, standby and direct pay letters of credit and unadvanced portions of construction and development loans is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Off-Balance Sheet Arrangements. Our significant off-balance-sheet arrangements consist of the following:

- Unused lines of credit
- Standby and direct pay letters of credit
- Credit card arrangements

Off-balance sheet arrangement means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with the registrant is a party, under which the registrant has (1) any obligation under a guarantee contract, (2) retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement, (3) any obligation, including a contingent obligation, under a contract that would be accounted for as a derivative instrument, or (4) any obligation, including a contingent obligation, arising out of a variable interest.

[Table of Contents](#)

Loan commitments are made to accommodate the financial needs of our customers. Standby and direct pay letters of credit commit us to make payments on behalf of customers when certain specified future events occur. Both arrangements have credit risk essentially the same as that involved in extending loans to clients and are subject to our normal credit policies. Collateral (e.g., securities, receivables, inventory, equipment, etc.) is obtained based on management's credit assessment of the customer.

Loan commitments and standby and direct pay letters of credit do not necessarily represent our future cash requirements because while the borrower has the ability to draw upon these commitments at any time, these commitments often expire without being drawn upon. Our off-balance sheet arrangements at the dates indicated were as follows:

Other Commitments	Amounts of Commitments Expiring - By Period as of September 30, 2022				
	Total	Less Than One Year	One to Three Years	Three to Five Years	After Five Years
			(dollars in thousands)		
Unused lines of credit	\$ 646,444	\$ 304,179	\$ 88,021	\$ 59,671	\$ 194,573
Standby and direct pay letters of credit	11,889	9,550	1,568	589	182
Credit card arrangements	16,787	—	—	—	16,787
Total commitments	\$ 675,120	\$ 313,729	\$ 89,589	\$ 60,260	\$ 211,542

Other Commitments	Amounts of Commitments Expiring - By Period as of December 31, 2021				
	Total	Less Than One Year	One to Three Years	Three to Five Years	After Five Years
			(dollars in thousands)		
Unused lines of credit	\$ 502,131	\$ 235,004	\$ 72,240	\$ 54,594	\$ 140,293
Standby and direct pay letters of credit	9,062	7,172	1,414	473	3
Credit card arrangements	10,916	—	—	—	10,916
Total commitments	\$ 522,109	\$ 242,176	\$ 73,654	\$ 55,067	\$ 151,212

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from interest rate risk inherent in its lending, investment and deposit-taking activities. To that end, management actively monitors and manages its interest rate risk exposure.

Our profitability is affected by fluctuations in interest rates. A sudden and substantial change in interest rates may adversely impact our earnings to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent or on the same basis. We monitor the impact of changes in interest rates on its net interest income using several tools.

Our primary objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on our net interest income and capital, while configuring our asset-liability structure to obtain the maximum yield-cost spread on that structure. We rely primarily on our asset-liability structure to control interest rate risk.

Interest Rate Sensitivity. Interest rate risk is the risk to earnings and value arising from changes in market interest rates. Interest rate risk arises from timing differences in the repricings and maturities of interest-earning assets and interest-bearing liabilities (repricing risk), changes in the expected maturities of assets and liabilities arising from embedded options, such as borrowers' ability to prepay home mortgage loans at any time and depositors' ability to redeem certificates of deposit before maturity (option risk), changes in the shape of the yield curve where interest rates increase or decrease in a nonparallel fashion (yield curve risk), and changes in spread relationships between different yield curves, such as U.S. Treasuries and LIBOR (basis risk).

An asset sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate higher net interest income, as rates earned on our interest-earning assets would reprice upward more quickly than rates paid on our interest-bearing liabilities, thus expanding our net interest margin. Conversely, a liability sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate lower net interest income, as rates paid on our interest-bearing liabilities would reprice upward more quickly than rates earned on our interest-earning assets, thus compressing our net interest margin.

The Company actively manages its interest rate sensitivity position. The objectives of interest rate risk management are to control exposure of net interest income to risks associated with interest rate movements and to achieve sustainable growth in net interest

[Table of Contents](#)

income. The Company's ALCO, using policies and procedures approved by the Company's board of directors, is responsible for the management of the Company's interest rate sensitivity position. The Company manages interest rate sensitivity by changing the mix, pricing and re-pricing characteristics of its assets and liabilities, through the management of its investment portfolio, its offerings of loan and selected deposit terms and through wholesale funding. Wholesale funding consists of, but is not limited to, multiple sources including borrowings with the FHLB of Chicago, the Federal Reserve Bank of Chicago's discount window and certificates of deposit from institutional brokers.

The Company uses several tools to manage its interest rate risk including interest rate sensitivity analysis, or gap analysis, market value of portfolio equity analysis, interest rate simulations under various rate scenarios and net interest margin reports. The results of these reports are compared to limits established by the Company's ALCO policies and appropriate adjustments are made if the results are outside the established limits.

There are an infinite number of potential interest rate scenarios, each of which can be accompanied by differing economic/political/regulatory climates; can generate multiple differing behavior patterns by markets, borrowers, depositors, etc.; and, can last for varying degrees of time. Therefore, by definition, interest rate risk sensitivity cannot be predicted with certainty. Accordingly, the Company's interest rate risk measurement philosophy focuses on maintaining an appropriate balance between theoretical and practical scenarios; especially given the primary objective of the Company's overall asset/liability management process is to facilitate meaningful strategy development and implementation.

Therefore, we model a set of interest rate scenarios capturing the financial effects of a range of plausible rate scenarios; the collective impact of which will enable the Company to clearly understand the nature and extent of its sensitivity to interest rate changes. Doing so necessitates an assessment of rate changes over varying time horizons and of varying/sufficient degrees such that the impact of embedded options within the balance sheet are sufficiently examined.

The following tables demonstrate the annualized result of an interest rate simulation and the estimated effect that a parallel interest rate shift, or "shock," in the yield curve and subjective adjustments in deposit pricing might have on the Company's projected net interest income over the next 12 months.

This simulation assumes that there is no growth in interest-earning assets or interest-bearing liabilities over the next 12 months. The changes to net interest income shown below are in compliance with the Company's policy guidelines. As of September 30, 2022:

Change in Interest Rates (in Basis Points)	Percentage Change in Net Interest Income
+400	3.7%
+300	2.8%
+200	2.1%
+100	1.3%
-100	(2.8)%

As of December 31, 2021:

Change in Interest Rates (in Basis Points)	Percentage Change in Net Interest Income
+400	9.3%
+300	7.6%
+200	6.2%
+100	3.6%
-100	(4.3)%

Economic Value of Equity Analysis. We also analyze the sensitivity of the Company's financial condition to changes in interest rates through our economic value of equity model. This analysis measures the difference between estimated changes in the present value of the Company's assets and estimated changes in the present value of the Company's liabilities assuming various changes in current interest rates. The Company's economic value of equity analysis as of September 30, 2022 estimated that, in the event of an instantaneous 200 basis point increase in interest rates, the Company would experience a 2.91% increase in the economic value of equity. At the same date, our analysis estimated that, in the event of an instantaneous 100 basis point decrease in interest rates, the Company would experience a 3.51% decrease in the economic value of equity. The estimates of changes in the economic value of our equity require us to make certain assumptions including loan and mortgage-related investment prepayment speeds, reinvestment rates,

and deposit maturities and decay rates. These assumptions are inherently uncertain and, as a result, we cannot precisely predict the impact of changes in interest rates on the economic value of our equity. Although our economic value of equity analysis provides an indication of our interest rate risk exposure at a particular point in time, such estimates are not intended to, and do not, provide a precise forecast of the effect of changes in market interest rates on the economic value of our equity and will differ from actual results.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management, including our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”), undertook an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report, and, based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report, in recording, processing, summarizing and reporting in a timely manner the information that the Company is required to disclose in its reports under the Exchange Act and in accumulating and communicating to the Company’s management, including the Company’s CEO and CFO, such information as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

No changes were made to our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended September 30, 2022 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are a party to various litigation in the normal course of business. Management, after consulting with our legal counsel, believes that any liability resulting from litigation will not have a material effect on our financial position, results of operations or liquidity.

ITEM 1A. RISK FACTORS

Additional information regarding risk factors appears in “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Forward-Looking Statements” of this Form 10-Q and in “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021. There have been no material changes during the quarterly period ended September 30, 2022 to the risk factors previously disclosed in the Company’s Annual Report.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

- (a) None.
- (b) None.
- (c) Issuer Purchases of Equity Securities

On April 19, 2022, the Company reactivated its share repurchase program, pursuant to which the Company may repurchase up to \$30 million of its common stock, par value \$0.01 per share, for a period of one (1) year, ending on April 18, 2023. The program was announced in a Current Report on Form 8-K on April 19, 2022. The table below sets forth information regarding repurchases of our common stock during the second quarter of 2022 under that program as well as pursuant to the 2020 Equity Plan and other repurchases.

<i>(in thousands, except per share data)</i>	Total Number of Shares	Average Price Paid per	Total Number of Shares Repurchased as Part of	Maximum Number of Shares that May Yet Be Purchased Under the
	Repurchased	Share ⁽¹⁾	Publicly Announced	Plans or Programs ⁽²⁾
July 2022	9,026	\$ 75.45	9,026.00	285,863.00
August 2022	19,397	79.61	19,397.00	266,466.00
September 2022	—	—	—	266,466.00
Total	28,423	\$ 78.29	28,423.00	266,466.00

- (1) The average price paid per share is calculated on a trade date basis for all open market transactions and excludes commissions and other transaction expenses.
- (2) Based on the closing per share price as of September 30, 2022 (\$76.48).

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit Index

<u>Exhibit Number</u>	<u>Description</u>
31.1	Rule 13a-14(a) Certification of Chief Executive Officer*
31.2	Rules 13a-14(a) Certification of Chief Financial Officer*
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer**
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (the cover page XBRL tags are embedded in the Inline XBRL document)
*	Filed herewith.
**	Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BANK FIRST CORPORATION

DATE: November 9, 2022

BY: /s/Kevin M. LeMahieu

Kevin M. LeMahieu
Chief Financial Officer
(Principal Financial and Accounting Officer)

Certification of Chief Executive Officer

I, Michael B. Molepske, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Bank First Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2022

By: /s/Michael B. Molepske

Michael B. Molepske

Chief Executive Officer and President

Certification of Chief Financial Officer

I, Kevin M. LeMahieu, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Bank First Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2022

By: /s/Kevin M. LeMahieu

Kevin M. LeMahieu
Chief Financial Officer

**Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the filing of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2022 (the “Report”) by Bank First Corporation (“Registrant”), each of the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), that to the undersigned’s knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Registrant.

Date: November 9, 2022

By: /s/Michael B. Molepske

Michael B. Molepske

Chief Executive Officer and President

Date: November 9, 2022

By: /s/Kevin M. LeMahieu

Kevin M. LeMahieu

Chief Financial Officer

This certification “accompanies” the Form 10-Q to which it relates, is not deemed filed with the SEC and is not to be incorporated by reference into any filing of the Registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q, irrespective of any general incorporation contained in such filing.)
