

REFINITIV

# DELTA REPORT

## 10-Q

FBIZ - FIRST BUSINESS FINANCIAL  
10-Q - SEPTEMBER 30, 2024 COMPARED TO 10-Q - JUNE 30, 2024

The following comparison report has been automatically generated

TOTAL DELTAS	1339
CHANGES	654
DELETIONS	327
ADDITIONS	358

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
**FORM 10-Q**

☒ **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended **June** ~~September~~ 30, 2024  
OR

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
Commission file number 001-34095

**FIRST BUSINESS FINANCIAL SERVICES, INC.**  
(Exact name of registrant as specified in its charter)

<b>Wisconsin</b> (State or other jurisdiction of incorporation or organization)	<b>39-1576570</b> (I.R.S. Employer Identification No.)
<b>401 Charmany Drive</b> <b>Madison Wisconsin</b> (Address of Principal Executive Offices)	<b>53719</b> (Zip Code)
(608) 238-8008 Registrant's telephone number, including area code	

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

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐ Emerging growth company ☐

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

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

The number of shares outstanding of the registrant's sole class of common stock, par value \$0.01 per share, on **July 22, 2024** **October 21, 2024** was **8,294,589** **8,295,017** shares.

**FIRST BUSINESS FINANCIAL SERVICES, INC.**  
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**PART I. Financial Information**

**Item 1. Financial Statements**

**First Business Financial Services, Inc.**  
**Consolidated Balance Sheets**

	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
	(Unaudited)		(Unaudited)	
	(In Thousands, Except Share Data)		(In Thousands, Except Share Data)	
Assets				
Cash and due from banks	\$ 26,400	\$ 32,348	\$ 45,302	\$ 32,348
Short-term investments	54,680	107,162	86,670	107,162
Cash and cash equivalents	81,080	139,510	131,972	139,510
Securities available-for-sale, at fair value	308,852	297,006	313,336	297,006
Securities held-to-maturity, at amortized cost	7,082	8,503	6,907	8,503
Loans held for sale	6,507	4,589	8,173	4,589

Loans and leases receivable, net of allowance for credit losses of \$33,088 and \$31,275, respectively	2,952,326	2,818,986		
Loans and leases receivable, net of allowance for credit losses of \$33,688 and \$31,275, respectively	3,016,391	2,818,986		
Premises and equipment, net	6,381	6,190	5,478	6,190
Reposessed assets	54	247	56	247
Right-of-use assets, net	6,041	6,559	5,789	6,559
Bank-owned life insurance	56,351	55,536	56,767	55,536
Federal Home Loan Bank stock, at cost	11,901	12,042	12,775	12,042
Goodwill and other intangible assets	11,841	12,023	11,834	12,023
Derivatives	70,773	55,597	42,539	55,597
Accrued interest receivable and other assets	97,872	91,058	103,707	91,058
Total assets	\$ 3,617,061	\$ 3,507,846	\$ 3,715,724	\$ 3,507,846
<b>Liabilities and Stockholders' Equity</b>				
Deposits	\$ 2,885,183	\$ 2,796,779	\$ 2,969,947	\$ 2,796,779
Federal Home Loan Bank advances and other borrowings	327,855	330,916	349,109	330,916
Lease liabilities	8,361	8,954	8,054	8,954
Derivatives	61,821	51,949	45,399	51,949
Accrued interest payable and other liabilities	28,671	29,660	31,233	29,660
Total liabilities	3,311,891	3,218,258	3,403,742	3,218,258
Stockholders' equity:				
Preferred stock, \$0.01 par value, 2,500,000 shares authorized, 12,500 shares of 7% non-cumulative perpetual preferred stock, Series A, outstanding at June 30, 2024 and December 31, 2023	11,992	11,992		
Common stock, \$0.01 par value, 25,000,000 shares authorized, 9,433,759 and 9,418,463 shares issued, 8,294,589 and 8,314,778 shares outstanding at June 30, 2024 and December 31, 2023, respectively	95	95		
Preferred stock, \$0.01 par value, 2,500,000 shares authorized, 12,500 shares of 7% non-cumulative perpetual preferred stock, Series A, outstanding at September 30, 2024 and December 31, 2023	11,992	11,992		
Common stock, \$0.01 par value, 25,000,000 shares authorized, 9,434,444 and 9,418,463 shares issued, 8,295,017 and 8,314,778 shares outstanding at September 30, 2024 and December 31, 2023, respectively	95	95		
Additional paid-in capital	91,967	90,616	92,650	90,616
Retained earnings	245,431	230,728	253,660	230,728
Accumulated other comprehensive loss	(12,944)	(13,717)	(15,032)	(13,717)
Treasury stock, 1,139,170 and 1,103,685 shares at June 30, 2024 and December 31, 2023, respectively, at cost	(31,371)	(30,126)		
Treasury stock, 1,139,427 and 1,103,685 shares at September 30, 2024 and December 31, 2023, respectively, at cost	(31,383)	(30,126)		
Total stockholders' equity	305,170	289,588	311,982	289,588
Total liabilities and stockholders' equity	\$ 3,617,061	\$ 3,507,846	\$ 3,715,724	\$ 3,507,846

See accompanying Notes to Unaudited Consolidated Financial Statements.

**Consolidated Statements of Income (Unaudited)**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023	2024	2023	2024	2023
	(In Thousands, Except Per Share Data)				(In Thousands, Except Per Share Data)			
<b>Interest income</b>								
Loans and leases	\$ 53,892	\$ 44,279	\$ 105,441	\$ 84,094	\$ 55,506	\$ 47,868	\$ 160,947	\$ 131,962
Securities	3,053	1,813	5,847	3,403	2,976	2,198	8,823	5,601
Short-term investments	965	1,069	2,405	1,729	845	875	3,250	2,604
Total interest income	57,910	47,161	113,693	89,226	59,327	50,941	173,020	140,167
<b>Interest expense</b>								
Deposits	24,676	16,541	48,512	28,971	25,290	19,803	73,802	48,774
Federal Home Loan Bank advances and other borrowings	2,694	2,873	5,130	5,802	3,030	2,542	8,159	8,344
Total interest expense	27,370	19,414	53,642	34,773	28,320	22,345	81,961	57,118
Net interest income	30,540	27,747	60,051	54,453	31,007	28,596	91,059	83,049
Provision for credit losses	1,713	2,231	4,039	3,793	2,087	1,817	6,126	5,610
Net interest income after provision for credit losses	28,827	25,516	56,012	50,660	28,920	26,779	84,933	77,439
<b>Non-interest income</b>								
Private wealth management service fees	3,461	2,893	6,571	5,547	3,264	2,945	9,835	8,492
Gain on sale of Small Business Administration loans	349	444	544	920	460	851	1,004	1,771
Service charges on deposits	951	766	1,890	1,448	920	835	2,810	2,283
Loan fees	826	905	1,674	1,708	812	786	2,486	2,495
Increase in cash surrender value of bank-owned life insurance	403	363	815	729	416	376	1,231	1,106
Net loss on sale of securities	—	(45)	(8)	(45)	—	—	(8)	(45)
Swap fees	157	977	355	1,534	460	992	815	2,526
Other non-interest income	1,278	1,071	2,341	3,943	732	1,645	3,073	5,586
Total non-interest income	7,425	7,374	14,182	15,784	7,064	8,430	21,246	24,214
<b>Non-interest expense</b>								
Compensation	16,215	15,129	32,372	31,037	15,198	15,573	47,570	46,610
Occupancy	593	603	1,200	1,234	585	575	1,785	1,809
Professional fees	1,472	1,240	3,043	2,583	1,305	1,429	4,348	4,012
Data processing	1,182	1,061	2,200	1,936	1,045	953	3,245	2,889
Marketing	850	779	1,669	1,407	922	758	2,591	2,165
Equipment	335	355	680	650	333	349	1,013	1,000
Computer software	1,555	1,197	2,973	2,379	1,608	1,289	4,581	3,668
FDIC insurance	612	580	1,222	974	810	680	2,032	1,653
Other non-interest expense	1,065	1,087	1,863	1,598	1,301	1,583	3,164	3,181
Total non-interest expense	23,879	22,031	47,222	43,798	23,107	23,189	70,329	66,987
Income before income tax expense	12,373	10,859	22,972	22,646	12,877	12,020	35,850	34,666
Income tax expense	1,917	2,522	3,668	5,330	2,351	2,079	6,020	7,409
Net income	10,456	8,337	19,304	17,316	10,526	9,941	29,830	27,257
Preferred stock dividend	219	219	438	438	218	218	656	656
Net income available to common shareholders	\$ 10,237	\$ 8,118	\$ 18,866	\$ 16,878	\$ 10,308	\$ 9,723	\$ 29,174	\$ 26,601
<b>Earnings per common share</b>								
Basic	\$ 1.23	\$ 0.98	\$ 2.26	\$ 2.02	\$ 1.24	\$ 1.17	\$ 3.50	\$ 3.19
Diluted	1.23	0.98	2.26	2.02	1.24	1.17	3.50	3.19

Dividends declared per share	0.25	0.2275	0.50	0.4550	0.25	0.2275	0.75	0.6825
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See accompanying Notes to Unaudited Consolidated Financial Statements.

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**First Business Financial Services, Inc.**  
**Consolidated Statements of Comprehensive Income (Unaudited)**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023	2024	2023	2024	2023
	(In Thousands)				(In Thousands)			
Net income	\$ 10,456	\$ 8,337	\$ 19,304	\$ 17,316	\$ 10,526	\$ 9,941	\$ 29,830	\$ 27,257
Other comprehensive (loss) income								
Securities available-for-sale:								
Unrealized securities losses arising during the period	(644)	(4,015)	(3,505)	(252)				
Unrealized securities gains (losses) arising during the period	9,129	(6,194)	5,624	(6,446)				
Reclassification adjustment for net loss realized in net income	—	45	8	45	—	—	8	45
Securities held-to-maturity:								
Amortization of net unrealized losses transferred from available-for-sale	—	1	1	3	1	1	2	4
Interest rate swaps:								
Unrealized gains on interest rate swaps arising during the period	382	3,693	5,304	2,131				
Income tax (expense) benefit	(506)	70	(1,035)	(494)				
Unrealized (losses) gains on interest rate swaps arising during the period	(11,811)	5,713	(6,507)	7,844				
Income tax benefit (expense)	593	123	(442)	(371)				
Total other comprehensive (loss) income	(768)	(206)	773	1,433	(2,088)	(357)	(1,315)	1,076
Comprehensive income	\$ 9,688	\$ 8,131	\$ 20,077	\$ 18,749	\$ 8,438	\$ 9,584	\$ 28,515	\$ 28,333

See accompanying Notes to Unaudited Consolidated Financial Statements.

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**First Business Financial Services, Inc.**  
**Consolidated Statements of Changes in Stockholders' Equity (Unaudited)**

	Accumulated								Accumulated							
	Common		Additional		Other		Treasury		Common		Additional		Other		Treasury	
	Shares	Preferred	Common	Paid-in	Retained	Comprehensive	Stock	Total	Shares	Preferred	Common	Paid-in	Retained	Comprehensive	Stock	Total
	Outstanding	Stock	Stock	Capital	Earnings	Loss	Stock	Total	Outstanding	Stock	Stock	Capital	Earnings	Loss	Stock	Total
	(In Thousands, Except Share Data)								(In Thousands, Except Share Data)							
Balance at December 31, 2022	8,362,085	\$ 11,992	\$ 94	\$ 87,512	\$ 203,507	\$ (15,310)	\$ (27,155)	\$ 260,640	8,362,085	\$ 11,992	\$ 94	\$ 87,512	\$ 203,507	\$ (15,310)	\$ (27,155)	\$ 260,640
Cumulative change in accounting principle	—	—	—	—	(1,353)	—	—	(1,353)	—	—	—	—	(1,353)	—	—	(1,353)
Balance at January 1, 2023	8,362,085	11,992	94	87,512	202,154	(15,310)	(27,155)	259,287	8,362,085	11,992	94	87,512	202,154	(15,310)	(27,155)	259,287
Net income	—	—	—	—	8,979	—	—	8,979	—	—	—	—	8,979	—	—	8,979
Other comprehensive income	—	—	—	—	—	1,639	—	1,639	—	—	—	—	—	1,639	—	1,639
Share-based compensation - restricted shares and employee stock purchase plan	(426)	—	—	634	—	—	—	634	(426)	—	—	634	—	—	—	634
Issuance of common stock under the employee stock purchase plan	1,005	—	—	27	—	—	—	27	1,005	—	—	27	—	—	—	27
Preferred stock dividends	—	—	—	—	(219)	—	—	(219)	—	—	—	—	(219)	—	—	(219)
Cash dividends (\$0.2275 per share)	—	—	—	—	(1,906)	—	—	(1,906)	—	—	—	—	(1,906)	—	—	(1,906)
Treasury stock purchased	(56,394)	—	—	—	—	—	(1,860)	(1,860)	(56,394)	—	—	—	—	—	(1,860)	(1,860)
Balance at March 31, 2023	8,306,270	\$ 11,992	\$ 94	\$ 88,173	\$ 209,008	\$ (13,671)	\$ (29,015)	\$ 266,581	8,306,270	\$ 11,992	\$ 94	\$ 88,173	\$ 209,008	\$ (13,671)	\$ (29,015)	\$ 266,581
Net income	—	—	—	—	8,337	—	—	8,337	—	—	—	—	8,337	—	—	8,337
Other comprehensive loss	—	—	—	—	—	(206)	—	(206)	—	—	—	—	—	(206)	—	(206)
Share-based compensation - restricted shares and employee stock purchase plan	45,280	—	1	1,071	—	—	—	1,072	45,280	—	1	1,071	—	—	—	1,072

Issuance of common stock under the employee stock purchase plan	1,044	—	—	28	—	—	28	1,044	—	—	28	—	—	—
Preferred stock dividends	—	—	—	—	(219)	—	(219)	—	—	—	—	(219)	—	(219)
Cash dividends (\$0.2275 per share)	—	—	—	—	(1,889)	—	(1,889)	—	—	—	—	(1,889)	—	(1,889)
Treasury stock purchased	(37,129)	—	—	—	—	—	(1,072)	(37,129)	—	—	—	—	(1,072)	(1,072)
Balance at June 30, 2023	8,315,465	\$ 11,992	\$ 95	\$ 89,272	\$ 215,237	\$ (13,877)	\$ (30,087)	\$ 272,632	8,315,465	\$ 11,992	\$ 95	\$ 89,272	\$ 215,237	\$ (13,877) \$ (30,087) \$ 272,632
Net income	—	—	—	—	9,941	—	—	9,941	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	(357)	—	(357)	—	—	—	—	—	—
Share-based compensation - restricted shares and employee stock purchase plan	(702)	—	—	643	—	—	—	643	—	—	—	—	—	—
Issuance of common stock under the employee stock purchase plan	1,134	—	—	32	—	—	—	32	—	—	—	—	—	—
Preferred stock dividends	—	—	—	—	(218)	—	—	(218)	—	—	—	—	—	—
Cash dividends (\$0.2275 per share)	—	—	—	—	(1,892)	—	—	(1,892)	—	—	—	—	—	—
Treasury stock purchased	(711)	—	—	—	—	—	(23)	(23)	—	—	—	—	—	—
Balance at September 30, 2023	8,315,186	\$ 11,992	\$ 95	\$ 89,947	\$ 223,068	\$ (14,234)	\$ (30,110)	\$ 280,758	8,315,186	\$ 11,992	\$ 95	\$ 89,947	\$ 223,068	\$ (14,234) \$ (30,110) \$ 280,758

	Common Shares Outstanding	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
(In Thousands, Except Share Data)								
Balance at December 31, 2023	8,314,778	\$ 11,992	\$ 95	\$ 90,616	\$ 230,728	\$ (13,717)	\$ (30,126)	\$ 289,588
Net income	—	—	—	—	8,848	—	—	8,848
Other comprehensive income	—	—	—	—	—	1,541	—	1,541



Share-based compensation - restricted shares and employee stock purchase plan	6,940	—	—	665	—	—	—	665
Issuance of common stock under the employee stock purchase plan	913	—	—	31	—	—	—	31
Preferred stock dividends	—	—	—	—	(219)	—	—	(219)
Cash dividends (\$0.25 per share)	—	—	—	—	(2,087)	—	—	(2,087)
Treasury stock purchased	(16,058)	—	—	—	—	—	(579)	(579)
Balance at March 31, 2024	8,306,573	\$ 11,992	\$ 95	\$ 91,312	\$ 237,270	\$ (12,176)	\$ (30,705)	\$ 297,788
Net income	—	—	—	—	10,456	—	—	10,456
Other comprehensive loss	—	—	—	—	—	(768)	—	(768)
Share-based compensation - restricted shares and employee stock purchase plan	6,494	—	—	624	—	—	—	624
Issuance of common stock under the employee stock purchase plan	949	—	—	31	—	—	—	31
Preferred stock dividends	—	—	—	—	(219)	—	—	(219)
Cash dividends (\$0.25 per share)	—	—	—	—	(2,076)	—	—	(2,076)
Treasury stock purchased	(19,427)	—	—	—	—	—	(666)	(666)
Balance at June 30, 2024	8,294,589	\$ 11,992	\$ 95	\$ 91,967	\$ 245,431	\$ (12,944)	\$ (31,371)	\$ 305,170

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	Common Shares Outstanding	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
	(In Thousands, Except Share Data)							
Balance at December 31, 2023	8,314,778	\$ 11,992	\$ 95	\$ 90,616	\$ 230,728	\$ (13,717)	\$ (30,126)	\$ 289,588
Net income	—	—	—	—	8,848	—	—	8,848
Other comprehensive income	—	—	—	—	—	1,541	—	1,541
Share-based compensation - restricted shares and employee stock purchase plan	6,940	—	—	665	—	—	—	665
Issuance of common stock under the employee stock purchase plan	913	—	—	31	—	—	—	31
Preferred stock dividends	—	—	—	—	(219)	—	—	(219)
Cash dividends (\$0.25 per share)	—	—	—	—	(2,087)	—	—	(2,087)
Treasury stock purchased	(16,058)	—	—	—	—	—	(579)	(579)
Balance at March 31, 2024	8,306,573	\$ 11,992	\$ 95	\$ 91,312	\$ 237,270	\$ (12,176)	\$ (30,705)	\$ 297,788
Net income	—	—	—	—	10,456	—	—	10,456
Other comprehensive loss	—	—	—	—	—	(768)	—	(768)

Share-based compensation - restricted shares and employee stock purchase plan	6,494	—	—	624	—	—	—	624
Issuance of common stock under the employee stock purchase plan	949	—	—	31	—	—	—	31
Preferred stock dividends	—	—	—	—	(219)	—	—	(219)
Cash dividends (\$0.25 per share)	—	—	—	—	(2,076)	—	—	(2,076)
Treasury stock purchased	(19,427)	—	—	—	—	—	(666)	(666)
Balance at June 30, 2024	8,294,589	\$ 11,992	\$ 95	\$ 91,967	\$ 245,431	\$ (12,944)	\$ (31,371)	\$ 305,170
Net income	—	—	—	—	10,526	—	—	10,526
Other comprehensive loss	—	—	—	—	—	(2,088)	—	(2,088)
Share-based compensation - restricted shares and employee stock purchase plan	(145)	—	—	649	—	—	—	649
Issuance of common stock under the employee stock purchase plan	830	—	—	34	—	—	—	34
Preferred stock dividends	—	—	—	—	(218)	—	—	(218)
Cash dividends (\$0.25 per share)	—	—	—	—	(2,079)	—	—	(2,079)
Treasury stock purchased	(257)	—	—	—	—	—	(12)	(12)
Balance at September 30, 2024	8,295,017	\$ 11,992	\$ 95	\$ 92,650	\$ 253,660	\$ (15,032)	\$ (31,383)	\$ 311,982

See accompanying Notes to Unaudited Consolidated Financial Statements.

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**First Business Financial Services, Inc.**  
**Consolidated Statements of Cash Flows (Unaudited)**

	For the Six Months Ended June 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
	(In Thousands)		(In Thousands)	
<b>Operating activities</b>				
Net income	\$ 19,304	\$ 17,316	\$ 29,830	\$ 27,257
Adjustments to reconcile net income to net cash provided by operating activities:				
Deferred income taxes, net	565	510	565	(733)
Provision for credit losses	4,039	3,793	6,126	5,610
Depreciation, amortization and accretion, net	1,770	1,872	2,723	2,838
Share-based compensation	1,289	1,706	1,938	2,349
Net loss on disposal of fixed assets	10	73	10	73
Net loss on sale of securities	8	45	8	45
Amortization of tax credit investments	2,592	870	3,888	2,882
Bank-owned life insurance policy income	(815)	(729)	(1,231)	(1,106)
Origination of loans for sale	(66,160)	(64,032)	(103,865)	(115,925)
Sale of loans originated for sale	64,786	65,393	101,285	116,160

Gain on sale of loans originated for sale	(544)	(920)	(1,004)	(1,771)
Net loss on repossessed assets	151	4	162	9
Return on investment in limited partnerships	1,386	3,392	1,481	3,542
Excess tax benefit expense from share-based compensation	167	128	172	185
Net payments on operating lease liabilities	(771)	(709)	(1,099)	(1,061)
Net increase (decrease) in accrued interest receivable and other assets	761	(9,558)		
Net (decrease) increase in accrued interest payable and other liabilities	(6,805)	3,307		
Net decrease in accrued interest receivable and other assets	(10,465)	(8,870)		
Net increase in accrued interest payable and other liabilities	5,003	7,474		
Net cash provided by operating activities	21,733	22,461	35,527	38,958
<b>Investing activities</b>				
Proceeds from maturities, redemptions, and paydowns of available-for-sale securities	35,410	10,047	60,688	16,536
Proceeds from maturities, redemptions, and paydowns of held-to-maturity securities	1,415	2,797	1,586	3,932
Proceeds from sale of available-for-sale securities	7,533	5,084	7,533	5,028
Purchases of available-for-sale securities	(58,344)	(57,281)	(79,066)	(88,563)
Proceeds from sale of repossessed assets	18	25	18	25
Net increase in loans and leases	(137,217)	(231,661)	(203,422)	(321,570)
Investments in limited partnerships	(8,773)	(700)	(1,200)	(1,106)
Returns of investments in limited partnerships	—	4	22	7
Investment in tax credit investments	—	(9,598)	(13,417)	(11,430)
Distribution from tax credit investments	130	33	130	33
Proceeds from sale of tax credit	731	—	1,645	—
Investment in Federal Home Loan Bank stock	(8,529)	(24,375)	(20,555)	(30,540)
Proceeds from the sale of Federal Home Loan Bank stock	8,670	27,705	19,822	34,824
Purchases of leasehold improvements and equipment, net	(796)	(1,255)	(181)	(2,574)
Proceeds from sale of leasehold improvements and equipment	30	—	30	—
Net cash used in investing activities	(159,722)	(279,175)	(226,367)	(395,398)
<b>Financing activities</b>				
Net increase in deposits	88,404	360,646	173,168	488,801
Repayment of Federal Home Loan Bank advances	(483,250)	(1,228,050)	(908,205)	(1,536,255)
Proceeds from Federal Home Loan Bank advances	480,100	1,147,375	921,155	1,434,375
Repayment of subordinated notes and debentures	(15,000)	—		
Proceeds from issuance of subordinated notes and debentures	20,000	15,000		
Net increase (decrease) in long-term borrowed funds	89	(6,020)	243	(6,037)
Cash dividends paid	(4,163)	(3,795)	(6,242)	(5,687)
Preferred stock dividends paid	(438)	(438)	(656)	(656)
Proceeds from issuance of common stock under ESPP	62	55	96	87
Purchase of treasury stock	(1,245)	(2,932)	(1,257)	(2,955)
Net cash provided by financing activities	79,559	266,841	183,302	386,673
Net (decrease) increase in cash and cash equivalents	(58,430)	10,127	(7,538)	30,233
Cash and cash equivalents at the beginning of the period	139,510	102,682	139,510	102,682
Cash and cash equivalents at the end of the period	\$ 81,080	\$ 112,809	\$ 131,972	\$ 132,915
<b>Supplementary cash flow information</b>				
<b>Cash paid during the period for:</b>				
Interest paid on deposits and borrowings	\$ 53,213	\$ 30,478	\$ 82,002	\$ 51,092
Net income taxes paid	396	1,192	853	5,022
<b>Non-cash investing and financing activities:</b>				
Transfer of repossessed assets to loans	23	—	10	—

[Table of Contents](#)**Notes to Unaudited Consolidated Financial Statements****Note 1 — Nature of Operations and Summary of Significant Accounting Policies****Nature of Operations**

The accounting and reporting practices of First Business Financial Services, Inc. ("FBFS" or the "Corporation"), through our wholly-owned subsidiary, First Business Bank ("FBB" or the "Bank"), have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). FBB operates as a commercial banking institution primarily in Wisconsin and the greater Kansas City metropolitan area. The Bank provides a full range of financial services to businesses, business owners, executives, professionals, and high net worth individuals. FBB also offers bank consulting services to community financial institutions. The Bank is subject to competition from other financial institutions and service providers and is also subject to state and federal regulations. As of **June 30, 2024** **September 30, 2024**, FBB had the following wholly-owned subsidiaries: First Business Specialty Finance, LLC ("FBSF"), First Madison Investment Corp. ("FMIC"), ABKC Real Estate, LLC ("ABKC"), FBB Real Estate 2, LLC ("FBB RE 2"), Mitchell Street Apartments Investment, LLC ("Mitchell Street"), and FBB Tax Credit Investment, LLC ("FBB Tax Credit").

**Basis of Presentation**

The accompanying unaudited Consolidated Financial Statements were prepared in accordance with GAAP and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Corporation's Consolidated Financial Statements and footnotes thereto included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2023. The unaudited Consolidated Financial Statements include the accounts of the Corporation and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Management of the Corporation is required to make estimates and assumptions which affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that could significantly change in the near-term include the value of securities and interest rate swaps, level of the allowance for credit losses, lease residuals, property under operating leases, goodwill, and income taxes. The results of operations for the three and **six** **nine** months ended **June 30, 2024** **September 30, 2024**, are not necessarily indicative of results that may be expected for any other interim period or the entire fiscal year ending December 31, 2024. Certain amounts in prior periods may have been reclassified to conform to the current presentation. Subsequent events have been evaluated through the date of the issuance of the unaudited Consolidated Financial Statements. No significant subsequent events have occurred through this date requiring adjustment to the financial statements or disclosures.

The Corporation has not changed its significant accounting and reporting policies from those disclosed in the Corporation's Form 10-K for the year ended December 31, 2023.

[Table of Contents](#)**Recent Accounting Pronouncements**

In November 2023, the FASB issued ASU No. 2023-07, "Segment Reporting (Topic 820): Improvements to Reportable Segment Disclosures." This update is intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2024. The Corporation is one operating segment; therefore, we do not anticipate any **material** impact to the financial statements.

In December 2023, the FASB issued ASU No. 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." This update enhances the transparency and decision usefulness of income tax disclosures by providing better information regarding exposure to potential changes in jurisdictional tax legislation and related forecasting and cash flow opportunities. This update is effective for fiscal years beginning after December 15, 2024. The Corporation is assessing the impact of the standard.

**Note 2 — Earnings per Common Share**

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023	2024	2023	2024	2023
	(Dollars in Thousands, Except Share Data)				(Dollars in Thousands, Except Share Data)			
Basic earnings per common share								
Net income	\$ 10,456	\$ 8,337	\$ 19,304	\$ 17,316	\$ 10,526	\$ 9,941	\$ 29,830	\$ 27,257
Less: preferred stock dividends	219	219	438	438	218	218	656	656
Less: earnings allocated to participating securities	234	216	422	440	228	242	682	690
Basic earnings allocated to common shareholders	\$ 10,003	\$ 7,902	\$ 18,444	\$ 16,438	\$ 10,080	\$ 9,481	\$ 28,492	\$ 25,911
Weighted-average common shares outstanding, excluding participating securities	8,113,246	8,061,841	8,154,445	8,140,831	8,111,215	8,107,641	8,149,949	8,134,587
Basic earnings per common share	\$ 1.23	\$ 0.98	\$ 2.26	\$ 2.02	\$ 1.24	\$ 1.17	\$ 3.50	\$ 3.19
Diluted earnings per common share								
Earnings allocated to common shareholders, diluted	\$ 10,003	\$ 7,902	\$ 18,444	\$ 16,438	\$ 10,080	\$ 9,481	\$ 28,492	\$ 25,911
Weighted-average diluted common shares outstanding, excluding participating securities	8,113,246	8,061,841	8,154,445	8,140,831	8,111,215	8,107,641	8,149,949	8,134,587
Diluted earnings per common share	\$ 1.23	\$ 0.98	\$ 2.26	\$ 2.02	\$ 1.24	\$ 1.17	\$ 3.50	\$ 3.19

Note 3 — Share-Based Compensation

The Corporation initially adopted the 2019 Equity Incentive Plan (the “Plan”) during the quarter ended June 30, 2019. The Plan is administered by the Compensation Committee of the Board of Directors (the “Board”) of the Corporation and provides for the grant of equity ownership opportunities through incentive stock options and nonqualified stock options, restricted stock, restricted stock units, dividend equivalent units, and any other type of award permitted by the Plan. As of **June 30, 2024** **September 30, 2024**, **267,882** **267,439** shares were available for future grants under the Plan, as amended. Shares covered by awards that expire, terminate, or lapse will again be available for the grant of awards under the Plan.

Restricted Stock

Under the Plan, the Corporation may grant restricted stock awards (“RSA”), restricted stock units (“RSU”), and other stock-based awards to plan participants, subject to forfeiture upon the occurrence of certain events until the dates specified in the participant's

award agreement. While restricted stock is subject to forfeiture, RSA participants may exercise full voting rights and will receive all

dividends and other distributions paid with respect to the restricted shares. RSUs do not have voting rights. RSUs granted prior to 2023 are provided dividend equivalents concurrent with dividends paid to shareholders while RSUs granted in 2023 and after will accrue dividend equivalents payable upon vesting. The restricted stock granted under the Plan is typically subject to a vesting period. Compensation expense for restricted stock is recognized over the requisite service period of generally three or four years for the entire award on

a straight-line basis. Upon vesting of restricted stock, the benefit of tax deductions in excess of recognized compensation expense is reflected as an income tax benefit in the unaudited Consolidated Statements of Income.

The Corporation may also issue performance-based restricted stock units ("PRSU"). Vesting of the PRSU will be measured on the relative Total Shareholder Return ("TSR") and relative Return on Average Equity ("ROAE") for issuances prior to 2023 or Return on Average Common Equity ("ROACE") for issuances after 2022, and will cliff-vest after a three-year measurement period based on the Corporation's TSR performance and ROAE or ROACE performance compared to a broad peer group of over 100 banks. At the end of the performance period, the number of actual shares to be awarded varies between 0% and 200% of target amounts. The restricted stock awards and units issued to executive officers will vest ratably over a three-year period. Compensation expense is recognized for PRSU over the requisite service and performance period of generally three years for the entire expected award on a straight-line basis. The compensation expense for the awards expected to vest for the percentage of performance-based restricted stock units subject to the ROAE or ROACE metric will be adjusted if there is a change in the expectation of ROAE or ROACE. The compensation expense for the awards expected to vest for the percentage of PRSU subject to the TSR metric are never adjusted and are amortized utilizing the accounting fair value provided using a Monte Carlo pricing model.

Restricted stock activity for the year ended December 31, 2023 and the **six** **nine** months ended **June 30, 2024** **September 30, 2024** was as follows:

	Weighted Average Grant Price		Weighted Average Grant Price		Weighted Average Grant Price		Weighted Average Grant Price		Weighted Average Grant Price		Weighted Average Grant Price	
	RSA		PRSU		RSU		Total		RSA		PRSU	
Nonvested balance as of December 31, 2022	133,317	\$ 27.95	57,435	\$ 32.89	6,105	\$ 25.92	196,857	\$ 29.32	133,317	\$27.95	57,435	\$32.89
Granted <sup>(1)</sup>	—	—	34,840	35.79	54,955	34.43	89,795	34.96	—	—	34,840	35.79
Vested	(56,931)	27.03	(36,120)	31.31	(3,253)	26.06	(96,304)	28.60	(56,931)	27.03	(36,120)	31.31
Forfeited	(4,435)	30.20	—	—	(820)	36.42	(5,255)	31.17	(4,435)	30.20	—	—
Nonvested balance as of December 31, 2023	71,951	28.53	56,155	35.70	56,987	33.97	185,093	32.38	71,951	28.53	56,155	35.70
Granted <sup>(1)</sup>	—	—	27,614	34.76	63,577	29.90	91,191	31.37	—	—	27,614	34.76
Vested	(33,369)	26.87	(34,139)	25.43	(31,859)	20.76	(99,367)	24.42	(34,170)	26.93	(34,139)	25.43
Forfeited	(5,285)	30.26	—	—	(4,275)	36.29	(9,560)	32.96	(5,430)	30.35	—	—
Nonvested balance as of June 30, 2024	33,297	\$ 29.92	49,630	\$ 42.24	84,430	\$ 35.77	167,357	\$ 36.52				
Nonvested balance as of September 30, 2024	32,351	\$29.92	49,630	\$42.24	85,018	\$35.87	166,999	\$36.61				
Unrecognized compensation cost (in thousands)	\$ 744		\$ 1,343		\$ 2,670		\$ 4,757		\$577		\$1,152	
Weighted average remaining recognition period (in years)	1.39		1.96		2.89		2.39		1.07		1.64	

(1) The number of restricted shares/units shown includes the shares that would be granted if the target level of performance is achieved related to the PRSU. The number of shares actually issued may vary. During the **six** **nine** months ended **June 30, 2024** **September 30, 2024**, an additional 10,589 were issued related to actual performance results of previously granted awards.

#### Employee Stock Purchase Plan

The Corporation is authorized to issue up to 250,000 shares of common stock under the employee stock purchase plan ("ESPP"). The plan qualifies as an employee stock purchase plan under section 423 of the Internal Revenue Code of 1986. Under the ESPP, eligible employees may enroll in a three month offer period that begins January, April, July, and

October of each year. Employees may elect to purchase a limited number of shares of the Corporation's common stock at 90% of the fair market value on the last day of the offering period. The ESPP is treated as a compensatory item for purposes of share-based compensation expense.

During the **six** **nine** months ended **June 30, 2024** **September 30, 2024**, the Corporation issued **1,862** **2,692** shares of common stock under the ESPP. As of **June 30, 2024** **September 30, 2024**, **228,776** **227,946** shares remained available for issuance under the ESPP.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
	(In Thousands)			
Share-based compensation expense	\$ 624	\$ 1,072	\$ 1,289	\$ 1,706

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
	(In Thousands)			
Share-based compensation expense	\$ 649	\$ 643	\$ 1,938	\$ 2,349

## Note 4 — Securities

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

	As of June 30, 2024				As of September 30, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)				(In Thousands)			
Available-for-sale:								
U.S. treasuries	\$ 9,971	\$ —	\$ (388)	9,583	\$ 4,987	\$ —	\$ (252)	4,735
U.S. government agency securities - government-sponsored enterprises	8,500	—	(432)	8,068	8,500	—	(310)	8,190
Municipal securities	40,202	—	(5,340)	34,862	40,099	—	(4,038)	36,061
Residential mortgage-backed securities - government issued	104,595	213	(3,065)	101,743	107,364	1,385	(1,985)	106,764
Residential mortgage-backed securities - government-sponsored enterprises	135,939	193	(11,836)	124,296	133,898	710	(8,255)	126,353
Commercial mortgage-backed securities - government issued	2,770	—	(469)	2,301	2,718	—	(372)	2,346
Commercial mortgage-backed securities - government-sponsored enterprises	32,447	37	(4,485)	27,999	32,212	72	(3,397)	28,887
	\$ 334,424	\$ 443	\$ (26,015)	\$ 308,852	\$ 329,778	\$ 2,167	\$ (18,609)	\$ 313,336

As of December 31, 2023

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale:				
U.S. treasuries	\$ 14,158	\$ 7	\$ (389)	\$ 13,776
U.S. government agency securities - government-sponsored enterprises	27,986	35	(455)	27,566
Municipal securities	40,407	—	(4,526)	35,881
Residential mortgage-backed securities - government issued	69,441	1,000	(2,385)	68,056
Residential mortgage-backed securities - government-sponsored enterprises	131,321	281	(10,769)	120,833
Commercial mortgage-backed securities - government issued	2,995	—	(470)	2,525
Commercial mortgage-backed securities - government-sponsored enterprises	32,774	65	(4,470)	28,369
	<u>\$ 319,082</u>	<u>\$ 1,388</u>	<u>\$ (23,464)</u>	<u>\$ 297,006</u>

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

	As of June 30, 2024				As of September 30, 2024			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
	(In Thousands)				(In Thousands)			
Held-to-maturity:								
Municipal securities	\$ 3,143	\$ —	\$ (71)	\$ 3,072	\$ 3,140	\$ 4	\$ (14)	\$ 3,130
Residential mortgage-backed securities - government issued	1,024	—	(68)	956	931	—	(46)	885
Residential mortgage-backed securities - government-sponsored enterprises	911	—	(53)	858	833	—	(31)	802
Commercial mortgage-backed securities - government-sponsored enterprises	2,004	—	(104)	1,900	2,003	—	(45)	1,958
	<u>\$ 7,082</u>	<u>\$ —</u>	<u>\$ (296)</u>	<u>\$ 6,786</u>	<u>\$ 6,907</u>	<u>\$ 4</u>	<u>\$ (136)</u>	<u>\$ 6,775</u>

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	As of December 31, 2023		
	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Amortized Cost	(In Thousands)		



Held-to-maturity:					
Municipal securities	\$	4,210	\$	4	\$ (41) \$ 4,173
Residential mortgage-backed securities - government issued		1,211		—	(76) 1,135
Residential mortgage-backed securities - government-sponsored enterprises		1,078		—	(53) 1,025
Commercial mortgage-backed securities - government-sponsored enterprises		2,004		—	(82) 1,922
	\$	8,503	\$	4	\$ (252) \$ 8,255

U.S. Treasuries contain treasury bonds issued by the United States Treasury. U.S. government agency securities - government-sponsored enterprises represent securities issued by Federal National Mortgage Association ("FNMA") and the SBA. Municipal securities include securities issued by various municipalities located primarily within Wisconsin and are primarily general obligation bonds that are tax-exempt in nature. Residential and commercial mortgage-backed securities - government issued represent securities guaranteed by the Government National Mortgage Association. Residential and commercial mortgage-backed securities - government-sponsored enterprises include securities guaranteed by the Federal Home Loan Mortgage Corporation, FNMA, and the FHLB. The Corporation sold no available-for-sale securities during the three months ended **June 30, 2024** **September 30, 2024** and 5 available-for-sale securities during the **six nine** months ended **June 30, 2024** **September 30, 2024**. The Corporation sold **no available-for-sale securities** during the **three months ended September 30, 2023** and 16 available-for-sale securities during the **three and six nine** months ended **June 30, 2023** **September 30, 2023**.

At **June 30, 2024** **September 30, 2024** and December 31, 2023, securities with a fair value of **\$31.6** **39.3** million and \$45.4 million, respectively, were pledged to secure various obligations, including interest rate swap contracts and municipal deposits.

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The amortized cost and fair value of securities by contractual maturity at **June 30, 2024** **September 30, 2024** are shown below. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay certain obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity		Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)				(In Thousands)			
Due in one year or less	\$ 7,486	\$ 7,466	\$ 739	\$ 732	\$ 3,501	\$ 3,463	\$ 738	\$ 735
Due in one year through five years	20,859	19,404	2,404	2,340	20,270	19,305	2,402	2,395
Due in five through ten years	8,812	7,912	—	—	8,855	8,220	—	—
Due in over ten years	21,516	17,731	—	—	20,960	17,998	—	—
	58,673	52,513	3,143	3,072	53,586	48,986	3,140	3,130
Residential mortgage-backed securities	240,534	226,039	1,935	1,814	241,262	233,117	1,764	1,687
Commercial mortgage-backed securities	35,217	30,300	2,004	1,900	34,930	31,233	2,003	1,958
	\$ 334,424	\$ 308,852	\$ 7,082	\$ 6,786	\$ 329,778	\$ 313,336	\$ 6,907	\$ 6,775

The tables below show the Corporation's gross unrealized losses and fair value of available-for-sale investments aggregated by investment category and length of time that individual investments were in a continuous loss position at **June 30, 2024** **September 30, 2024** and December 31, 2023. At **June 30, 2024** **September 30, 2024**, the Corporation held **184** **160** available-for-sale securities that were in an unrealized loss position, **164** **155** of which have been in a continuous unrealized loss position for twelve months or greater.

The Corporation has not specifically identified available-for-sale securities in a loss position that it intends to sell in the near term and does not believe that it will be required to sell any such securities. The Corporation reviews its securities on a quarterly basis to assess declines in fair value for credit losses. Consideration is given to such factors as the credit rating of the borrower, market conditions such as current interest rates, any adverse conditions specific to the security, and delinquency status on contractual payments. For the three and **six nine** months ended **June 30, 2024** **September 30, 2024** and 2023, management concluded that in all instances securities with fair value less than carrying value was due to market factors; thus, no credit loss provision was required.

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

	As of June 30, 2024						As of September 30, 2024					
	Less than 12 Months		12 Months or Longer		Total		Less than 12 Months		12 Months or Longer		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses	Value	Losses	Value	Losses	Value	Losses
	(In Thousands)						(In Thousands)					
Available-for-sale:												
U.S. treasuries	\$ 4,981	\$ 4	\$ 4,602	\$ 384	\$ 9,583	\$ 388	\$ —	\$ —	\$ 4,735	\$ 252	\$ 4,735	\$ 252
U.S. government agency securities - government-sponsored enterprises	—	—	8,068	432	8,068	432	3,000	1	3,190	309	6,190	310
Municipal securities	—	—	34,862	5,340	34,862	5,340	—	—	36,061	4,038	36,061	4,038
Residential mortgage-backed securities - government issued	44,033	305	24,824	2,760	68,857	3,065	3,209	20	20,108	1,965	23,317	1,985
Residential mortgage-backed securities - government-sponsored enterprises	14,151	163	91,211	11,673	105,362	11,836	3,710	55	75,879	8,200	79,589	8,255
Commercial mortgage-backed securities - government issued	—	—	2,301	469	2,301	469	—	—	2,346	372	2,346	372
Commercial mortgage-backed securities - government-sponsored enterprises	—	—	27,011	4,485	27,011	4,485	—	—	27,861	3,397	27,861	3,397
	\$ 63,165	\$ 472	\$ 192,879	\$ 25,543	\$ 256,044	\$ 26,015	\$ 9,919	\$ 76	\$ 170,180	\$ 18,533	\$ 180,099	\$ 18,609

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	As of December 31, 2023					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
Available-for-sale:						
U.S. treasuries	\$ —	\$ —	\$ 4,595	\$ 389	\$ 4,595	\$ 389
U.S. government agency securities - government-sponsored enterprises	13,370	30	3,076	425	16,446	455
Municipal securities	—	—	35,881	4,526	35,881	4,526
Residential mortgage-backed securities - government issued	13,178	160	13,819	2,225	26,997	2,385
Residential mortgage-backed securities - government-sponsored enterprises	19,925	285	78,086	10,484	98,011	10,769
Commercial mortgage-backed securities - government issued	—	—	2,525	470	2,525	470
Commercial mortgage-backed securities - government-sponsored enterprises	893	20	26,465	4,450	27,358	4,470

	\$	47,366	\$	495	\$	164,447	\$	22,969	\$	211,813	\$	23,464
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The tables below show the Corporation's gross unrealized losses and fair value of held-to-maturity investments, aggregated by investment category and length of time that individual investments were in a continuous loss position at **June 30, 2024** **September 30, 2024** and December 31, 2023. At **June 30, 2024** **September 30, 2024**, the Corporation held **23 21** held-to-maturity securities that were in an unrealized loss position, **22 21** of which have been in a continuous loss position for twelve months or greater. Management assesses held-to-maturity securities for credit losses on a quarterly basis. The assessment includes review of credit ratings, identification of delinquency and evaluation of market factors. Based on this analysis, management concludes the decline in fair value is due to market factors, specifically changes in interest rates. Accordingly, no credit loss provision was recorded in the unaudited Consolidated Statements of Income for the three and **six nine** months ended **June 30, 2024** **September 30, 2024** and 2023.

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

	As of June 30, 2024						As of September 30, 2024					
	Less than 12 Months		12 Months or Longer		Total		Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
	(In Thousands)						(In Thousands)					
Held-to-maturity:												
Municipal securities	\$505	\$3	\$2,567	\$68	\$3,072	\$71	\$—	\$—	\$2,159	\$14	\$2,159	\$14
Residential mortgage-backed securities - government issued	—	—	956	68	956	68	—	—	885	46	885	46
Residential mortgage-backed securities - government-sponsored enterprises	—	—	858	53	858	53	—	—	802	31	802	31
Commercial mortgage-backed securities - government-sponsored enterprises	—	—	1,900	104	1,900	104	—	—	1,958	45	1,958	45
	\$505	\$3	\$6,281	\$293	\$6,786	\$296	\$—	\$—	\$5,804	\$136	\$5,804	\$136

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	As of December 31, 2023					
	Less than 12 Months		12 Months or Longer		Total	
	Unrecognized		Unrecognized		Unrecognized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
	(In Thousands)					
Held-to-maturity:						
Municipal securities		\$1,424	\$4	\$2,234	\$37	\$3,658
Residential mortgage-backed securities - government issued		—	—	1,135	76	1,135

Residential mortgage-backed securities - government-sponsored enterprises	—	—	1,025	53	1,025	53
Commercial mortgage-backed securities - government-sponsored enterprises	—	—	1,922	82	1,922	82
	<u>\$1,424</u>	<u>\$4</u>	<u>\$6,316</u>	<u>\$248</u>	<u>\$7,740</u>	<u>\$252</u>

#### Note 5 — Loans, Lease Receivables, and Allowance for Credit Losses

Loan and lease receivables consist of the following:

	June 30, 2024	December 31, 2023
	(In Thousands)	
Commercial real estate:		
Commercial real estate — owner occupied	\$ 258,636	\$ 256,479
Commercial real estate — non-owner occupied	777,704	773,494
Construction	229,181	193,080
Multi-family	470,176	450,529
1-4 family	39,680	26,289
Total commercial real estate	1,775,377	1,699,871
Commercial and industrial	1,161,711	1,105,835
Consumer and other	48,145	44,312
Total gross loans and leases receivable	2,985,233	2,850,018
Less:		
Allowance for credit losses	33,088	31,275
Deferred loan fees and costs, net	(181)	(243)
Loans and leases receivable, net	<u>\$ 2,952,326</u>	<u>\$ 2,818,986</u>

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	September 30, 2024	December 31, 2023
	(In Thousands)	
Commercial real estate:		
Commercial real estate — owner occupied	\$ 259,532	\$ 256,479
Commercial real estate — non-owner occupied	768,195	773,494
Construction	266,762	193,080
Multi-family	494,954	450,529
1-4 family	39,933	26,289
Total commercial real estate	1,829,376	1,699,871
Commercial and industrial	1,174,295	1,105,835
Consumer and other	46,610	44,312
Total gross loans and leases receivable	3,050,281	2,850,018
Less:		
Allowance for credit losses	33,688	31,275
Deferred loan fees and costs, net	202	(243)
Loans and leases receivable, net	<u>\$ 3,016,391</u>	<u>\$ 2,818,986</u>

Loans transferred to third parties consist of the guaranteed portions of SBA loans which the Corporation sold in the secondary market and participation interests in other, non-SBA originated loans. The total principal amount of the guaranteed portions of SBA loans sold during the three months ended **June 30, 2024** **September 30, 2024** and 2023, was **\$3.5** **4.6** million and **\$4.9** **10.7** million, respectively. The total principal amount of the guaranteed portions of SBA loans sold during the **six nine** months ended **June 30, 2024** **September 30, 2024** and 2023, was **\$5.7** **10.3** million and **\$9.8** **20.5** million, respectively. Each of the transfers of these financial assets met the qualifications for sale accounting, and therefore all of the loans transferred during the three and **six nine** months ended **June 30, 2024** **September 30, 2024** and 2023, have been derecognized in the unaudited Consolidated Financial Statements. The guaranteed portions of SBA loans were transferred at their fair value and the related gain was recognized upon the transfer as non-interest income in the unaudited Consolidated Financial Statements. The total outstanding balance of sold SBA loans serviced by the Corporation at **June 30, 2024** **September 30, 2024**, and December 31, 2023, was **\$74.1** **74.6** million and \$84.2 million, respectively.

The total principal amount of transferred participation interests in other, non-SBA originated loans during the three months ended **June 30, 2024** **September 30, 2024** and 2023, was **\$23.8** **31.4** million and **\$32.0** **39.2** million, respectively, all of which were treated as sales and derecognized under the applicable accounting guidance at the time of transfer. The total principal amount of transferred participation interests in other, non-SBA originated loans during the **six nine** months ended **June 30, 2024** **September 30, 2024** and 2023, was **\$58.6** **90.0** million and **\$54.7** **93.9** million, respectively, all of which were treated as sales and derecognized under the applicable accounting guidance at the time of transfer. No gain or loss was recognized on participation interests in other, non-SBA originated loans as they were transferred at or near the date of loan origination and the payments received for servicing the portion of the loans participated represents adequate compensation. The total **amount of loan participation purchased on the Corporation's Consolidated Balance Sheet** as of **September 30, 2024** was \$2.2 million. **There were no loan participation purchased on the Corporation's Consolidated Balance Sheet as of December 31, 2023. The**

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**total** outstanding balance of these transferred loans serviced by the Corporation at **June 30, 2024** **September 30, 2024**, and December 31, 2023, was **\$812.4** **332.0** million and \$279.5 million, respectively. As of **June 30, 2024** **September 30, 2024**, and December 31, 2023, the total amount of the Corporation's retained ownership of these transferred loans was **\$375.2** **390.1** million and \$367.4 million, respectively. As of **June 30, 2024** **September 30, 2024** and December 31, 2023, the non-SBA originated participation portfolio contained no non-accrual loans. The Corporation does not share in the participant's portion of any potential charge-offs.

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The following table illustrates ending balances of the Corporation's loan and lease portfolio, including non-accrual loans by class of receivable, and considering certain credit quality indicators:

June 30, 2024															
Term Loans Amortized Cost Basis by Origination Year															
September 30, 2024															
Term Loans Amortized Cost Basis by Origination Year															
(In Thousands)							Revolving Loans Amortized Cost Basis	Total							Revolving Loans Amortized Cost Basis
	2024	2023	2022	2021	2020	Prior			2024	2023	2022	2021	2020	Prior	
Commercial real estate owner occupied															
Category															
I	\$ 4,462	\$ 38,855	\$ 45,831	\$ 37,625	\$ 43,147	\$ 85,762	\$ 1,601	\$ 257,283	\$ 9,514	\$ 38,462	\$ 45,346	\$ 37,126	\$ 42,580	\$ 83,902	\$ 1,74
II	—	—	—	—	—	627	—	627	—	—	—	—	—	—	—
III	—	—	—	—	—	726	—	726	—	—	—	—	—	855	—

IV	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total	\$ 4,462	\$ 38,855	\$ 45,831	\$ 37,625	\$ 43,147	\$ 87,115	\$ 1,601	\$ 258,636	\$ 9,514	\$ 38,462	\$ 45,346	\$ 37,126	\$ 42,580	\$ 84,757	\$ 1,74	\$ 500,000
Commercial real estate																
—																
non-owner																
occupied																
Category																
I	\$ 20,745	\$ 69,397	\$ 76,022	\$ 71,520	\$ 86,670	\$ 355,584	\$ 38,587	\$ 718,525	\$ 18,420	\$ 69,137	\$ 76,518	\$ 70,956	\$ 85,917	\$ 350,267	\$ 38,22	\$ 1,000,000
II	—	—	—	2,273	2,202	38,409	—	42,884	—	—	—	2,257	2,176	30,266	—	—
III	—	664	—	—	—	15,631	—	16,295	—	651	—	—	—	23,407	—	—
IV	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total	\$ 20,745	\$ 70,061	\$ 76,022	\$ 73,793	\$ 88,872	\$ 409,624	\$ 38,587	\$ 777,704	\$ 18,420	\$ 69,788	\$ 76,518	\$ 73,213	\$ 88,093	\$ 403,940	\$ 38,22	\$ 1,000,000
Construction																
Category																
I	\$ 34,511	\$ 107,512	\$ 48,498	\$ 7,418	\$ 734	\$ 6,108	\$ 9,813	\$ 214,594	\$ 53,512	\$ 130,485	\$ 37,255	\$ 4,769	\$ 729	\$ 5,556	\$ 19,87	\$ 500,000
II	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
III	—	—	454	8,155	5,713	265	—	14,587	—	—	454	8,155	5,713	264	—	—
IV	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total	\$ 34,511	\$ 107,512	\$ 48,952	\$ 15,573	\$ 6,447	\$ 6,373	\$ 9,813	\$ 229,181	\$ 53,512	\$ 130,485	\$ 37,709	\$ 12,924	\$ 6,442	\$ 5,820	\$ 19,87	\$ 500,000
Multi-family																
Category																
I	\$ 26,146	\$ 71,764	\$ 60,429	\$ 69,456	\$ 102,624	\$ 136,857	\$ 2,900	\$ 470,176	\$ 26,055	\$ 80,720	\$ 75,986	\$ 69,682	\$ 102,078	\$ 136,119	\$ 2,90	\$ 500,000
II	—	—	—	—	—	—	—	—	—	—	—	1,414	—	—	—	—
III	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
IV	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total	\$ 26,146	\$ 71,764	\$ 60,429	\$ 69,456	\$ 102,624	\$ 136,857	\$ 2,900	\$ 470,176	\$ 26,055	\$ 80,720	\$ 75,986	\$ 71,096	\$ 102,078	\$ 136,119	\$ 2,90	\$ 500,000
1-4 family																
Category																
I	\$ 10,330	\$ 4,221	\$ 7,275	\$ 2,624	\$ 2,322	\$ 2,670	\$ 10,220	\$ 39,662	\$ 10,544	\$ 4,211	\$ 7,153	\$ 2,356	\$ 2,302	\$ 2,508	\$ 10,84	\$ 500,000
II	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
III	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
IV	—	—	—	—	—	18	—	18	—	—	—	—	—	16	—	—
Total	\$ 10,330	\$ 4,221	\$ 7,275	\$ 2,624	\$ 2,322	\$ 2,688	\$ 10,220	\$ 39,680	\$ 10,544	\$ 4,211	\$ 7,153	\$ 2,356	\$ 2,302	\$ 2,524	\$ 10,84	\$ 500,000
Commercial and industrial																
Category																
I	\$ 139,782	\$ 259,683	\$ 119,737	\$ 65,817	\$ 30,702	\$ 35,736	\$ 442,498	\$ 1,093,955	\$ 187,043	\$ 242,991	\$ 106,808	\$ 59,711	\$ 27,053	\$ 29,980	\$ 448,37	\$ 1,000,000
II	—	6,502	3,675	377	623	69	13,790	25,036	199	3,352	3,666	—	472	8	5,79	—
III	4,087	693	5,121	1,463	2,837	4,918	4,620	23,739	4,413	5,190	6,103	1,473	2,489	4,529	15,30	—
IV	—	3,224	5,840	959	468	2,033	6,457	18,981	58	3,578	5,653	1,026	447	2,381	6,20	—
Total	\$ 143,869	\$ 270,102	\$ 134,373	\$ 68,616	\$ 34,630	\$ 42,756	\$ 467,365	\$ 1,161,711	\$ 191,713	\$ 255,111	\$ 122,230	\$ 62,210	\$ 30,461	\$ 36,898	\$ 475,67	\$ 1,000,000
Consumer and other																
Category																
I	\$ 6,701	\$ 5,530	\$ 7,929	\$ 2,967	\$ 11,798	\$ 6,408	\$ 6,812	\$ 48,145	\$ 6,580	\$ 5,388	\$ 7,674	\$ 2,866	\$ 11,467	\$ 5,220	\$ 7,43	\$ 500,000
II	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
III	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
IV	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

Total	\$ 6,701	\$ 5,530	\$ 7,929	\$ 2,967	\$ 11,798	\$ 6,408	\$ 6,812	\$ 48,145	\$ 6,580	\$ 5,388	\$ 7,674	\$ 2,866	\$ 11,467	\$ 5,220	\$ 7,41
Total Loans															
Category															
I	\$ 242,677	\$ 556,962	\$ 365,721	\$ 257,427	\$ 277,997	\$ 629,125	\$ 512,431	\$ 2,842,340	\$ 311,668	\$ 571,394	\$ 356,740	\$ 247,466	\$ 272,126	\$ 613,552	\$ 529,37
II	—	6,502	3,675	2,650	2,825	39,105	13,790	68,547	199	3,352	3,666	3,671	2,648	30,274	5,79
III	4,087	1,357	5,575	9,618	8,550	21,540	4,620	55,347	4,413	5,841	6,557	9,628	8,202	29,055	15,36
IV	—	3,224	5,840	959	468	2,051	6,457	18,999	58	3,578	5,653	1,026	447	2,397	6,20
Total	\$ 246,764	\$ 568,045	\$ 380,811	\$ 270,654	\$ 289,840	\$ 691,821	\$ 537,298	\$ 2,985,233	\$ 316,338	\$ 584,165	\$ 372,616	\$ 261,791	\$ 283,423	\$ 675,278	\$ 556,67

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December 31, 2023

### Term Loans Amortized Cost Basis by Origination Year

(In Thousands)	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Commercial real estate — owner occupied								
Category								
I	\$ 31,637	\$ 43,156	\$ 38,803	\$ 44,704	\$ 22,078	\$ 72,774	\$ 451	\$ 253,603
II	—	—	—	260	—	—	—	260
III	—	—	—	—	—	2,616	—	2,616
IV	—	—	—	—	—	—	—	—
Total	\$ 31,637	\$ 43,156	\$ 38,803	\$ 44,964	\$ 22,078	\$ 75,390	\$ 451	\$ 256,479
Commercial real estate — non-owner occupied								
Category								
I	\$ 71,857	\$ 76,689	\$ 72,660	\$ 78,212	\$ 66,262	\$ 314,970	\$ 32,478	\$ 713,128
II	—	—	2,302	2,252	19,838	16,274	—	40,666
III	—	—	—	—	—	19,700	—	19,700
IV	—	—	—	—	—	—	—	—
Total	\$ 71,857	\$ 76,689	\$ 74,962	\$ 80,464	\$ 86,100	\$ 350,944	\$ 32,478	\$ 773,494
Construction								
Category								
I	\$ 63,660	\$ 83,161	\$ 8,542	\$ 744	\$ 433	\$ 6,528	\$ 15,011	\$ 178,079
II	—	—	9,289	5,712	—	—	—	15,001
III	—	—	—	—	—	—	—	—
IV	—	—	—	—	—	—	—	—
Total	\$ 63,660	\$ 83,161	\$ 17,831	\$ 6,456	\$ 433	\$ 6,528	\$ 15,011	\$ 193,080
Multi-family								
Category								
I	\$ 84,932	\$ 41,068	\$ 70,054	\$ 113,294	\$ 22,925	\$ 115,243	\$ 3,013	\$ 450,529
II	—	—	—	—	—	—	—	—
III	—	—	—	—	—	—	—	—

IV	—	—	—	—	—	—	—	—	—
Total	\$ 84,932	\$ 41,068	\$ 70,054	\$ 113,294	\$ 22,925	\$ 115,243	\$ 3,013	\$ 450,529	
1-4 family									
Category									
I	\$ 4,242	\$ 7,684	\$ 2,672	\$ 2,359	\$ 443	\$ 2,805	\$ 6,062	\$ 26,267	
II	—	—	—	—	—	—	—	—	
III	—	—	—	—	—	—	—	—	
IV	—	—	—	—	—	22	—	22	
Total	\$ 4,242	\$ 7,684	\$ 2,672	\$ 2,359	\$ 443	\$ 2,827	\$ 6,062	\$ 26,289	
Commercial and industrial									
Category									
I	\$ 302,612	\$ 144,167	\$ 85,504	\$ 38,164	\$ 20,151	\$ 26,490	\$ 415,301	\$ 1,032,389	
II	1,496	5,280	785	353	94	219	5,706	13,933	
III	1,093	7,168	1,882	5,919	3,861	3,957	15,058	38,938	
IV	1,482	6,519	1,319	321	133	1,644	9,157	20,575	
Total	\$ 306,683	\$ 163,134	\$ 89,490	\$ 44,757	\$ 24,239	\$ 32,310	\$ 445,222	\$ 1,105,835	
Consumer and other									
Category									
I	\$ 5,920	\$ 8,786	\$ 3,167	\$ 12,193	\$ 2,049	\$ 3,485	\$ 8,712	\$ 44,312	
II	—	—	—	—	—	—	—	—	
III	—	—	—	—	—	—	—	—	
IV	—	—	—	—	—	—	—	—	
Total	\$ 5,920	\$ 8,786	\$ 3,167	\$ 12,193	\$ 2,049	\$ 3,485	\$ 8,712	\$ 44,312	
Total Loans									
Category									
I	\$ 564,860	\$ 404,711	\$ 281,402	\$ 289,670	\$ 134,341	\$ 542,295	\$ 481,028	\$ 2,698,307	
II	1,496	5,280	12,376	8,577	19,932	16,493	5,706	69,860	
III	1,093	7,168	1,882	5,919	3,861	26,273	15,058	61,254	
IV	1,482	6,519	1,319	321	133	1,666	9,157	20,597	
Total	\$ 568,931	\$ 423,678	\$ 296,979	\$ 304,487	\$ 158,267	\$ 586,727	\$ 510,949	\$ 2,850,018	

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

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

Category II — Loans and leases in this category are beginning to show signs of deterioration in one or more of the Corporation's core underwriting criteria such as financial stability, management strength, industry trends, or collateral values. Management will place credits in this category to allow for proactive monitoring and resolution with the borrower to



possibly mitigate the area of concern and prevent further deterioration or risk of loss to the Corporation. Category II loans are considered performing but are monitored frequently by the assigned business development officer and by asset quality review committees.

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

Category IV — Loans and leases in this category are non-accrual loans. Management has determined that it is unlikely that the Bank will receive the contractual principal and interest in accordance with the original terms of the agreement. Non-accrual loans are individually evaluated to assess the need for the establishment of specific reserves or charge-offs. When analyzing the adequacy of collateral, the Corporation obtains external appraisals at least annually. External appraisals are obtained from the Corporation's approved appraiser listing and are independently reviewed to monitor the quality of such appraisals. To the extent a collateral shortfall position is present, a specific reserve or charge-off will be recorded. Loans and leases in this category are monitored by management and asset quality review committees on a monthly basis.

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

	June 30, 2024						September 30, 2024					
	Greater					Total Loans and Leases	Greater					Total Loans and Leases
	30-59	60-89	Than 90	Total Past Due	Current		30-59	60-89	Than 90	Total Past Due	Current	
	Days	Days	Days				Days	Days	Days			
	Past	Past	Past				Past	Past	Past			
Total loans and leases	Due	Due	Due	Due		Due	Due	Due	Due			
Commercial real estate:	(Dollars in Thousands)						(Dollars in Thousands)					
Owner occupied	\$ —	\$ —	\$ —	\$ —	\$ 258,636	\$ 258,636	\$ —	\$ —	\$ —	\$ —	\$ 259,532	\$ 259,532
Non-owner occupied	—	—	—	—	777,704	777,704	375	—	—	375	767,820	768,195
Construction	—	—	—	—	229,181	229,181	—	—	—	—	266,762	266,762
Multi-family	—	—	—	—	470,176	470,176	—	—	—	—	494,954	494,954
1-4 family	18	—	—	18	39,662	39,680	—	—	—	—	39,933	39,933
Commercial and industrial	4,539	1,163	8,483	14,185	1,147,526	1,161,711	1,555	2,835	17,497	21,887	1,152,408	1,174,295
Consumer and other	—	—	—	—	48,145	48,145	—	—	—	—	46,610	46,610
Total	\$ 4,557	\$ 1,163	\$ 8,483	\$ 14,203	\$ 2,971,030	\$ 2,985,233	\$ 1,930	\$ 2,835	\$ 17,497	\$ 22,262	\$ 3,028,019	\$ 3,050,281
Percent of portfolio	0.15 %	0.04 %	0.28 %	0.47 %	99.53 %	100.00 %	0.06 %	0.09 %	0.57 %	0.73 %	99.27 %	100.00 %

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December 31, 2023					
30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans and Leases

(Dollars in Thousands)

**Total loans and leases**

Commercial real estate:

Owner occupied	\$	—	\$	—	\$	—	\$	—	\$	256,479	\$	256,479
Non-owner occupied		—		—		—		—		773,494		773,494
Construction		—		—		—		—		193,080		193,080
Multi-family		—		—		—		—		450,529		450,529
1-4 family		—		—		—		—		26,289		26,289
Commercial and industrial		3,430		1,041		18,347		22,818		1,083,017		1,105,835
Consumer and other		—		—		—		—		44,312		44,312
Total	\$	3,430	\$	1,041	\$	18,347	\$	22,818	\$	2,827,200	\$	2,850,018
Percent of portfolio		0.12 %		0.04 %		0.64 %		0.80 %		99.20 %		100.00 %

The following tables present the amortized cost basis of provide additional detail on loans on non-accrual status and loans past due over 89 days still accruing as of:

	June 30, 2024			September 30, 2024		
	Non-accrual With No Allowance for Credit Loss	Non-accrual With Allowance for Credit Loss	Loans Past Due Over 89 Days Still Accruing	Non-accrual With No Allowance for Credit Loss	Non-accrual With Allowance for Credit Loss	Loans Past Due Over 89 Days Still Accruing
	(In Thousands)			(In Thousands)		
Commercial real estate:						
Commercial real estate — owner occupied	\$	—	\$	—	\$	—
Commercial real estate — non-owner occupied		—		—		—
Construction		—		—		—
Multi-family		—		—		—
1-4 family		18		16		—
Total commercial real estate		18		16		—
Commercial and industrial		9,546		8,009		11,339
Consumer and other		—		—		—
Total non-accrual loans and leases	\$	9,564	\$	9,435	\$	8,025

	December 31, 2023			December 31, 2023		
	Non-accrual With No Allowance for Credit Loss	Non-accrual With Allowance for Credit Loss	Loans Past Due Over 89 Days Still Accruing	Non-accrual With No Allowance for Credit Loss	Non-accrual With Allowance for Credit Loss	Loans Past Due Over 89 Days Still Accruing
	(In Thousands)			(In Thousands)		
Commercial real estate:						
Commercial real estate — owner occupied	\$	—	\$	—	\$	—
Commercial real estate — non-owner occupied		—		—		—
Construction		—		—		—
Multi-family		—		—		—
1-4 family		—	22		22	—
Total commercial real estate		—	22		22	—
Commercial and industrial		9,690		9,691		10,884
Consumer and other		—		—		—
Total non-accrual loans and leases	\$	9,690	\$	10,907	\$	9,691

	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
Total non-accrual loans and leases to gross loans and leases	0.64 %	0.72 %	0.63 %	0.72 %
Allowance for credit losses to gross loans and leases	1.17	1.16	1.16	1.16

Allowance for credit losses to non-accrual loans and leases	183.96	160.21	183.38	160.21
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The following table presents the amortized cost basis of the non-accrual, collateral-dependent commercial and industrial loans as of:

	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
	(In Thousands)		(In Thousands)	
Inventory	\$ 436	\$ 8,879	\$ 75	\$ 8,879
Equipment	9,506	8,903	10,128	8,903
Real Estate	136	46	132	46
Accounts Receivable	6,021	278	6,179	278
Other	1,147	1,348	1,021	1,348
Total	\$ 17,246	\$ 19,454	\$ 17,535	\$ 19,454

Occasionally, the Corporation modifies loans to borrowers in financial distress. There distress by providing principal forgiveness, term extension, an other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

The following table presents the amortized cost basis of loans at September 30, 2024 that were seven commercial both experiencing financial difficulty and industrial loans for a total of \$1.6 million and two commercial real estate non-owner occupied loans for a total of \$5.9 million modified during the six nine months ended June 30, 2024, September 30, 2024 and 2023, by class and by type of modification. The modifications consisted percentage of payment deferrals and the amortized cost basis of loans that were modified loan repayment schedules. Of these to borrowers in financial distress as compared to the amortized costs basis of each class of financing receivable is also presented below.

	For the Nine Months Ended September 30, 2024					
	Principal			Interest Rate		Total Class of
	Forgiveness	Payment Delay	Term Extension	Reduction	Total	Financing
						Receivable
	(In Thousands)					
Commercial real estate	\$ —	\$ 5,901	\$ —	\$ —	\$ 5,901	0.32 %
Commercial and industrial	—	1,847	477	—	2,324	0.20
Total	\$ —	\$ 7,748	\$ 477	\$ —	\$ 8,225	0.27 %
	For the Nine Months Ended September 30, 2023					
	Principal			Interest Rate		Total Class of
	Forgiveness	Payment Delay	Term Extension	Reduction	Total	Financing
						Receivable
	(In Thousands)					
Commercial real estate	\$ —	\$ —	\$ —	\$ —	\$ —	0.00 %
Commercial and industrial	—	716	—	—	716	0.07
Total	\$ —	\$ 716	\$ —	\$ —	\$ 716	0.03 %

The Corporation closely monitors the performance of loans that are modified loans, four are included in total non-performing loans and are currently between zero and 117 days past due as of June 30, 2024. There was one commercial and industrial loan for a total of \$382,000 modified during the six months ended June 30, 2023. This modification consisted of a payment deferral. There was one commercial and industrial loan to borrowers experiencing financial distress difficulty to understand the effectiveness of its modification efforts. The following table presents the performance of such loans that have been modified in the amount last 12 months:

For the Nine Months Ended September 30, 2024			
30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due
(Dollars in Thousands)			

Commercial real estate	\$	—	\$	—	\$	—	\$	—
Commercial and industrial		—		360		50		410
Total	\$	—	\$	360	\$	50	\$	410

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that was modified during

	For the Nine Months Ended September 30, 2023			
	30-59	60-89	Greater	Total Past
	Days Past	Days Past	Than 90	
	Due	Due	Days Past	
	Due	Due	Due	
	(Dollars in Thousands)			
Commercial real estate	\$ —	\$ —	\$ —	\$ —
Commercial and industrial	—	—	389	389
Total	\$ —	\$ —	\$ 389	\$ 389

The following table presents the 12 months ended June 30, 2024 which subsequently defaulted. There were no loans financial effect of the loan modifications presented above to borrowers experiencing financial distress difficulty for the nine months ended September 30, 2024 and 2023:

(Dollars in Thousands)	For the Nine Months Ended September 30, 2024			
	Weighted Average			Weighted Average
	Principal Forgiveness	Interest Rate	Weighted Average	
		Reduction	Term Extension (years)	Payment Delay (years)
Commercial real estate	\$	—		0.00
Commercial and industrial		—		1.01
Total	\$	—		1.42

  

(Dollars in Thousands)	For the Nine Months Ended September 30, 2023			
	Weighted Average			Weighted Average
	Principal Forgiveness	Interest Rate	Weighted Average	
		Reduction	Term Extension (years)	Payment Delay (years)
Commercial real estate	\$	—		0.00
Commercial and industrial		—		0.50
Total	\$	—		0.50

The following table presents the amortized cost basis of loans that had a payment default during the nine months ended September 30, 2024 and 2023 and were modified during in the 12 months ended June 30, 2023 which subsequently defaulted. There were prior to that default to borrowers experience financial difficulty: no

	For the Nine Months Ended September 30, 2024			
	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate
				Reduction
	(In Thousands)			
Commercial real estate	\$	—	\$	—
Commercial and industrial		753		—
Total	\$	753	\$	—

unfunded commitments associated with loans modified for borrowers experiencing financial distress as of June 30, 2024.

	For the Nine Months Ended September 30, 2023			
	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate
				Reduction
	(In Thousands)			
Commercial real estate	\$	—	\$	—
Commercial and industrial		—		—
Total	\$	—	\$	—

## Allowance for Credit Losses

The ACL is an estimate of the expected credit losses on financial assets measured at amortized cost, which is measured using relevant information about past events, including historical credit loss experience on financial assets with similar risk characteristics, current conditions, and reasonable and supportable forecasts that affect the collectability of the remaining cash flows over the contractual term of the financial assets. A provision for credit losses is charged to operations based on management's periodic evaluation of these and other pertinent factors as discussed within **Note 1 – Nature of Operations and Summary of Significant Accounting Policies** included in the Corporation's Form 10-K for the year ended December 31, 2023.

## Quantitative Considerations

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The ACL is primarily calculated utilizing a **discounted cash flow** **Discounted Cash Flow** ("DCF") model. Key inputs and assumptions used in this model are discussed below:

- Forecast model - For each portfolio segment, a **loss driver analysis** **Loss Driver Analysis** ("LDA") was performed in order to identify appropriate loss drivers and create a regression model for use in forecasting cash flows. The LDA analysis utilized peer FFIEC Call Report data for all **DCF** pools. The Corporation plans to update the LDA annually.
- Probability of **default** **Default** ("PD") – PD is the probability that an asset will be in default within a given time frame. The Corporation has defined default as when a charge has occurred, a loan goes to non-accrual status, or a loan is greater than 90 days past due. The forecast model is utilized to estimate PDs.
- Loss **given default** **Given Default** ("LGD") – LGD is the percentage of the asset not expected to be collected due to default. The LGD is derived from using a method referred to as Frye Jacobs which uses industry data.
- Prepayments and curtailments – Prepayments and curtailments are calculated based on the Corporation's own data. This analysis is updated semi-annually.
- Forecast and reversion – The Corporation has established a one-year reasonable and supportable forecast period with a one-year straight line reversion to the long-term historical average.
- Economic forecast – The Corporation utilizes a third party to provide economic forecasts under various scenarios, which are assessed against economic indicators and management's observations in the market. As of December 31, 2023, the Corporation selected a forecast which estimates unemployment between 3.89% and 4.04% and GDP growth change between 1.29% and 2.32% over the next four quarters. As of **June 30, 2024** **September 30, 2024**, the Corporation selected a forecast which estimates: unemployment between **4.06%** **4.12%** and **4.08%** **4.20%** and GDP growth change between **1.76%** **1.83%** and **2.21%** **2.34%** over the next four quarters.

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Following the forecast period, the model reverts to long-term averages over four quarters. Management believes that the resulting quantitative reserve appropriately balances economic indicators with identified risks.

## Qualitative Considerations

In addition to the quantitative model, management considers the need for qualitative adjustment for risks not considered in the DCF. Factors that are considered by management in determining loan collectability and the appropriate level of the ACL are listed below:

- The Corporation's lending policies and procedures, including changes in lending strategies, underwriting standards and practices for collections, write-offs, and recoveries
- Actual and expected changes in international, national, regional, and local economic and business conditions and developments in which the Corporation operates that affect the collectability of financial assets;
- The experience, ability, and depth of the Corporation's lending, investment, collection, and other relevant management and staff;
- The volume of past due financial assets, the volume of non-accrual loans and leases, and the volume and severity of adversely classified or graded assets;
- The existence and effect of industry concentrations of credit;
- The nature and volume of the portfolio segment or class;
- The quality of the Corporation's credit function; and
- The effect of other external factors such as the regulatory, legal and technological environments, competition, and events such as natural disasters or pandemics.

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## ACL Activity

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

	As of and for the Three Months Ended June 30, 2024								As of and for the Three Months Ended September 30, 2024							
	Non-				Commercial				Non-				Commercial			
	Owner	Owner		Multi-	1-4	and	Consumer		Owner	Owner		Multi-	1-4	and	Consumer	
	Occupied	Occupied	Construction	Family	Family	Industrial	and Other	Total	Occupied	Occupied	Construction	Family	Family	Industrial	and Other	Total
	(In Thousands)								(In Thousands)							
Beginning balance	\$ 1,576	\$ 6,202	\$ 2,537	\$ 3,599	\$ 312	\$ 19,914	\$ 489	\$ 34,629	\$ 1,531	\$ 6,415	\$ 3,045	\$ 3,752	\$ 461	\$ 19,280	\$ 466	\$ 34,950
Charge-offs	—	—	—	—	—	(1,583)	—	(1,583)	—	—	—	—	—	(1,619)	—	(1,619)
Recoveries	—	—	—	—	5	165	21	191	1	—	—	—	6	84	—	91
Net recoveries (charge-offs)	—	—	—	—	5	(1,418)	21	(1,392)	1	—	—	—	6	(1,535)	—	(1,528)
Provision for credit losses	(45)	213	508	153	144	784	(44)	1,713	70	(325)	483	(17)	12	1,911	(47)	2,087
Ending balance	\$ 1,531	\$ 6,415	\$ 3,045	\$ 3,752	\$ 461	\$ 19,280	\$ 466	\$ 34,950	\$ 1,602	\$ 6,090	\$ 3,528	\$ 3,735	\$ 479	\$ 19,656	\$ 419	\$ 35,509
Components:																
Allowance for credit losses on loans	\$ 1,519	\$ 6,374	\$ 1,963	\$ 3,723	\$ 425	\$ 18,671	\$ 413	\$ 33,088	\$ 1,588	\$ 6,048	\$ 2,518	\$ 3,710	\$ 439	\$ 19,010	\$ 375	\$ 33,688
Allowance for credit losses on unfunded credit commitments	12	41	1,082	29	36	609	53	1,862	14	42	1,010	25	40	646	44	1,821
Total ACL	\$ 1,531	\$ 6,415	\$ 3,045	\$ 3,752	\$ 461	\$ 19,280	\$ 466	\$ 34,950	\$ 1,602	\$ 6,090	\$ 3,528	\$ 3,735	\$ 479	\$ 19,656	\$ 419	\$ 35,509

	As of and for the Three Months Ended June 30, 2023								As of and for the Three Months Ended September 30, 2023							
	Non-				Commercial				Non-				Commercial			
	Owner	Owner		Multi-	1-4	and	Consumer		Owner	Owner		Multi-	1-4	and	Consumer	
	Occupied	Occupied	Construction	Family	Family	Industrial	and Other	Total	Occupied	Occupied	Construction	Family	Family	Industrial	and Other	Total
	(In Thousands)								(In Thousands)							
Beginning balance	\$ 1,656	\$ 4,966	\$ 2,287	\$ 2,901	\$ 221	\$ 14,905	\$ 614	\$ 27,550	\$ 1,721	\$ 5,241	\$ 2,293	\$ 3,426	\$ 249	\$ 16,223	\$ 544	\$ 29,697
Charge-offs	—	—	—	—	—	(329)	—	(329)	—	—	—	—	—	(562)	—	(562)
Recoveries	2	—	—	—	21	220	2	245	3	—	—	—	9	72	—	84
Net recoveries (charge-offs)	2	—	—	—	21	(109)	2	(84)	3	—	—	—	9	(490)	—	(478)
Provision for credit losses	63	275	6	525	7	1,427	(72)	2,231	(151)	26	68	96	(10)	1,833	(45)	1,817
Ending balance	\$ 1,721	\$ 5,241	\$ 2,293	\$ 3,426	\$ 249	\$ 16,223	\$ 544	\$ 29,697	\$ 1,573	\$ 5,267	\$ 2,361	\$ 3,522	\$ 248	\$ 17,566	\$ 499	\$ 31,036
Components:																
Allowance for credit losses on loans	\$ 1,703	\$ 5,182	\$ 1,483	\$ 3,414	\$ 228	\$ 15,624	\$ 481	\$ 28,115	\$ 1,556	\$ 5,209	\$ 1,441	\$ 3,512	\$ 228	\$ 16,946	\$ 439	\$ 29,331
Allowance for credit losses on unfunded credit commitments	18	59	810	12	21	599	63	1,582	17	58	920	10	20	620	60	1,705
Total ACL	\$ 1,721	\$ 5,241	\$ 2,293	\$ 3,426	\$ 249	\$ 16,223	\$ 544	\$ 29,697	\$ 1,573	\$ 5,267	\$ 2,361	\$ 3,522	\$ 248	\$ 17,566	\$ 499	\$ 31,036

	As of and for the Nine Months Ended September 30, 2024															
	Owner			Non-Owner		Multi-		Commercial								
	Occupied			Occupied		Family		and								
	Occupied			Construction		1-4 Family		Industrial								
								Consumer								
								and Other		Total						
	(In Thousands)															
Beginning balance	\$	1,540	\$	5,636	\$	2,125	\$	3,571	\$	266	\$	19,408	\$	451	\$	32,997
Charge-offs		—		—		—		—		—		(4,101)		(22)		(4,123)

Recoveries	2	—	—	—	121	365	21	509
Net recoveries (charge-offs)	2	—	—	—	121	(3,736)	(1)	(3,614)
Provision for credit losses	60	454	1,403	164	92	3,984	(31)	6,126
Ending balance	\$ 1,602	\$ 6,090	\$ 3,528	\$ 3,735	\$ 479	\$ 19,656	\$ 419	\$ 35,509
Components:								
Allowance for credit losses on loans	\$ 1,588	\$ 6,048	\$ 2,518	\$ 3,710	\$ 439	\$ 19,010	\$ 375	\$ 33,688
Allowance for credit losses on unfunded credit commitments	14	42	1,010	25	40	646	44	1,821
Total ACL	\$ 1,602	\$ 6,090	\$ 3,528	\$ 3,735	\$ 479	\$ 19,656	\$ 419	\$ 35,509
As of and for the Nine Months Ended September 30, 2023								
	Owner Occupied	Non-Owner Occupied	Construction	Multi- Family	1-4 Family	Commercial and Industrial	Consumer and Other	Total
(In Thousands)								
Beginning balance	\$ 1,766	\$ 5,108	\$ 1,646	\$ 2,634	\$ 207	\$ 12,403	\$ 466	\$ 24,230
Impact of adopting ASC 326	(204)	(242)	796	(386)	(45)	1,873	26	1,818
Charge-offs	—	—	—	—	—	(1,057)	—	(1,057)
Recoveries	5	1	—	—	30	386	13	435
Net recoveries (charge-offs)	5	1	—	—	30	(671)	13	(622)
Provision for credit losses	6	400	(81)	1,274	56	3,961	(6)	5,610
Ending balance	\$ 1,573	\$ 5,267	\$ 2,361	\$ 3,522	\$ 248	\$ 17,566	\$ 499	\$ 31,036
Components:								
Allowance for credit losses on loans	\$ 1,556	\$ 5,209	\$ 1,441	\$ 3,512	\$ 228	\$ 16,946	\$ 439	\$ 29,331
Allowance for credit losses on unfunded credit commitments	17	58	920	10	20	620	60	1,705
Total ACL	\$ 1,573	\$ 5,267	\$ 2,361	\$ 3,522	\$ 248	\$ 17,566	\$ 499	\$ 31,036

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As of and for the Six Months Ended June 30, 2024								
	Owner Occupied	Non-Owner Occupied	Construction	Multi- Family	1-4 Family	Commercial and Industrial	Consumer and Other	Total
(In Thousands)								
Beginning balance	\$ 1,540	\$ 5,636	\$ 2,125	\$ 3,571	\$ 266	\$ 19,408	\$ 451	\$ 32,997
Charge-offs	—	—	—	—	—	(2,482)	(22)	(2,504)
Recoveries	1	—	—	—	115	281	21	418
Net recoveries (charge-offs)	1	—	—	—	115	(2,201)	(1)	(2,086)
Provision for credit losses	(10)	779	920	181	80	2,073	16	4,039
Ending balance	\$ 1,531	\$ 6,415	\$ 3,045	\$ 3,752	\$ 461	\$ 19,280	\$ 466	\$ 34,950
Components:								
Allowance for credit losses on loans	\$ 1,519	\$ 6,374	\$ 1,963	\$ 3,723	\$ 425	\$ 18,671	\$ 413	\$ 33,088
Allowance for credit losses on unfunded credit commitments	12	41	1,082	29	36	609	53	1,862
Total ACL	\$ 1,531	\$ 6,415	\$ 3,045	\$ 3,752	\$ 461	\$ 19,280	\$ 466	\$ 34,950
As of and for the Six Months Ended June 30, 2023								

	Owner Occupied	Non-Owner Occupied	Construction	Multi- Family	1-4 Family	Commercial and Industrial	Consumer and Other	Total
	(In Thousands)							
Beginning balance	\$ 1,766	\$ 5,108	\$ 1,646	\$ 2,634	\$ 207	\$ 12,403	\$ 466	\$ 24,230
Impact of adopting ASC 326	(204)	(242)	796	(386)	(45)	1,873	26	1,818
Charge-offs	—	—	—	—	—	(495)	—	(495)
Recoveries	2	1	—	—	21	314	13	351
Net recoveries (charge-offs)	2	1	—	—	21	(181)	13	(144)
Provision for credit losses	157	374	(149)	1,178	66	2,128	39	3,793
Ending balance	\$ 1,721	\$ 5,241	\$ 2,293	\$ 3,426	\$ 249	\$ 16,223	\$ 544	\$ 29,697
Components:								
Allowance for credit losses on loans	\$ 1,703	\$ 5,182	\$ 1,483	\$ 3,414	\$ 228	\$ 15,624	\$ 481	\$ 28,115
Allowance for credit losses on unfunded credit commitments	18	59	810	12	21	599	63	1,582
Total ACL	\$ 1,721	\$ 5,241	\$ 2,293	\$ 3,426	\$ 249	\$ 16,223	\$ 544	\$ 29,697

### ACL Summary

Loans collectively evaluated for credit losses in the following tables include all performing loans at **June 30, 2024** **September 30, 2024** and December 31, 2023. Loans individually evaluated for credit losses include all non-accrual loans.

The following tables provide information regarding the allowance for credit losses and balances by type of allowance methodology.

	As of June 30, 2024								As of September 30, 2024							
	Non-Owner				Commercial				Non-Owner				Commercial			
	Owner Occupied	Owner Occupied	Construction	Multi-Family	1-4 Family	and Industrial	Consumer and Other	Total	Owner Occupied	Owner Occupied	Construction	Multi-Family	1-4 Family	and Industrial	Consumer and Other	Total
	(In Thousands)								(In Thousands)							
<b>Allowance for credit losses:</b>																
Collectively evaluated for credit losses	\$ 1,519	\$ 6,374	\$ 1,963	\$ 3,723	\$ 425	\$ 13,090	\$ 413	\$ 27,507	\$ 1,588	\$ 6,048	\$ 2,518	\$ 3,710	\$ 439	\$ 12,671	\$ 375	\$ 27,349
Individually evaluated for credit loss	—	—	—	—	—	5,581	—	5,581	—	—	—	—	—	6,339	—	6,339
Total	\$ 1,519	\$ 6,374	\$ 1,963	\$ 3,723	\$ 425	\$ 18,671	\$ 413	\$ 33,088	\$ 1,588	\$ 6,048	\$ 2,518	\$ 3,710	\$ 439	\$ 19,010	\$ 375	\$ 33,688
<b>Loans and lease receivables:</b>																
Collectively evaluated for credit losses	\$ 258,636	\$ 777,704	\$ 229,181	\$ 470,176	\$ 39,662	\$ 1,142,730	\$ 48,145	\$ 2,966,234	\$ 259,532	\$ 768,195	\$ 266,762	\$ 494,954	\$ 39,917	\$ 1,154,947	\$ 46,610	\$ 3,030,917
Individually evaluated for credit loss	—	—	—	—	18	18,981	—	18,999	—	—	—	—	16	19,348	—	19,364
Total	\$ 258,636	\$ 777,704	\$ 229,181	\$ 470,176	\$ 39,680	\$ 1,161,711	\$ 48,145	\$ 2,985,233	\$ 259,532	\$ 768,195	\$ 266,762	\$ 494,954	\$ 39,933	\$ 1,174,295	\$ 46,610	\$ 3,050,281



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As of December 31, 2023								
	Owner Occupied	Non-Owner Occupied	Construction	Multi- Family	1-4 Family	Commercial and Industrial	Consumer and Other	Total
(In Thousands)								
<b>Allowance for credit losses:</b>								
Collectively evaluated for credit losses	\$ 1,525	\$ 5,596	\$ 1,244	\$ 3,562	\$ 221	\$ 12,743	\$ 395	\$ 25,286
Individually evaluated for credit loss	—	—	—	—	22	5,967	—	5,989
<b>Total</b>	<b>\$ 1,525</b>	<b>\$ 5,596</b>	<b>\$ 1,244</b>	<b>\$ 3,562</b>	<b>\$ 243</b>	<b>\$ 18,710</b>	<b>\$ 395</b>	<b>\$ 31,275</b>
<b>Loans and lease receivables:</b>								
Collectively evaluated for credit losses	\$ 256,479	\$ 773,494	\$ 193,080	\$ 450,529	\$ 26,267	\$ 1,085,260	\$ 44,312	\$ 2,829,421
Individually evaluated for credit loss	—	—	—	—	22	20,575	—	20,597
<b>Total</b>	<b>\$ 256,479</b>	<b>\$ 773,494</b>	<b>\$ 193,080</b>	<b>\$ 450,529</b>	<b>\$ 26,289</b>	<b>\$ 1,105,835</b>	<b>\$ 44,312</b>	<b>\$ 2,850,018</b>

**Note 6 — Leases**

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

The components of total lease expense were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023	2024	2023	2024	2023
	(In Thousands)				(In Thousands)			
Operating lease cost	\$ 338	\$ 367	\$ 695	\$ 750	\$ 333	\$ 338	\$ 1,028	\$ 1,088
Short-term lease cost	38	46	75	108	31	36	106	145
Variable lease cost	146	147	287	297	143	139	430	436
Less: sublease income	—	(30)	—	(75)	—	—	—	(75)
<b>Total lease cost, net</b>	<b>\$ 522</b>	<b>\$ 530</b>	<b>\$ 1,057</b>	<b>\$ 1,080</b>	<b>\$ 507</b>	<b>\$ 513</b>	<b>\$ 1,564</b>	<b>\$ 1,594</b>

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

	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
Weighted-average remaining lease term (in years)	7.37	7.70	7.20	7.70
Weighted-average discount rate	3.73 %	3.61 %	3.78 %	3.61 %

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

(In Thousands)

2024	\$	754	\$	367
2025		1,408		1,408
2026		1,400		1,400
2027		1,427		1,427
2028		1,113		1,113
Thereafter		3,600		3,600
Total undiscounted cash flows		9,702		9,315
Discount on cash flows		(1,341)		(1,261)
Total lease liability	\$	8,361	\$	8,054

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### Note 7 — Other Assets

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

	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
	(In Thousands)		(In Thousands)	
Accrued interest receivable	\$ 13,639	\$ 13,275	\$ 12,906	\$ 13,275
Net deferred tax asset	8,910	9,508	9,641	9,508
Investment in historic development entities	4,866	2,393	4,866	2,393
Investment in low-income housing development entities	35,554	33,303	41,059	33,303
Investment in limited partnerships	15,890	15,027	16,465	15,027
Prepaid expenses	5,567	4,269	5,425	4,269
Other assets	13,446	13,283	13,345	13,283
Total accrued interest receivable and other assets	\$ 97,872	\$ 91,058	\$ 103,707	\$ 91,058

For the **six** **nine** months ended **June 30, 2024** **September 30, 2024** and 2023, the Corporation amortized tax credit investments of **\$2.6** **3.9** million and **\$870,000** **2.9** million respectively, and recognized tax credits and other benefits for the **six** **nine** months ended **June 30, 2024** **September 30, 2024** and 2023 of **\$3.3** **5.0** million and **\$1.2** **4.0** million, respectively, within the income tax expense line on the unaudited Consolidated Statements of Income.

### Note 8 — Deposits

The composition of deposits is shown below. Average balances represent year-to-date averages.

	June 30, 2024			December 31, 2023			September 30, 2024			December 31, 2023		
	Balance	Average Balance	Average Rate	Balance	Average Balance	Average Rate	Balance	Average Balance	Average Rate	Balance	Average Balance	Average Rate
	(Dollars in Thousands)						(Dollars in Thousands)					
Non-interest-bearing transaction accounts	\$ 406,804	\$ 440,192	—%	\$ 445,376	\$ 453,930	—%	\$ 428,012	\$ 440,182	—%	\$ 445,376	\$ 453,930	—%
Interest-bearing transaction accounts	841,146	871,824	3.94	895,319	689,500	3.44	930,252	869,511	3.93	895,319	689,500	3.44
Money market accounts	837,569	788,869	4.01	711,245	681,336	3.25	817,129	809,593	4.05	711,245	681,336	3.25

Certificates of deposit	224,116	259,891	4.63	287,131	273,387	4.10	207,337	246,267	4.65	287,131	273,387	4.10
Wholesale deposits	575,548	466,843	4.06	457,708	346,285	4.14	587,217	488,543	4.08	457,708	346,285	4.14
Total deposits	<u>\$ 2,885,183</u>	<u>\$ 2,827,619</u>	3.43	<u>\$ 2,796,779</u>	<u>\$ 2,444,438</u>	2.92	<u>\$ 2,969,947</u>	<u>\$ 2,854,096</u>	3.45	<u>\$ 2,796,779</u>	<u>\$ 2,444,438</u>	2.92

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A summary of annual maturities of core and wholesale certificates of deposit at **June 30, 2024** **September 30, 2024** is as follows:

(In Thousands)

Maturities during the year ended December 31,

2024	\$	462,762	\$	431,326
2025		42,937		92,189
2026		50,561		57,587
2027		73,511		73,517
2028		12,821		12,821
Thereafter		2,072		7,072
	<u>\$</u>	<u>644,664</u>	<u>\$</u>	<u>674,512</u>

Wholesale deposits include \$**420.5** **467.2** million and \$**155.0** **120.0** million of wholesale certificates of deposit and non-reciprocal interest-bearing transaction accounts, respectively, at **June 30, 2024** **September 30, 2024**, compared to \$407.7 million and \$50.0 million of wholesale certificates of deposit and non-reciprocal interest-bearing transaction accounts, respectively, at December 31, 2023. The Corporation has entered into derivative contracts hedging a portion of the certificates of deposit included in the 2024 maturities above. As of **June 30, 2024** **September 30, 2024**, the notional amount of derivatives designated as cash flow hedges totaled \$**359.3** **431.3** million with a weighted average remaining maturity of **3.83** **3.77** years and a weighted average rate of **3.97** **3.83**%.

Certificates of deposit and wholesale deposits denominated in amounts greater than \$250,000 were \$**87.0** **85.9** million at **June 30, 2024** **September 30, 2024** and \$120.2 million at December 31, 2023.

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### Note 9 — FHLB Advances, Other Borrowings and Subordinated Notes and Debentures

The composition of borrowed funds is shown below. Average balances represent year-to-date averages.

	June 30, 2024			December 31, 2023			September 30, 2024			December 31, 2023		
	Weighted	Weighted		Weighted	Weighted		Weighted	Weighted		Weighted	Weighted	
	Average	Average		Average	Average		Average	Average		Average	Average	
	Balance	Balance	Rate	Balance	Balance	Rate	Balance	Balance	Rate	Balance	Balance	Rate
	(Dollars in Thousands)						(Dollars in Thousands)					
Federal funds purchased	\$ —	\$ —	—%	\$ —	\$ 3	5.37%	\$ —	\$ 2	6.31%	\$ —	\$ 3	5.37%
FHLB advances	278,350	290,675	2.54	281,500	351,990	2.52	294,450	286,454	2.68	281,500	351,990	2.52
Line of credit	—	—	—	—	38	7.26	—	1,642	7.76	—	38	7.26
Other borrowings	10	15	—	20	600	8.33	—	10	—	20	600	8.33
Subordinated notes and debentures	49,495	49,455	5.79	49,396	38,250	5.16	54,659	48,208	6.37	49,396	38,250	5.16
	<u>\$ 327,855</u>	<u>\$ 340,145</u>	3.02	<u>\$ 330,916</u>	<u>\$ 390,881</u>	2.79	<u>\$ 349,109</u>	<u>\$ 336,316</u>	3.23	<u>\$ 330,916</u>	<u>\$ 390,881</u>	2.79

A summary of annual maturities of borrowings at **June 30, 2024** **September 30, 2024** is as follows:

(In Thousands)

Maturities during the year ended December 31,

2024	\$	96,910	\$	116,000
2025		48,000		48,000
2026		65,000		65,000
2027		28,000		10,000
2028		10,450		10,450
Thereafter		79,495		99,659
	\$	327,855	\$	349,109

As of June 30, 2024 and September 30, 2024, the Corporation has no other borrowings. As of December 31, 2023, the Corporation had other borrowings of \$10,000 and \$20,000, respectively, which consisted of sold tax credit investments accounted for as secured borrowings because they did not qualify for true sale accounting. The Corporation has entered into derivative contracts hedging a portion of the borrowings included in the 2024 maturities above. As of June 30, 2024 September 30, 2024, the notional amount of derivatives designated as cash flow hedges totaled \$78.4 68.4 million with a weighted average remaining maturity of 2.50 2.55 years and a weighted average rate of 1.80 1.98%.

As of June 30, 2024 September 30, 2024 and December 31, 2023, the Corporation was in compliance with its debt covenants under its third-party secured senior line of credit. On February 20, 2024, the credit line was renewed for one additional year with pricing terms of 1-month term SOFR + 2.36% and a maturity date of February 19, 2025.

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The Corporation issued new subordinated notes payable as of September 13, 2024. The aggregate principal amount of the third quarter 2024, newly issued subordinated notes payable was \$20.0 million which qualified as Tier 2 capital. The subordinated notes payable bear a fixed interest rate of 7.5% with a maturity date of September 13, 2034. The Corporation may, at its option, redeem the Corporation intends to redeem notes payable, in whole or part, at anytime after the fifth anniversary of the issuance. As of August 15, 2024, the \$15.0 million of 5.50% fixed to floating rate subordinated notes payable originally that bore a fixed interest rate of 5.5% were redeemed, and the remaining unamortized debt issuance cost was accelerated due to the early redemption. As of September 30, 2024, \$341,000 of debt issuance costs remain in the subordinated note and debentures payable balance, of which \$56,000 is related to the recently issued August 15th, 2019 and reissue up to \$20.0 million in subordinated notes payable, debentures.

### Note 10 — Preferred Stock

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

The Corporation expects to pay dividends on the Series A Preferred Stock when and if declared by the Board, at a fixed rate of 7.0% per annum, payable quarterly, in arrears, on March 15, June 15, September 15 and December 15 of each year up to, but excluding, March 15, 2027. For each dividend period from and including March 15, 2027, dividends will be paid at a floating rate of Three-Month Term SOFR plus a spread of 539 basis points per annum. During the three and six nine months ended June 30, 2024 September 30, 2024, the Board of Directors declared an aggregate preferred stock dividend of \$219,000 218,000 and \$438,000 656,000, respectively. The Series A Preferred Stock is perpetual and has no stated maturity. The Corporation may redeem the Series A Preferred Stock at its option at a redemption price equal to \$1,000 per share, plus any declared and unpaid dividends (without regard to any undeclared dividends), subject to regulatory approval, on or after March 15, 2027 or within 90 days following a regulatory capital treatment event, in accordance with the terms of the Series A Preferred Stock.

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### Note 11 — Commitments and Contingencies

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

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

Management has assessed estimated losses inherent in the outstanding guaranteed portions of SBA loans sold in accordance with ASC 450, *Contingencies*, and determined a recourse reserve based on the probability of future losses for these loans to be \$906,000 1.3 million at June 30, 2024 September 30, 2024, which is reported in accrued interest payable and other liabilities on the unaudited Consolidated Balance Sheets.

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

	As of and for the Three Months Ended June 30,				As of and for the Three Months Ended September 30,			
	As of and for the Six Months Ended June 30,		As of and for the Nine Months Ended September 30,					
	2024	2023	2024	2023	2024	2023	2024	2023
	(In Thousands)				(In Thousands)			
Balance at the beginning of the period	\$ 1,081	\$ 423	\$ 955	\$ 441	\$ 906	\$ 752	\$ 955	\$ 441
SBA (benefit) recourse	(9)	341	117	323				
SBA recourse	466	242	583	565				
Charge-offs, net	(166)	(12)	(166)	(12)	(40)	(11)	(206)	(23)
Balance at the end of the period	\$ 906	\$ 752	\$ 906	\$ 752	\$ 1,332	\$ 983	\$ 1,332	\$ 983

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### Note 12 — Fair Value Disclosures

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

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

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

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

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

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

	June 30, 2024				September 30, 2024			
	Fair Value Measurements Using				Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(In Thousands)				(In Thousands)			
Assets:								
Securities available-for-sale:								
U.S. treasuries	\$ —	\$ 9,583	\$ —	\$ 9,583	\$ —	\$ 4,735	\$ —	\$ 4,735
U.S. government agency securities - government-sponsored enterprises	—	8,068	—	8,068	—	8,190	—	8,190
Municipal securities	—	34,862	—	34,862	—	36,061	—	36,061
Residential mortgage-backed securities - government issued	—	101,743	—	101,743	—	106,764	—	106,764
Residential mortgage-backed securities - government-sponsored enterprises	—	124,296	—	124,296	—	126,353	—	126,353
Commercial mortgage-backed securities - government issued	—	2,301	—	2,301	—	2,346	—	2,346
Commercial mortgage-backed securities - government-sponsored enterprises	—	27,999	—	27,999	—	28,887	—	28,887
Interest rate swaps	—	70,773	—	70,773	—	42,539	—	42,539
Liabilities:								
Interest rate swaps	—	61,821	—	61,821	—	45,399	—	45,399

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	December 31, 2023			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Assets:				
Securities available-for-sale:				
U.S. treasuries	\$ —	\$ 13,776	\$ —	\$ 13,776
U.S. government agency securities - government-sponsored enterprises	—	27,566	—	27,566
Municipal securities	—	35,881	—	35,881
Residential mortgage-backed securities - government issued	—	68,056	—	68,056
Residential mortgage-backed securities - government-sponsored enterprises	—	120,833	—	120,833
Commercial mortgage-backed securities - government issued	—	2,525	—	2,525
Commercial mortgage-backed securities - government-sponsored enterprises	—	28,369	—	28,369
Interest rate swaps	—	55,597	—	55,597
Liabilities:				
Interest rate swaps	—	51,949	—	51,949

For assets and liabilities measured at fair value on a recurring basis, there were no transfers between the levels during the three and **six** **nine** months ended **June 30, 2024** **September 30, 2024** or the year ended December 31, 2023 related to the above measurements.

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

June 30, 2024	September 30, 2024
Fair Value Measurements Using	Fair Value Measurements Using

	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(In Thousands)				(In Thousands)			
Collateral-dependent loans	\$ —	\$ —	\$ 5,055	\$ 5,055	\$ —	\$ —	\$ 6,201	\$ 6,201
Reposessed assets	—	—	54	54	—	—	56	56
Loan servicing rights	—	—	1,173	1,173	—	—	1,167	1,167

December 31, 2023					Fair Value Measurements Using			
					Level 1	Level 2	Level 3	Total
					(In Thousands)			
Collateral-dependent loans	\$	—	\$	—	\$	—	\$ 4,917	\$ 4,917
Reposessed assets		—		—		—	247	247
Loan servicing rights		—		—		—	1,356	1,356

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Collateral-dependent loans were written down to the fair value of their underlying collateral less costs to sell of \$5.1 million and \$4.9 million at June 30, 2024 September 30, 2024 and December 31, 2023, respectively, through the establishment of specific reserves or by recording charge-offs when the carrying value exceeded the fair value of the underlying collateral of individually evaluated loans. Valuation techniques consistent with the market approach, income approach, or cost approach were used to measure fair value. These techniques included observable inputs for the collateral dependent loans being evaluated, such as current appraisals, recent sales of similar assets, or other observable market data, and unobservable inputs, typically when discounts are applied to appraisal values to adjust such values to current market conditions or to reflect net realizable values. The quantification of unobservable inputs for Level 3 individually evaluated loan values range from 10% - 100% as of the measurement date of June 30, 2024 September 30, 2024. The weighted average of those unobservable inputs was 42%. The majority of the individually evaluated loans are considered collateral dependent loans or are supported by an SBA guaranty.

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

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

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

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### Fair Value of Financial Instruments

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

	June 30, 2024					September 30, 2024				
	Carrying Amount	Fair Value				Carrying Amount	Fair Value			
		Total	Level 1	Level 2	Level 3		Total	Level 1	Level 2	Level 3
		Total	Level 1	Level 2	Level 3		Total	Level 1	Level 2	Level 3
		(In Thousands)					(In Thousands)			
Financial assets:										
Cash and cash equivalents	\$ 81,080	\$ 81,080	\$ 81,080	\$ —	\$ —	\$ 131,972	\$ 131,972	\$ 131,972	\$ —	\$ —
Securities available-for-sale	308,852	308,852	—	308,852	—	313,336	313,336	—	313,336	—
Securities held-to-maturity	7,082	6,786	—	6,786	—	6,907	6,775	—	6,775	—
Loans held for sale	6,507	7,027	—	7,027	—	8,173	8,827	—	8,827	—
Loans and lease receivables, net	2,952,326	2,934,670	—	—	2,934,670	3,016,391	2,998,254	—	—	2,998,254
Federal Home Loan Bank stock	11,901	N/A	N/A	N/A	N/A	12,775	N/A	N/A	N/A	N/A
Accrued interest receivable	13,639	13,639	13,639	—	—	12,906	12,906	12,906	—	—
Interest rate swaps	70,773	70,773	—	70,773	—	42,539	42,539	—	42,539	—
Financial liabilities:		—								
Deposits	2,885,183	2,882,318	2,240,520	641,798	—	2,969,947	2,966,694	2,295,436	671,258	—
Federal Home Loan Bank advances and other borrowings	327,855	321,688	—	321,688	—	349,109	344,004	—	344,004	—
Accrued interest payable	11,290	11,290	11,290	—	—	10,820	10,820	10,820	—	—
Interest rate swaps	61,821	61,821	—	61,821	—	45,399	45,399	—	45,399	—
Off-balance sheet items:										
Standby letters of credit	141	141	—	—	141	216	216	—	—	216

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

	December 31, 2023				
	Carrying Amount	Fair Value			
		Total	Level 1	Level 2	Level 3
		(In Thousands)			
Financial assets:					
Cash and cash equivalents	\$ 139,510	\$ 139,510	\$ 139,510	\$ —	\$ —
Securities available-for-sale	297,006	297,006	—	297,006	—
Securities held-to-maturity	8,503	8,255	—	8,255	—
Loans held for sale	4,589	4,956	—	4,956	—
Loans and lease receivables, net	2,818,986	2,789,731	—	—	2,789,731
Federal Home Loan Bank stock	12,042	N/A	N/A	N/A	N/A
Accrued interest receivable	13,275	13,275	13,275	—	—
Interest rate swaps	55,597	55,597	—	55,597	—
Financial liabilities:					



Deposits	2,796,779	2,795,463	2,101,939	693,524	—
Federal Home Loan Bank advances and other borrowings	330,916	320,287	—	320,287	—
Accrued interest payable	10,860	10,860	10,860	—	—
Interest rate swaps	51,949	51,949	—	51,949	—
Off-balance sheet items:					
Standby letters of credit	190	190	—	—	190

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

Disclosure of fair value information about financial instruments, for which it is practicable to estimate that value, is required whether or not recognized in the unaudited Consolidated Balance Sheets. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Certain financial instruments and all non-financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented do not necessarily represent the underlying value of the Corporation.

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

**Loans Held for Sale:** Loans held for sale, which consist of the guaranteed portions of SBA 7(a) loans, are carried at the lower of cost or estimated fair value. The estimated fair value is based on what secondary markets are currently offering for portfolios with similar characteristics.

**Derivatives:** The carrying amount and fair value of existing derivative financial instruments are based upon independent valuation models, which use widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative contract. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The Corporation incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Corporation considers the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

**Limitations:** Fair value estimates are made at a discrete point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the

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Corporation's entire holding of a particular financial instrument. Because no market exists for a significant portion of the Corporation's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and are not considered in the estimates.

### Note 13 — Derivative Financial Instruments

The Corporation offers interest rate swap products directly to qualified commercial borrowers. The Corporation economically hedges client derivative transactions by entering into offsetting interest rate swap contracts executed with a third party. Derivative transactions executed as part of this program are not considered hedging instruments and are marked-to-market through earnings each period. The derivative contracts have mirror-image terms, which results in the positions' changes in fair value offsetting through earnings each period. The credit risk and risk of non-performance embedded in the fair value calculations is different between the dealer counterparties and the commercial borrowers which may result in a difference in the changes in the fair value of the mirror-image swaps. The Corporation incorporates credit valuation adjustments to appropriately reflect both its own non-performance risk and the counterparty's risk in the fair value measurements. When evaluating the fair value of its derivative contracts for the effects of non-performance and credit risk, the Corporation considered the impact of netting and any applicable credit enhancements such as collateral postings, thresholds, and guarantees. As of **June 30, 2024** **September 30, 2024** and December 31, 2023, the credit valuation allowance was \$38,000 and \$117,000, respectively.

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The Corporation receives fixed rates and pays floating rates based upon designated benchmark interest rates used on the swaps with commercial borrowers. Commercial borrower swaps are completed independently with each borrower and are not subject to master netting arrangements. The Corporation pays fixed rates and receives floating rates based upon designated benchmark interest rates used on the swaps with dealer counterparties. Dealer counterparty swaps are subject to master netting agreements among the contracts within our Bank and are reported on the unaudited Consolidated Balance Sheet. The gross amount of dealer counterparty swaps, without regard to the enforceable master netting agreement, was a gross derivative asset of **\$61.8** **39.8** million and gross derivative liability of **\$2.1** **11.4** million as of **June 30, 2024** **September 30, 2024**.

All changes in fair value of these instruments are recorded in other non-interest income. Given the mirror-image terms of the outstanding derivative portfolio, the change in fair value for the three and **six** **nine** months ended **June 30, 2024** **September 30, 2024** and 2023 had an insignificant impact on the unaudited Consolidated Statements of Income.

The Corporation also enters into interest rate swaps to manage interest rate risk and reduce the cost of match-funding certain long-term fixed rate loans. These derivative contracts involve the receipt of floating rate interest from a counterparty in exchange for the Corporation making fixed-rate payments over the life of the agreement, without the exchange of the underlying notional value. The instruments are designated as cash flow hedges as the receipt of floating rate interest from the counterparty is used to manage interest rate risk related to cash outflows attributable to future wholesale deposit or short-term FHLB advance borrowings. The change in the fair value of these hedging instruments is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged transactions affect earnings. A pre-tax unrealized **gain** **loss** of **\$300,000** **11.6** million and **\$5.1** **6.5** million was recognized in other comprehensive income for the three and **six** **nine** months ended **June 30, 2024** **September 30, 2024**, respectively, and there were no ineffective portions of the hedges. A pre-tax unrealized gain of **\$3.6** **5.3** million and **\$2.2** **7.5** million was recognized in other comprehensive income for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023**, respectively, and there were no ineffective portions of the hedges.

The Corporation also enters into interest rate swaps to mitigate market value volatility on certain long-term fixed securities. The objective of the hedge is to protect the Corporation against changes in fair value due to changes in benchmark interest rates. The instruments are designated as fair value hedges as the changes in the fair value of the interest rate swap are expected to offset changes in the fair value of the hedged item attributable to changes in the SOFR swap rate, the designated benchmark interest rate. These derivative contracts involve the receipt of floating rate interest from a counterparty in exchange for the Corporation making fixed-rate payments over the life of the agreement, without the exchange of the underlying notional value. The change in the fair value of these

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hedging instruments is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged transactions affect earnings. A pre-tax unrealized **gain** **loss** of **\$82,000** **246,000** and **\$223,000** **24,000** was recognized in other comprehensive income for the three and **six** **nine** months ended **June 30, 2024** **September 30, 2024**, respectively, and there was no ineffective portion of these hedges. A pre-tax unrealized gain of **\$107,000** **421,000** and a pre-tax unrealized loss of **\$68,000** **353,000** was recognized in other comprehensive income for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023**, respectively, and there was no ineffective portion of these hedges.

As of June 30, 2024			
Number of Instruments	Notional Amount	Weighted Average Maturity	Fair
		(In Years)	Value
(Dollars in Thousands)			

<b>Included in Derivative assets</b>					
<b>Derivatives not designated as hedging instruments</b>					
Interest rate swap agreements on loans with commercial loan clients	15	\$	148,971	5.56	\$ 2,146
Interest rate swap agreements on loans with third-party counterparties	104		962,598	5.57	59,628
<b>Derivatives designated as hedging instruments</b>					
Interest rate swap related to AFS securities	11	\$	12,500	7.78	\$ 847
Interest rate swap related to wholesale funding	32		337,655	4.04	8,152
<b>Included in Derivative liabilities</b>					
<b>Derivatives not designated as hedging instruments</b>					
Interest rate swap agreements on loans with commercial loan clients	89	\$	813,628	5.58	\$ 61,775
<b>Derivatives designated as hedging instruments</b>					
Interest rate swap related to wholesale funding	10	\$	100,000	2.09	\$ 46

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	As of September 30, 2024			
	Number of Instruments	Notional Amount	Weighted Average Maturity	Fair
			(In Years)	Value
			(Dollars in Thousands)	
Included in Derivative assets				
Derivatives not designated as hedging instruments				
Interest rate swap agreements on loans with commercial loan clients	33	\$ 377,041	5.12	\$ 11,352
Interest rate swap agreements on loans with third-party counterparties	106	975,845	5.49	28,444
Derivatives designated as hedging instruments				
Interest rate swap related to AFS securities	11	\$ 12,500	7.53	\$ 601
Interest rate swap related to wholesale funding	6	68,400	2.55	2,142
Included in Derivative liabilities				
Derivatives not designated as hedging instruments				
Interest rate swap agreements on loans with commercial loan clients	73	\$ 598,803	5.73	\$ 39,796
Derivatives designated as hedging instruments				
Interest rate swap related to wholesale funding	41	\$ 431,255	3.77	\$ 5,603

	As of December 31, 2023			
	Number of Instruments	Notional Amount	Weighted Average Maturity (In Years)	Fair Value
	(Dollars in Thousands)			
Included in Derivative assets				
Derivatives not designated as hedging instruments				
Interest rate swap agreements on loans with commercial loan clients	25	\$ 249,454	6.33	\$ 7,904

Interest rate swap agreements on loans with third-party counter parties	106		939,156	6.06		43,234
<b>Derivatives designated as hedging instruments</b>						
Interest rate swap related to AFS securities	11	\$	12,500	8.28	\$	624
Interest rate swap related to wholesale funding	9		96,400	2.47		3,835
<b>Included in Derivative liabilities</b>						
<b>Derivatives not designated as hedging instruments</b>						
Interest rate swap agreements on loans with commercial loan clients	81	\$	689,702	5.96	\$	51,138
<b>Derivatives designated as hedging instruments</b>						
Interest rate swap related to wholesale funding	29	\$	306,255	3.89	\$	811

#### Note 14 — Regulatory Capital

The Corporation and the Bank are subject to various regulatory capital requirements administered by Federal and Wisconsin banking agencies. Failure to meet minimum capital requirements can result in certain mandatory, and possibly additional discretionary actions on the part of regulators, that if undertaken, could have a direct material effect on the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory practices. The Corporation's and the Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. The Corporation regularly reviews and updates, when appropriate, its **Capital capital** and **Liquidity Action Plans, liquidity action plans**, which is designed to help ensure appropriate capital adequacy, to plan for future capital needs, and to ensure that the Corporation serves as a source of financial strength to the Bank. The

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Corporation's and the Bank's Board and management teams adhere to the appropriate regulatory guidelines on decisions which affect their respective capital positions, including but not limited to, decisions relating to the payment of dividends and increasing indebtedness.

As a bank holding company, the Corporation's ability to pay dividends is affected by the policies and enforcement powers of the Board of Governors of the Federal Reserve system (the "Federal Reserve"). Federal Reserve guidance urges financial institutions to strongly consider eliminating, deferring, or significantly reducing dividends if: (i) net income available to common shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividend; (ii) the prospective rate of earnings retention is not consistent with the bank holding company's capital needs and overall current and prospective financial condition; or (iii) the bank holding company will not meet, or is in danger of not meeting, its minimum regulatory capital ratios. Management intends, when appropriate under regulatory guidelines, to consult with the Federal Reserve Bank ("FRB") of Chicago and provide it with information on the Corporation's then-current and prospective earnings and capital position in advance of declaring any cash dividends. As a Wisconsin corporation, the Corporation is subject to the limitations of the Wisconsin Business Corporation Law, which prohibit the Corporation from paying dividends if such payment would: (i) render the Corporation unable to pay its debts as they become due in the usual course of business, or (ii) result in the Corporation's assets being less than the sum of its total liabilities plus the amount needed to satisfy the preferential rights upon dissolution of any shareholders with preferential rights superior to those shareholders receiving the dividend.

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

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios of Total Common Equity Tier 1 and Tier 1 capital to risk-weighted assets and of Tier 1 capital to

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adjusted total assets. These risk-based capital requirements presently address credit risk related to both recorded and off-balance sheet commitments and obligations.

As of **June 30, 2024** **September 30, 2024**, the Corporation's capital levels exceeded the regulatory minimums and the Bank's capital levels remained characterized as well capitalized under the regulatory framework. The following tables summarize both the Corporation's and the Bank's capital ratios and the ratios required by their federal regulators:

	As of June 30, 2024								As of September 30, 2024							
			Minimum Required		For Capital Adequacy Purposes Plus Capital Conservation Buffer		Minimum Required to Be Well Capitalized Under Prompt Corrective Action Requirements				Minimum Required		For Capital Adequacy Purposes Plus Capital Conservation Buffer		Minimum Required to Be Well Capitalized Under Prompt Corrective Action Requirements	
	Actual <sup>(1)</sup>		Adequacy		Adequacy		Adequacy		Actual <sup>(1)</sup>		Adequacy		Adequacy		Adequacy	
	Purposes		Purposes		Purposes		Purposes		Purposes		Purposes		Purposes		Purposes	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)								(Dollars in Thousands)							
Total capital (to risk-weighted assets)																
Consolidated	\$ 392,359	11.45 %	\$ 274,074	8.00 %	\$ 359,722	10.50 %	N/A	N/A	\$ 407,421	11.72 %	\$ 278,219	8.00 %	\$ 365,162	10.50 %	N/A	N/A
First Business Bank	392,709	11.46	274,045	8.00	359,684	10.50	\$ 342,556	10.00 %	402,567	11.57	278,257	8.00	365,212	10.50	\$ 347,821	10.00 %
Tier 1 capital (to risk-weighted assets)																
Consolidated	\$ 307,878	8.99 %	\$ 205,556	6.00 %	\$ 291,204	8.50 %	N/A	N/A	\$ 316,792	9.11 %	\$ 208,664	6.00 %	\$ 295,607	8.50 %	N/A	N/A
First Business Bank	357,723	10.44	205,534	6.00	291,173	8.50	\$ 274,045	8.00 %	366,597	10.54	208,692	6.00	295,648	8.50	\$ 278,257	8.00 %
Common equity tier 1 capital (to risk-weighted assets)																
Consolidated	\$ 295,886	8.64 %	\$ 154,167	4.50 %	\$ 239,815	7.00 %	N/A	N/A	\$ 304,800	8.76 %	\$ 156,498	4.50 %	\$ 243,441	7.00 %	N/A	N/A
First Business Bank	357,723	10.44	154,150	4.50	239,789	7.00	\$ 222,662	6.50 %	366,597	10.54	156,519	4.50	243,474	7.00	\$ 226,083	6.50 %
Tier 1 leverage capital (to adjusted assets)																
Consolidated	\$ 307,878	8.51 %	\$ 144,664	4.00 %	\$ 144,664	4.00 %	N/A	N/A	\$ 316,792	8.68 %	\$ 145,944	4.00 %	\$ 145,944	4.00 %	N/A	N/A
First Business Bank	357,723	9.89	144,682	4.00	144,682	4.00	\$ 180,852	5.00 %	366,597	10.05	145,914	4.00	145,914	4.00	\$ 182,393	5.00 %

	Actual <sup>(1)</sup>		Minimum Required for Capital Adequacy Purposes		For Capital Adequacy Purposes Plus Capital Conservation Buffer		Minimum Required to Be Well Capitalized Under Prompt Corrective Action Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)								
Total capital								
(to risk-weighted assets)								
Consolidated	\$ 375,440	11.19 %	\$ 268,500	8.00 %	\$ 352,406	10.50 %	N/A	N/A
First Business Bank	376,310	11.21	268,595	8.00	352,531	10.50	\$ 335,744	10.00 %
Tier 1 capital								
(to risk-weighted assets)								
Consolidated	\$ 293,338	8.74 %	\$ 201,375	6.00 %	\$ 285,281	8.50 %	N/A	N/A
First Business Bank	343,604	10.23	201,446	6.00	285,382	8.50	\$ 268,595	8.00 %
Common equity tier 1 capital								
(to risk-weighted assets)								
Consolidated	\$ 281,346	8.38 %	\$ 151,031	4.50 %	\$ 234,937	7.00 %	N/A	N/A
First Business Bank	343,604	10.23	151,085	4.50	235,021	7.00	\$ 218,233	6.50 %
Tier 1 leverage capital								
(to adjusted assets)								
Consolidated	\$ 293,338	8.43 %	\$ 139,145	4.00 %	\$ 139,145	4.00 %	N/A	N/A
First Business Bank	343,604	9.87	139,262	4.00	139,262	4.00	\$ 174,077	5.00 %

(1) 2024 and 2023 capital amounts include \$677,000 and \$1.0 million, respectively, of additional stockholders' equity as elected by the Corporation and permitted by federal banking regulatory agencies related to the adoption of ASC 326. Risk-weighted assets were also adjusted accordingly.

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### General

Unless otherwise indicated or unless the context requires otherwise, all references in this Report to the "Corporation," "we," "us," "our," or similar references mean First Business Financial Services, Inc. together with our subsidiary. "FBB" or the "Bank" refers to our subsidiary, First Business Bank.

### Forward-Looking Statements

This report may include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, which reflect our current views with respect to future events and financial performance. Forward-looking statements are not based on historical information, but rather are related to future operations, strategies, financial results, or other developments. Forward-looking statements are based on management's expectations as well as certain assumptions and estimates made by, and information available to, management at the time the statements are made. Such statements are subject to risks and uncertainties, including among other things:

- Adverse changes in the economy or business conditions, either nationally or in our markets including, without limitation, inflation, economic downturn, labor shortages, wage pressures, and the adverse effects of public health events on the global, national, and local economy.
- Competitive pressures among depository and other financial institutions nationally and in our markets.
- Increases in defaults by borrowers and other delinquencies.
- Our ability to manage growth effectively, including the successful expansion of our client support, administrative infrastructure, and internal management systems.
- Fluctuations in interest rates and market prices.
- Changes in legislative or regulatory requirements applicable to us and our subsidiaries.

- Changes in tax requirements, including tax rate changes, new tax laws, and revised tax law interpretations.
- Fraud, including client and system failure or breaches of our network security, including our internet banking activities.
- Failure to comply with the applicable SBA regulations in order to maintain the eligibility of the guaranteed portions of SBA loans.
- Ongoing volatility in the banking sector may result in new legislation, regulations or policy changes that could subject the Corporation and the Bank to increased government regulation and supervision.
- The proportion of the Corporation's deposit account balances that exceed FDIC insurance limits may expose the Bank to enhanced liquidity risk.
- The Corporation may be subject to increases in FDIC insurance assessments.

These risks could cause actual results to differ materially from what we have anticipated or projected. These risk factors and uncertainties should be carefully considered by our shareholders and potential investors. See **Part I, Item 1A — Risk Factors** in our Annual Report on Form 10-K for the year ended December 31, 2023, and in this report, below, for discussion relating to risk factors impacting us. Investors should not place undue reliance on any such forward-looking statements, which speak only as of the date made. These factors could affect our financial performance and could cause actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods.

Where any such forward-looking statement includes a statement of the assumptions or bases underlying such forward-looking statement, we caution that, while our management believes such assumptions or bases are reasonable and are made in good faith, assumed facts or bases can vary from actual results, and the differences between assumed facts or bases and actual results can be material, depending on the circumstances. Where, in any forward-looking statement, an expectation or belief is expressed as to future

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results, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will be achieved or accomplished.

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

The following discussion and analysis is intended as a review of significant events and factors affecting our financial condition and results of operations for the periods indicated. The discussion should be read in conjunction with the unaudited Consolidated Financial Statements and the Notes thereto presented in this Form 10-Q.

## Overview

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

## Financial Performance Summary

Results as of and for the three and **six** **nine** months ended **June 30, 2024** **September 30, 2024** include:

- Net income available to common shareholders totaled **\$10.2 million** **\$10.3 million**, or diluted earnings per share of **\$1.23**, **\$1.24**, for the three months ended **June 30, 2024** **September 30, 2024**, compared to **\$8.1 million** **\$9.7 million**, or diluted earnings per share of **\$0.98**, **\$1.17**, for the same period in 2023. Net income available to common shareholders totaled **\$18.9 million** **\$29.2 million**, or diluted earnings per share of **\$2.26**, **\$3.50**, for the **six** **nine** months ended **June 30, 2024** **September 30, 2024**, compared to **\$16.9 million** **\$26.6 million**, or diluted earnings per share of **\$2.02**, **\$3.19**, for the same period in 2023.
- Annualized return on average assets ("ROAA") for the three months ended **June 30, 2024** **September 30, 2024** measured **1.14%** **1.13%** compared to **1.04%** **1.19%** for the same period in 2023. Annualized ROAA for the **six** **nine** months ended **June 30, 2024** **September 30, 2024** measured **1.06%** **1.08%** compared to **1.10%** **1.13%** for the same

period in 2023.

- Return on average common equity ("ROACE") is defined as net income available to common shareholders divided by average equity less average preferred stock. ROAC was 14.12% 13.83% for the three months ended June 30, 2024 September 30, 2024, compared to 12.58% 14.62% for the same period in 2023. ROACE was 13.20% 13.41 for the six nine months ended June 30, 2024 September 30, 2024, compared to 13.26% 13.72% for the same period in 2023.
- Pre-tax, pre-provision ("PTPP") adjusted earnings, which excludes certain one-time and discrete items, and PTPP ROAA for the three months ended June 30, 2024 September 30, 2024 were \$14.1 million \$15.4 million and 1.57% 1.70%, respectively, compared to \$13.5 million \$14.1 million and 1.72% in the same period in 2023. PTPP and PTPP ROAA for the six nine months ended June 30, 2024 September 30, 2024 were \$27.3 million \$42.7 million and 1.53% 1.59%, respectively, compared to \$2 million \$40.9 million and 1.75% 1.74% in the same period in 2023.
- Fees in lieu of interest, defined as prepayment fees, asset-based loan fees, non-accrual interest, and loan fee amortization, totaled \$1.2 million \$942,000 for the three months ended June 30, 2024 September 30, 2024, compared to \$936,000 \$582,000 for the same period in 2023. Fees in lieu of interest totaled \$2.0 million \$3.0 million for the six nine months ended June 30, 2024 September 30, 2024, compared to \$1.6 million \$2.2 million for the same period in 2023.
- Net interest margin was 3.65% 3.64% for the three months ended June 30, 2024 September 30, 2024 compared to 3.81% 3.76% for the same period in 2023. Adjusted net interest margin, which excludes the impact of fees in lieu of interest, and other recurring, but volatile, components of net interest margin, was 3.47% 3.51% for the three months ended June 30, 2024 September 30, 2024, compared to 3.63% 3.66% for the

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same period in 2023. Net interest margin was 3.62% for the six nine months ended June 30, 2024 September 30, 2024 compared to 3.83% 3.81% for the same

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period in 2023. Adjusted net interest margin, which excludes certain one-time and volatile items including fees in lieu of interest, was 3.45% 3.47% for the six nine months ended June 30, 2024 September 30, 2024, compared to 3.69% 3.68% for the same period in 2023.

- Top line revenue, defined as net interest income plus non-interest income, totaled \$38.0 million \$38.1 million for the three months ended June 30, 2024 September 30, 2024 compared to \$35.1 million \$37.0 million in the same period in 2023. Top line revenue totaled \$74.2 million \$112.3 million for the six nine months ended June 30, 2024 September 30, 2024, compared to \$70.2 million \$107.3 million in the same period in 2023.
- Effective tax rate, including the benefit from Low-Income Housing Tax Credits, was 16.0% 16.8% for the six nine months ended June 30, 2024 September 30, 2024 compared to 23.5% 21.4% for the same period in 2023.
- Provision for credit losses loss expense was an expense of \$1.7 million \$2.1 million for the three months ended June 30, 2024 September 30, 2024 compared to an expense of \$2.2 million \$1.8 million for the same period in 2023. Provision for credit losses loss expense was an expense of \$4.0 million \$6.1 million for the six nine months ended June 30, 2024 September 30, 2024 compared to an expense of \$3.8 million \$5.6 million for the same period in 2023.
- Total assets at June 30, 2024 September 30, 2024 increased \$109.2 million \$207.9 million, or 6.2% 7.9% annualized, to \$3.617 billion \$3.716 billion from \$3.508 billion at December 31, 2023.
- Period-end gross loans and leases receivable increased \$135.2 million \$200.3 million, or 9.5% 9.4% annualized, to \$2.985 billion \$3.050 billion as of June 30, 2024 September 30, 2024 compared to \$2.850 billion as of December 31, 2023. Average gross loans and leases of \$2.925 billion \$2.961 billion increased \$392.7 million \$368.1 million, or 15.5% 14.2%, for the six nine months ended June 30, 2024 September 30, 2024, compared to \$2.533 billion \$2.593 billion for the same period in 2023.
- Non-performing assets were \$19.1 million \$19.4 million and 0.53% 0.52% of total assets as of June 30, 2024 September 30, 2024, compared to \$20.8 million and 0.59% of total assets as of December 31, 2023.
- The allowance for credit losses, including reserve for unfunded credit commitments, increased \$2.0 million \$2.5 million compared to December 31, 2023. The allowance for credit losses, increased to 1.17% including reserve for unfunded credit commitments, was 1.16% of total loans, compared to 1.16% at December 31, 2023.
- Period-end core deposits at June 30, 2024 decreased \$29.4 million September 30, 2024 increased \$43.7 million, or 2.5% annualized, to \$2.310 billion \$2.383 billion from \$2.339 billion as of December 31, 2023. Average core deposits of \$2.361 billion \$2.366 billion increased \$342.4 million \$317.8 million, or 17.0% 15.5%, for the six nine months ended June 30, 2024 September 30, 2024, compared to \$2.018 billion \$2.048 billion for the same period in 2023.
- Private wealth and trust assets under management and administration increased by \$127.1 million \$276.4 million, or 8.1% 11.1% annualized, to \$3.249 billion \$3.398 billion as of June 30, 2024 September 30, 2024, compared to \$3.122 billion at December 31, 2023. Private wealth trust assets under management and administration increased \$341.1 million \$483.3 million, or 11.7% 16.6%, compared to the same period in 2023.

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## Results of Operations

### Top Line Revenue

Top line revenue, comprised of net interest income and non-interest income, increased ~~\$2.8 million~~ ~~\$1.0 million~~, or ~~8.1%~~ ~~2.8%~~, for the three months ended ~~June 30,~~ ~~2024~~ ~~September 30, 2024~~, compared to the same period in 2023, due to a ~~10.1%~~ ~~increase in net interest income~~ and a ~~0.7%~~ ~~increase in non-interest income~~. The increase in net interest income was driven by an increase in average loans and leases outstanding partially offset by net interest margin compression. The increase in non-interest income was due to an increase in trust fee income and service charges on deposits offset by a decrease in commercial loan swap fee income.

Top line revenue increased \$4.0 million, or 5.7%, for the six months ended June 30, 2024, compared to the same period in 2023, due to a ~~10.3%~~ ~~8.4%~~ increase in net interest income, partially offset by a ~~10.1%~~ ~~16.2%~~ decrease in non-interest income. The increase in net interest income was driven by primarily reflects an increase in average gross loans and leases outstanding, and an increase in fees in lieu of interest, partially offset by net interest margin compression. The decrease in non-interest income was due to decreases in returns on investments in Small Business Investment Company ("SBIC") mezzanine funds, commercial loan swap fee income, and gains on the sale of SBA loans.

Top line revenue increased \$5.0 million, or 4.7%, for the nine months ended September 30, 2024, compared to the same period in 2023, due to a 9.6% increase in net interest income partially offset by a 12.3% decrease in non-interest income. The increase in net interest income was driven by an increase in average loans and leases outstanding. The decrease in non-interest income was due to decreases in returns on investments in SBIC mezzanine funds, commercial loan swap fee income, and gains on the sale of SBA loans; partially offset by increases in Private wealth fee income.

The components of top line revenue were as follows:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2024	2023	\$ Change	% Change	2024	2023	\$ Change	% Change
	(Dollars in Thousands)							
Net interest income	\$ 30,540	\$ 27,747	\$ 2,793	10.1%	\$ 60,051	\$ 54,453	\$ 5,598	10.3%
Non-interest income	7,425	7,374	51	0.7	14,182	15,784	(1,602)	(10.1)
Top line revenue	\$ 37,965	\$ 35,121	\$ 2,844	8.1	\$ 74,233	\$ 70,237	\$ 3,996	5.7

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	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2024	2023	\$ Change	% Change	2024	2023	\$ Change	% Change
	(Dollars in Thousands)							
Net interest income	\$ 31,007	\$ 28,596	\$ 2,411	8.4%	\$ 91,059	\$ 83,049	\$ 8,010	9.6%
Non-interest income	7,064	8,430	(1,366)	(16.2)	21,246	24,214	(2,968)	(12.3)
Top line revenue	\$ 38,071	\$ 37,026	\$ 1,045	2.8	\$ 112,305	\$ 107,263	\$ 5,042	4.7

### Annualized Return on Average Assets ("ROAA") and Annualized Return on Average Common Equity ("ROACE")

ROAA for the three and ~~six~~ ~~nine~~ months ended ~~June 30, 2024~~ ~~September 30, 2024~~ was ~~1.14%~~ ~~1.13%~~ and ~~1.06%~~ ~~1.08%~~, respectively, compared to ~~1.04%~~ ~~1.19%~~ and ~~1.10%~~ ~~1.13%~~ for the three and ~~six~~ ~~nine~~ months ended ~~June 30, 2023~~ ~~September 30, 2023~~. The increase in ROAA for the three months ended was due to an increase in top line revenue and a decrease in provision for credit losses. The decrease in ROAA for the ~~six~~ ~~three~~ and the ~~nine~~ months ended was due to an increase the decrease in operating expenses and provision for credit losses, non-interest income, partially offset by an increase in top line revenue, net interest income and decrease in the effective tax rate. We consider ROAA a critical metric to measure the profitability of our organization and how efficiently our assets are deployed. ROAA also allows us to better benchmark our profitability to our peers without the need to consider different degrees of leverage which can ultimately influence return on equity measures.

ROACE for the three and ~~six~~ ~~nine~~ months ended ~~June 30, 2024~~ ~~September 30, 2024~~ was ~~14.1%~~ ~~13.8%~~ and ~~13.2%~~ ~~13.4%~~ respectively, compared to ~~12.6%~~ ~~14.6%~~ and ~~13.3%~~ ~~13.7%~~ for the three and ~~six~~ ~~nine~~ months ended ~~June 30, 2023~~ ~~September 30, 2023~~. The reasons for the change in ROACE are consistent with the net income variance explanation as discussed under ROAA above. We view ROACE as an important measurement for monitoring profitability and continue to focus on improving our return to our shareholders by enhancing the overall profitability of our client relationships, controlling our expenses, and minimizing our costs of credit.

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

Efficiency ratio measured 62.7% 59.4% and 63.2% 62.0% for the three and six nine months ended June 30, 2024 September 30, 2024, compared to 61.7% 62.0% and 61.9% for the three and six nine months ended June 30, 2023 September 30, 2023, respectively, as respectively. For the percentage increase in operating expenses exceeded three month period comparison, the percentage increase in top line revenue resulting in negative quarterly operating leverage compared to exceeded the prior year period. The percentage increase in operating revenue was driven by loan growth, partially offset by net interest margin compression during expenses, resulting in positive quarterly operating leverage. Revenue increased for the reasons stated above in the Top Line Revenue section, while operating expenses remained relatively consistent in the periods of comparison. For the six months ended June 30, 2024, nine month period comparison, the operating efficiency ratio was relatively consistent as revenue was also impacted by a decrease in non-interest income, and expenses grew commensurately. Efficiency ratio is a non-GAAP measure representing operating expense, which is non-interest expense excluding the effects of the SBA recourse benefit or provision, net gains or losses on repossessed assets, amortization of other intangible assets, and other discrete items, if any, divided by operating revenue, which is equal to net interest income plus non-interest income less realized net gains or losses on securities, if any.

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PTPP adjusted earnings for three and six nine months ended June 30, 2024 September 30, 2024 were \$14.1 million \$15.4 million and \$27.3 million \$42.7 million, respectively, compared to \$13.5 million \$14.1 million and \$26.8 million \$40.9 million for the three and nine months ended June 30, 2023 September 30, 2023, respectively. PTPP adjusted earnings is defined as operating revenue less operating expense. The increase in PTPP adjusted earnings for both periods was primarily driven by an increase in net interest income and partially offset by a decrease in SBA recourse provision, non-interest income. In the judgment of the Corporation's management, the adjustments made to non-interest expense and non-interest income allow investors and analysts to better assess the Corporation's operating expenses in relation to its core operating revenue by removing the volatility associated with certain one-time items and other discrete items. PTPP adjusted earnings allows management to benchmark performance of our model to our peers without the influence of the provision for credit losses and tax considerations, which will ultimately influence other traditional financial measurements, including ROAA and ROACE. The information provided below reconciles the efficiency ratio to its most comparable GAAP measure.

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

	For the Three Months Ended June 30,				For the Six Months Ended June 30,				For the Three Months Ended September 30,				For the Nine Months Ended	
			\$ %				\$ %				\$ %			
	2024	2023	Change	Change	2024	2023	Change	Change	2024	2023	Change	Change	2024	2023
	(Dollars in Thousands)								(Dollars in Thousands)					
Total non-interest expense	\$23,879	\$22,031	\$1,848	8.4%	\$47,222	\$43,798	\$3,424	7.8%	\$23,107	\$23,189	\$(82)	(0.4)%	\$70,329	\$66,987
Less:														
Net loss (gain) on repossessed assets	65	(2)	67	NM	151	4	147	NM						
Net (gain) loss on repossessed assets	11	4	7	NM	162	8	154	NM						
SBA recourse provision	(9)	341	(350)	NM	117	323	(206)	NM	466	242	224	NM	583	565

Total operating expense (a)	\$23,823	\$21,692	\$2,131	9.8	\$46,954	\$43,471	\$3,483	8.0	\$22,630	\$22,943	\$(313)	(1.4)	\$69,584	\$66,414
Net interest income	\$30,540	\$27,747	\$2,793	10.1	\$60,051	\$54,453	\$5,598	10.3	\$31,007	\$28,596	\$2,411	8.4	\$91,059	\$83,049
Total non-interest income	7,425	7,374	51	0.7	14,182	15,784	(1,602)	(10.1)	7,064	8,430	(1,366)	(16.2)	21,246	24,214
Less:														
Net loss on sale of securities	—	(45)	45	NM	(8)	(45)	37	NM	—	—	—	NM	(8)	(45)
Adjusted non-interest income	7,425	7,419	6	0.1	14,190	15,829	(1,639)	(10.4)	7,064	8,430	(1,366)	(16.2)	21,254	24,259
Operating revenue (b)	\$37,965	\$35,166	\$2,799	8.0	\$74,241	\$70,282	\$3,959	5.6	\$38,071	\$37,026	\$1,045	2.8	\$112,313	\$107,308
Efficiency ratio	62.75%	61.68%			63.25%	61.85%			59.44%	61.96%			61.96%	61.89%
Pre-tax, pre-provision adjusted earnings (b-a)	\$14,142	\$13,474	\$668	5.0	\$27,287	\$26,811	\$476	1.8	\$15,441	\$14,083	\$1,358	9.6	\$42,729	\$40,894
Average total assets	\$3,592,215	\$3,127,234	\$464,981	14.9	\$3,560,078	\$3,056,311	\$503,767	16.5	\$3,636,887	\$3,276,240	\$360,647	11.0	\$3,585,868	\$3,130,426
Pre-tax, pre-provision adjusted return on average assets	1.57%	1.72%			1.53%	1.75%			1.70%	1.72%			1.59%	1.74%

The Corporation's atypically high net interest margin in 2023 creates a temporary, positive operating leverage headwind as net interest margin returns to normalized levels in 2024. We believe the Corporation will generate positive operating leverage on an annual basis and progress towards enhancing the long-term efficiency ratio at a measured pace as we focus on strategic initiatives directed toward revenue growth, process improvement, and automation.

#### Net Interest Income

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

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The following table provides information with respect to (1) the change in net interest income attributable to changes in rate (changes in rate multiplied by prior volume) and (2) the change in net interest income attributable to changes in volume (changes in volume multiplied by prior rate) for the three and six months ended June 30, 2024 September 30, 2024 compared to the same period in 2023. The change in net interest income attributable to changes in rate and volume (changes in rate multiplied by changes in volume) has been allocated to the rate and volume changes in proportion to the relationship of the absolute dollar amounts of the change in each.

Increase (Decrease) for the Three Months Ended June 30,			Increase (Decrease) for the Six Months Ended June 30,			Increase (Decrease) for the Three Months Ended September 30,			Increase (Decrease) for the Nine Months Ended September 30,		
2024 Compared to 2023			2024 Compared to 2023			2024 Compared to 2023			2024 Compared to 2023		
Rate	Volume	Net	Rate	Volume	Net	Rate	Volume	Net	Rate	Volume	Net
(In Thousands)			(In Thousands)			(In Thousands)			(In Thousands)		

<b>Interest-earning assets</b>												
Commercial real estate and other mortgage loans <sup>(1)</sup>	\$ 2,095	\$ 3,533	\$ 5,628	\$ 5,391	\$ 6,639	\$ 12,030	\$ 1,414	\$ 3,303	\$ 4,717	\$ 6,791	\$ 9,957	\$ 16,748
Commercial and industrial loans <sup>(1)</sup>	556	3,293	\$ 3,849	1,708	7,308	9,016	406	2,440	2,846	2,117	9,744	11,861
Consumer and other loans <sup>(1)</sup>	116	21	137	234	68	302	36	39	75	270	106	376
Total loans and leases receivable	2,767	6,847	9,614	7,333	14,015	21,348	1,856	5,782	7,638	9,178	19,807	28,985
Mortgage-related securities	586	602	1,188	1,110	1,084	2,194	375	606	981	1,481	1,694	3,175
Other investment securities	51	—	51	169	80	249	(92)	(110)	(202)	75	(28)	47
FHLB and FRB Stock	240	(251)	(11)	256	(311)	(55)	145	(183)	(38)	205	(298)	(93)
Short-term investments	74	(167)	(93)	144	587	731	6	1	7	146	593	739
Total net change in income on interest-earning assets	3,718	7,031	10,749	9,012	15,455	24,467	2,290	6,096	8,386	11,085	21,768	32,853
<b>Interest-bearing liabilities</b>												
Transaction accounts	1,353	1,929	3,282	3,429	4,460	7,889	390	1,287	1,677	3,719	5,846	9,565
Money market accounts	2,101	1,546	3,647	4,819	1,896	6,715	1,006	1,903	2,909	5,875	3,750	9,625
Certificates of deposit	444	(587)	(143)	1,070	(121)	949	318	(720)	(402)	1,347	(799)	548
Wholesale deposits	(127)	1,475	1,348	(212)	4,200	3,988	58	1,245	1,303	(148)	5,438	5,290
Total deposits	3,771	4,363	8,134	9,106	10,435	19,541	1,772	3,715	5,487	10,793	14,235	25,028
FHLB advances	87	(565)	(478)	(55)	(1,167)	(1,222)	1,593	(1,651)	(58)	561	(1,841)	(1,280)
Other borrowings	93	207	300	165	385	550	302	244	546	462	633	1,095
Total net change in expense on interest-bearing liabilities	3,951	4,005	7,956	9,217	9,652	18,869	3,667	2,308	5,975	11,816	13,027	24,843
Net change in net interest income	\$ (233)	\$ 3,026	\$ 2,793	\$ (205)	\$ 5,803	\$ 5,598	\$ (1,377)	\$ 3,788	\$ 2,411	\$ (731)	\$ 8,741	\$ 8,010

(1) The average balances of loans and leases include non-accrual loans and leases and loans held for sale.

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The tables below show our average balances, interest, average yields/rates, net interest margin, and the spread between the combined average yields earned on interest-earning assets and average rates on interest-bearing liabilities for the three and six months ended June 30, 2024, September 30, 2024 and 2023. The average balances are derived from average daily balances.

	For the Three Months Ended June 30,						For the Three Months Ended September 30,					
	2024			2023			2024			2023		
	Average		Average	Average		Average	Average		Average		Average	
	Balance	Interest	Yield/Rate <sup>(4)</sup>	Balance	Interest	Yield/Rate <sup>(4)</sup>	Balance	Interest	Yield/Rate <sup>(4)</sup>	Balance	Interest	Yield/Rate <sup>(4)</sup>
	(Dollars in Thousands)						(Dollars in Thousands)					
Interest-earning assets												
Commercial real estate and other mortgage loans <sup>(1)</sup>	\$ 1,765,743	\$ 29,299	6.64 %	\$ 1,546,487	\$ 23,671	6.12 %	\$ 1,805,020	\$ 30,340	6.72 %	\$ 1,605,464	\$ 25,623	6.38 %
Commercial and industrial loans <sup>(1)</sup>	1,146,312	23,869	8.33	987,534	20,020	8.11	1,177,112	24,481	8.32	1,059,512	21,635	8.17

Consumer and other loans <sup>(1)</sup>	50,872	725	5.70	49,216	588	4.78	49,748	685	5.51	46,875	610	5.21
Total loans and leases receivable <sup>(1)</sup>	2,962,927	53,893	7.28	2,583,237	44,279	6.86	3,031,880	55,506	7.32	2,711,851	47,868	7.06
Mortgage-related securities <sup>(2)</sup>	261,828	2,609	3.99	192,564	1,421	2.95	269,842	2,662	3.95	204,291	1,681	3.29
Other investment securities <sup>(3)</sup>	60,780	443	2.92	60,790	392	2.58	51,446	315	2.45	67,546	517	3.06
FHLB and FRB stock	12,656	291	9.20	15,844	302	7.62	11,960	285	9.53	14,770	323	8.75
Short-term investments	48,836	674	5.52	61,316	767	5.00	40,406	559	5.53	40,318	552	5.48
Total interest-earning assets	3,347,027	57,910	6.92	2,913,751	47,161	6.47	3,405,534	59,327	6.97	3,038,776	50,941	6.71
Non-interest-earning assets	245,188			213,483			231,353			237,464		
Total assets	\$ 3,592,215			\$ 3,127,234			\$ 3,636,887			\$ 3,276,240		
<b>Interest-bearing liabilities</b>												
Transaction accounts	\$ 880,752	8,737	3.97	\$ 670,698	5,455	3.25	\$ 864,936	8,451	3.91	\$ 731,529	6,774	3.70
Money market accounts	815,846	8,264	4.05	633,817	4,617	2.91	850,590	8,780	4.13	657,183	5,871	3.57
Certificates of deposit	241,535	2,803	4.64	295,785	2,946	3.98	219,315	2,584	4.71	282,674	2,986	4.23
Wholesale deposits	476,149	4,871	4.09	332,387	3,523	4.24	531,472	5,475	4.12	410,494	4,172	4.07
Total interest-bearing deposits	2,414,282	24,675	4.09	1,932,687	16,541	3.42	2,466,313	25,290	4.10	2,081,880	19,803	3.80
FHLB advances	294,043	1,974	2.69	367,129	2,452	2.67	278,103	2,059	2.96	342,117	2,117	2.48
Other borrowings	49,481	721	5.83	34,538	421	4.88	50,642	971	7.67	34,745	425	4.89
Total interest-bearing liabilities	2,757,806	27,370	3.97	2,334,354	19,414	3.33	2,795,058	28,320	4.05	2,458,742	22,345	3.64
Non-interest-bearing demand deposit accounts	436,968			435,556			440,161			434,330		
Other non-interest-bearing liabilities	95,484			87,148			91,520			105,079		
Total liabilities	3,290,258			2,857,058			3,326,739			2,998,151		
Stockholders' equity	301,957			270,176			310,148			278,089		

Total liabilities and stockholders' equity	\$ 3,592,215			\$ 3,127,234			\$ 3,636,887			\$ 3,276,240		
Net interest income	\$ 30,540			\$ 27,747			\$ 31,007			\$ 28,596		
Interest rate spread	2.95 %			3.15 %			2.92 %			3.07 %		
Net interest-earning assets	\$ 589,221			\$ 579,397			\$ 610,476			\$ 580,034		
Net interest margin	3.65 %			3.81 %			3.64 %			3.76 %		
Average interest-earning assets to average interest-bearing liabilities	121.37 %			124.82 %			121.84 %			123.59 %		
Return on average assets <sup>(4)</sup>	1.14 %			1.04 %			1.13 %			1.19 %		
Return on average equity <sup>(4)</sup>	14.12 %			12.58 %								
Return on average common equity <sup>(4)</sup>	13.83 %			14.62 %								
Average equity to average assets	8.41 %			8.64 %			8.53 %			8.49 %		
Non-interest expense to average assets <sup>(4)</sup>	2.66 %			2.82 %			2.54 %			2.83 %		

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Interest-earning assets	For the Six Months Ended June 30,						For the Nine Months Ended September 30,					
	2024			2023			2024			2023		
	Average Balance	Interest	Average Yield/Rate <sup>(4)</sup>	Average Balance	Interest	Average Yield/Rate <sup>(4)</sup>	Average Balance	Interest	Average Yield/Rate <sup>(4)</sup>	Average Balance	Interest	Average Yield/Rate <sup>(4)</sup>
	(Dollars in Thousands)						(Dollars in Thousands)					

Commercial real estate and other mortgage loans <sup>(1)</sup>	\$ 1,743,465	\$ 57,419	6.59 %	\$ 1,532,348	\$ 45,389	5.92 %	\$ 1,764,133	\$ 87,759	6.63 %	\$ 1,556,988	\$ 71,011	6.08 %
Commercial and industrial loans <sup>(1)</sup>	1,131,018	46,593	8.24	952,192	37,577	7.89	1,146,495	71,074	8.27	988,359	59,213	7.99
Consumer and other loans <sup>(1)</sup>	50,708	1,430	5.64	47,960	1,128	4.70	50,386	2,114	5.59	47,594	1,738	4.87
Total loans and leases receivable <sup>(1)</sup>	2,925,191	105,442	7.21	2,532,500	84,094	6.64	2,961,014	160,947	7.25	2,592,941	131,962	6.79
Mortgage-related securities <sup>(2)</sup>	251,884	4,885	3.88	187,556	2,691	2.87	257,914	7,547	3.90	193,196	4,372	3.02
Other investment securities <sup>(3)</sup>	64,380	961	2.99	58,270	712	2.44	60,037	1,276	2.83	61,396	1,229	2.67
FHLB and FRB stock	12,464	574	9.21	16,481	629	7.63	12,294	859	9.32	15,904	952	7.98
Short-term investments	66,953	1,831	5.47	45,022	1,100	4.89	58,040	2,391	5.49	43,437	1,652	5.07
Total interest-earning assets	3,320,872	113,693	6.85	2,839,829	89,226	6.28	3,349,299	173,020	6.89	2,906,874	140,167	6.43
Non-interest-earning assets	239,206			216,482			236,569			223,552		
Total assets	\$ 3,560,078			\$ 3,056,311			\$ 3,585,868			\$ 3,130,426		
<b>Interest-bearing liabilities</b>												
Transaction accounts	\$ 871,824	17,184	3.94	\$ 619,352	9,295	3.00	\$ 869,511	25,635	3.93	\$ 657,155	16,070	3.26
Money market accounts	788,869	15,829	4.01	666,385	9,114	2.74	809,593	24,609	4.05	663,284	14,984	3.01
Certificates of deposit	259,891	6,013	4.63	266,099	5,064	3.81	246,267	8,597	4.65	271,684	8,049	3.95
Wholesale deposits	466,843	9,486	4.06	260,485	5,498	4.22	488,543	14,961	4.08	311,038	9,671	4.14
Total interest-bearing deposits	2,387,427	48,512	4.06	1,812,321	28,971	3.20	2,413,914	73,802	4.08	1,903,161	48,774	3.42
FHLB advances	290,675	3,691	2.54	382,533	4,913	2.57	286,454	5,750	2.68	368,913	7,030	2.54
Other borrowings	49,469	1,439	5.82	35,660	889	4.99	49,863	2,409	6.44	35,351	1,314	4.96
Total interest-bearing liabilities	2,727,571	53,642	3.93	2,230,514	34,773	3.12	2,750,231	81,961	3.97	2,307,425	57,118	3.30
Non-interest-bearing demand deposit accounts	440,192			466,491			440,182			455,653		

Other non-interest-bearing liabilities	94,396	92,716	93,430	96,883
Total liabilities	3,262,159	2,789,721	3,283,843	2,859,961
Stockholders' equity	297,919	266,590	302,025	270,465
Total liabilities and stockholders' equity	\$ 3,560,078	\$ 3,056,311	\$ 3,585,868	\$ 3,130,426
Net interest income	\$ 60,051	\$ 54,453	\$ 91,059	\$ 83,049
Interest rate spread	2.91 %	3.17 %	2.91 %	3.13 %
Net interest-earning assets	\$ 593,301	\$ 609,315	\$ 599,068	\$ 599,449
Net interest margin	3.62 %	3.83 %	3.62 %	3.81 %
Average interest-earning assets to average interest-bearing liabilities	121.75 %	127.32 %	121.78 %	125.98 %
Return on average assets <sup>(4)</sup>	1.06 %	1.10 %	1.08 %	1.13 %
Return on average equity <sup>(4)</sup>	13.20 %	13.26 %		
Return on average common equity <sup>(4)</sup>	13.41 %	13.72 %		
Average equity to average assets	8.37 %	8.72 %	8.42 %	8.64 %
Non-interest expense to average assets <sup>(4)</sup>	2.65 %	2.87 %	2.62 %	2.85 %

- (1) The average balances of loans and leases include non-accrual loans and leases and loans held for sale. Interest income related to non-accrual loans and leases is recognized when collected. Interest income includes net fees in lieu of interest.
- (2) Includes amortized cost basis of assets available-for-sale and held-to-maturity.
- (3) Yields on tax-exempt municipal securities are not presented on a tax-equivalent basis in this table.
- (4) Represents annualized yields/rates.

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The change in yield of the respective interest-earning asset or the rate paid on interest-bearing liability compared to the change in short-term market rates is commonly referred to as a beta. The table below displays the beta calculations for loans and leases, total interest earning assets, core deposits, interest-bearing deposits and total interest-



bearing liabilities for the three and six months ended June 30, 2024 and 2023. Additionally, adjusted total loans and leases and total interest-earning assets excludes the volatile impact of fees in lieu of interest.

Asset and Liability Beta Analysis	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2024	2023	Increase	2024	2023	Increase
	Average Yield/Rate <sup>(4)</sup>		(Decrease)	Average Yield/Rate <sup>(4)</sup>		(Decrease)
Total loans and leases receivable <sup>(a)</sup>	7.28%	6.86%	0.42%	7.21%	6.64%	0.57%
Total interest-earning assets <sup>(b)</sup>	6.92%	6.47%	0.45%	6.85%	6.28%	0.57%
Adjusted total loans and leases receivable <sup>(1)(c)</sup>	7.11%	6.71%	0.40%	7.07%	6.52%	0.55%
Adjusted total interest-earning assets <sup>(1)(d)</sup>	6.77%	6.35%	0.42%	6.73%	6.17%	0.56%
Total core deposits <sup>(e)</sup>	3.34%	2.56%	0.78%	3.31%	2.33%	0.98%
Total bank funding <sup>(f)</sup>	3.39%	2.78%	0.61%	3.35%	2.55%	0.80%
Net interest margin <sup>(g)</sup>	3.65%	3.81%	(0.16)%	3.62%	3.83%	(0.21)%
Adjusted net interest margin <sup>(h)</sup>	3.47%	3.63%	(0.16)%	3.45%	3.69%	(0.24)%
Effective fed funds rate <sup>(3)(i)</sup>	5.33%	4.99%	0.34%	5.33%	4.75%	0.58%
Beta Calculations:						
Total loans and leases receivable <sup>(a)/(i)</sup>			123.53%			98.28%
Total interest-earning assets <sup>(b)/(i)</sup>			132.35%			98.28%
Adjusted total loans and leases receivable <sup>(1)(c)/(i)</sup>			117.65%			94.83%
Adjusted total interest-earning assets <sup>(1)(d)/(i)</sup>			123.53%			96.55%
Total core deposits <sup>(e)/(i)</sup>			229.41%			168.97%
Total bank funding <sup>(2)(f)/(i)</sup>			179.41%			137.93%
<sup>(1)</sup> Excluding fees in lieu of interest. <sup>(2)</sup> Total bank funding represents total deposits plus FHLB advances. <sup>(3)</sup> Board of Governors of the Federal Reserve System (US). Effective Federal Funds Rates [DFF] retrieved from FRED, Federal Reserve Bank of St. Louis. <sup>(4)</sup> Represents annualized yields/rates.						

#### Comparison of Net Interest Income for the Three and Six Nine Months Ended June 30, 2024 September 30, 2024 and 2023

Net interest income increased \$2.8 million \$2.4 million, or 10.1% 8.4%, and \$5.6 million \$8.0 million, or 10.3% 9.6% during the three and six nine months ended June 30, 2024 September 30, 2024, compared to the three and six nine months ended June 30, 2023 September 30, 2023. The increase in net interest income reflected an increase in average gross loans and leases and an increase in fees in lieu of interest, partially offset by net interest margin compression. Fees in lieu of interest, which vary from quarter to quarter, totaled \$1.2 million \$942,000 and \$2.0 million \$3.0 million for the three and six nine months ended June 30, 2024 September 30, 2024, compared to \$936,000 \$582,000 and \$1.6 million \$2.2 million for the same periods in 2023. Excluding fees in lieu of interest, net interest income for the three and six nine months ended June 30, 2024 September 30, 2024 increased \$2.5 million \$2.1 million, or 9.33% 7.32%, and \$5.2 million \$7.2 million, or 9.77% 8.92%, respectively. Average gross loans and leases for the three and six nine months ended June 30, 2024 September 30, 2024 increased \$379.7 million

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\$320.0 million, or 11.8%, and \$368.1 million, or 14.7%, and \$392.7 million, or 15.5% 14.2%, respectively, compared to the three and six nine months ended June 30, 2023 September 30, 2023.

The yield on average loans and leases for the three and six nine months ended June 30, 2024 September 30, 2024 was 7.28% 7.32% and 7.21% 7.25%, respectively, compared to 6.86% 7.06% and 6.64% 6.79% for the three and six nine months ended June 30, 2023 September 30, 2023. Excluding the impact of loan fees in lieu of interest, the yield on average loans and leases for the three and six nine months ended June 30, 2024 September 30, 2024 was 7.11% 7.20% and 7.07% 7.11%, respectively, compared to 6.71% 6.97% and 6.52% 6.67% for the three and six nine months ended June 30, 2023 September 30, 2023. The yield on average interest-earning assets for the three and six nine months ended June 30, 2024 September 30, 2024 measured 6.92% 6.97% and 6.85% 6.89%, respectively, compared to 6.47% 6.71% and 6.28% 6.43% for the three and six nine months ended June 30, 2023 September 30, 2023. Excluding loan fees in lieu of interest, the yield on average interest-earning assets for the three and six nine months ended June 30, 2024 September 30, 2024 was 6.77% 6.86% and 6.73% 6.77%, respectively, compared to 6.35% 6.63% and 6.17% 6.33% for the three and six nine months ended June 30, 2023 September 30, 2023. The increase in yields was primarily due to the reinvestment of cash flows from fixed-rate loan portfolios and securities in a higher rate environment.

Compared to the prior year quarter, the quarter's daily average effective federal funds rate for the remained flat at 5.26%. The daily average effective federal funds rate for the three and six nine months ended June 30, 2024 September 30, 2024 increased 34 and 58 39 basis points, compared to the same period in 2023. This equates to an interest-earning asset beta of 132.35% and 98.28%, respectively, for the three and six months ended June 30, 2024. points.

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The rate paid on average interest-bearing core deposits for the three and six nine months ended June 30, 2024 September 30, 2024 increased to 4.09% 4.10% and 4.06% 4.07%, respectively, from 3.25% 3.74% and 3.03% 3.27% for the three and six nine months ended June 30, 2023 September 30, 2023. The average rate paid on total interest-bearing liabilities for the three and six nine months ended June 30, 2024 September 30, 2024 increased to 3.97% 4.05% and 3.93% 3.97%, respectively, from 3.33% 3.64% and 3.12% 3.30% for the three and six nine months ended June 30, 2023 September 30, 2023. Total interest-bearing liabilities may include interest-bearing deposits, federal funds purchased, FHLB advances, subordinated and junior subordinated notes and debentures payable, and other borrowings. The average rates paid increased due to the increase in short-term market rates, the replacement of maturing wholesale funds at higher fixed rates, and client movement from non-interest bearing to interest bearing core deposit products. This equates to an interest-bearing liability beta of 189.17% and 140.58%, respectively. The daily average effective federal funds rate for the three and six months ended June 30, 2024, September 30, 2024 remained flat.

Net interest margin decreased to 3.65% 3.64% and 3.62%, respectively, for the three and six nine months ended June 30, 2024 September 30, 2024, compared to 3.81% 3.76% and 3.83% 3.81% for the three and six nine months ended June 30, 2023 September 30, 2023. The primary driver of the reduction in net interest margin was increased funding costs, partially offset by an increase in earning asset yields. Adjusted net interest margin measured 3.47% 3.51% and 3.45% 3.47% for the three and six nine months ended June 30, 2024 September 30, 2024, compared to 3.63% 3.66% and 3.69% 3.68% for the three and six nine months ended June 30, 2023 September 30, 2023. Adjusted net interest margin is a non-GAAP measure representing net interest income excluding the impact of fees in lieu of interest, and other recurring, but volatile, components of net interest margin divided by average interest-earning assets less other recurring, but volatile, components of average interest-earning assets.

Management believes its success in growing core deposits, disciplined loan pricing, and increased production in existing higher-yielding commercial lending products will allow the Corporation to achieve a net interest margin that supports our long-term profitability goals. However, the The collection of loan fees in lieu of interest is an expected source of volatility to quarterly net interest income and net interest margin. In addition, net interest margin may also experience volatility due to events such as the collection of interest on loans previously in non-accrual status or the accumulation of significant short-term deposit inflows. The Corporation maintains a long-term target for net interest margin in the range of 3.60%-3.65% - 3.65%. Performance in future quarters will vary due to factors such as the level of fees in lieu of interest and the timing, pace, and scale of future interest rate changes.

## Provision for Credit Losses

We determine our provision for credit losses pursuant to our allowance for credit loss methodology. It is based on a reasonable and supportable forecast as well as considerations for composition, risk, and performance indicators in our credit portfolio. Refer to **Allowance for Credit Losses**, below, for further information regarding our allowance for credit loss methodology.

The Corporation recognized \$1.7 million \$2.1 million and \$4.0 million \$6.1 million of provision expense for the three and six nine months ended June 30, 2024 September 30, 2024, respectively, compared to expense of \$2.2 million \$1.8 million and \$3.8 million \$5.6 million for the three and six nine months ended June 30, 2023 September 30, 2023. The provision expense for the three months ended June 30, 2024 September 30, 2024 of \$2.1 million consisted of \$1.5 million of net charge-offs, of \$1.4 million, \$680,000 related \$616,000 due to loan growth, \$496,000 due to qualitative factors, and \$150,000 due to deterioration a \$757,000 net increase in the economic outlook in our model forecast; specific reserves, partially offset by a \$1.0 million decrease in specific reserves. The increase in decreases of \$444,000 and \$330,000 due to quantitative and qualitative factors was driven primarily by higher-than-target growth in several loan portfolios. factor changes, respectively.

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The following table shows the components of the provision for credit losses for the three and six nine months ended June 30, 2024 September 30, 2024 compared to the same periods in 2023.

For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
2024	2023	2024	2023	2024	2023	2024	2023

	(In Thousands)		(In Thousands)		(In Thousands)		(In Thousands)	
Change in qualitative factor changes	\$	496	\$	(50)	\$	1,237	\$	(41)
Change in quantitative factor changes		150		(295)		(49)		179
Change in qualitative factors	\$	(444)	\$	506	\$	793	\$	465
Change in quantitative factors		(330)		(1,372)		(380)		(1,193)
Charge-offs		1,583		329		2,504		495
Recoveries		(191)		(245)		(418)		(351)
Change in reserves on individually evaluated loans, net		(1,037)		1,093		(409)		1,057
Change due to loan growth, net		680		1,227		1,035		2,206
Change in unfunded credit commitment reserves		32		172		139		248
Total provision for credit losses	\$	1,713	\$	2,231	\$	4,039	\$	3,793
	\$	2,087	\$	1,817	\$	6,126	\$	5,610

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The addition of specific reserves on individually evaluated loans represents new specific reserves established when collateral shortfalls or government guaranty deficiencies are present, while the release of specific reserves represents the reduction of previously established reserves that are no longer required. Qualitative factor changes reflect management's evaluation of the level of risk within the portfolio based upon several factors for each portfolio segment. Quantitative factor changes reflect the change in the reasonable and supportable forecast as well as other model assumptions. Charge-offs in excess of previously established specific reserves require an additional provision for credit losses to maintain the allowance for credit losses at a level deemed appropriate by management. This amount is net of the release of any specific reserve that may have already been provided. Refer to **Asset Quality**, below, for further information regarding the overall credit quality of our loan and lease portfolio.

### Comparison of Non-Interest Income for the Three and Six Nine Months Ended June 30, 2024 September 30, 2024 and 2023

#### Non-Interest Income

Non-interest income increased \$51,000, decreased \$1.4 million, or 0.7% 16.2%, to \$7.4 million \$7.1 million for the three months ended June 30, 2024 September 30, 2024 compared to \$7.4 million for the same period in 2023. The increase in total non-interest income for the three months ended June 30, 2024 was primarily due to increases in trust fee income and service charges on deposits, offset by a decrease in commercial loan swap fee income. Non-interest income for the six months ended June 30, 2024 decreased \$1.6 million, or 10.1%, to \$14.2 million compared to \$15.8 million \$8.4 million for the same period in 2023. The decrease in total non-interest income for the six three months ended June 30, 2024 September 30, 2024 was primarily due to decreases in returns on investments of SBIC mezzanine funds and commercial loan swap fee income, offset by an increase in Private wealth fee income. Non-interest income for the nine months ended September 30, 2024 decreased \$3.0 million, or 12.3%, to \$21.2 million compared to \$24.2 million for the same period in 2023. The decrease in total non-interest income for the nine months ended September 30, 2024 was driven by decreases in returns on investments in SBIC mezzanine funds, commercial loan swap fee income, and gains on the sale of SBA loans. These unfavorable variances were loans, partially offset by an increase in Private Wealth fee income and service charges on deposits.

Management continues to focus on revenue growth from multiple non-interest income sources in order to maintain a diversified revenue stream through greater contributions from fee-based revenues. stream. Contribution from fee-based revenue sources can be variable and driven by changes in the interest rate environment, client activity, and the value of underlying investments. Total non-interest income accounted for 19.6% 18.6% and 19.1% 18.9% of total revenues for the three and six nine months ended June 30, 2024 September 30, 2024, respectively, compared to 21.0% 22.8% and 22.5% 22.6% for the three and six nine months ended June 30, 2023 September 30, 2023.

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The components of non-interest income were as follows:

For the Three Months Ended June 30,	For the Six Months Ended June 30,	For the Three Months Ended September 30,	For the Nine Months Ended September 30,
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	\$ %				\$ %				\$ %				\$ %			
	2024	2023	Change	Change	2024	2023	Change	Change	2024	2023	Change	Change	2024	2023	Change	Change
	(Dollars in Thousands)				(Dollars in Thousands)				(Dollars in Thousands)				(Dollars in Thousands)			
Private wealth management services fee income	\$3,461	\$2,893	\$568	19.6%	\$6,571	\$5,547	\$1,024	18.5%	\$3,264	\$2,945	\$319	10.8%	\$9,835	\$8,492	\$1,343	15.8%
Gain on sale of SBA loans	349	444	(95)	(21.4)	544	920	(376)	(40.9)	460	851	(391)	(45.9)	1,004	1,771	(767)	(43.3)
Service charges on deposits	951	766	185	24.2	1,890	1,448	442	30.5	920	835	85	10.2	2,810	2,283	527	23.1
Loan fees	826	905	(79)	(8.7)	1,674	1,708	(34)	(2.0)	812	786	26	3.3	2,486	2,495	(9)	(0.4)
Increase in cash surrender value of bank-owned life insurance	403	363	40	11.0	815	729	86	11.8	416	376	40	10.6	1,231	1,106	125	11.3
Net loss on sale of securities	—	(45)	45	(100.0)	(8)	(45)	37	(82.2)	—	—	—	N/A	(8)	(45)	37	(82.2)
Swap fees	157	977	(820)	(83.9)	355	1,534	(1,179)	(76.9)	460	992	(532)	(53.6)	815	2,526	(1,711)	(67.7)
Other non-interest income	1,278	1,071	207	19.3	2,341	3,943	(1,602)	(40.6)	732	1,645	(913)	(55.5)	3,073	5,586	(2,513)	(45.0)
Total non-interest income	\$7,425	\$7,374	\$51	0.7	\$14,182	\$15,784	\$(1,602)	(10.1)	\$7,064	\$8,430	\$(1,366)	(16.2)	\$21,246	\$24,214	\$(2,968)	(12.3)
Fee income ratio <sup>(1)</sup>	19.6%	21.0%			19.1%	22.5%										
Fee income ratio <sup>(1)</sup>	18.6%	22.8%			18.9%	22.6%										

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

Private **Wealth wealth** fee income increased **\$568,000, \$319,000, or 19.6% 10.8%**, and **\$1.0 million \$1.3 million, or 18.5% 15.8%**, for the three and **six nine** months ended **June 30, 2024 September 30, 2024**, respectively, compared to the same period in 2023. Private **Wealth wealth** fee income is up compared to prior year primarily due to an increase in assets under management and administration, increases in fee rates across the client base, and non-recurring transaction fees in the 2024 period. Private **Wealth wealth** fee income can vary due to the mix of business at different fee structures and can be positively or negatively influenced by the timing and magnitude of volatility within the capital markets. As of **June 30, 2024 September 30, 2024**, private Private wealth and trust assets under management and administration totaled **\$3.249 billion \$3.398 billion**, increasing **\$341.5 million \$483.3 million, or 11.7% 16.6%**, compared to **\$2.907 billion \$2.915 billion** as of **June 30, 2023 September 30, 2023**, due to an increase in market values, new clients, and new money from existing clients.

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Other non-interest income Service charges on deposits increased **\$207,000, \$85,000, or 19.3% 10.2%**, and **decreased \$1.6 million, \$527,000, or 40.6% 23.1%**, for the three and **six nine** months ended **June 30, 2024 September 30, 2024**, respectively, compared to the same periods in 2023. The increase is primarily driven by new and expanded core deposit relationships. Treasury management business development efforts remain robust as gross treasury management service charges increased **\$145,000, or 9.9%, and \$473,000, or 11.0%**, for the three and nine months ended **September 30, 2024**, respectively, compared to the same period in 2023. **The changes** Management believes growth in gross analyzed service charges is a strong indicator of success for the **three** Corporation given the direct correlation to adding and **six** months ended **June 30, 2024**, was primarily due to the timing of returns from the Corporation's investments in SBIC mezzanine funds, expanding core business relationships.

Commercial loan interest rate swap fee income decreased **\$820,000, \$532,000, or 83.9% 53.6%**, and **\$1.2 million \$1.7 million, or 76.9% 67.7%**, for the three and **six nine** months ended **June 30, 2024 September 30, 2024**, respectively, compared to the same period in 2023. We originate commercial real estate loans in which we offer clients a floating rate and an interest rate swap. The client's swap is then offset with a counter-party dealer. The execution of these transactions generates swap fee income. The aggregate amortizing notional value of interest rate swaps with various borrowers was **\$962.6 million \$975.8 million** as of **June 30, 2024 September 30, 2024**, compared to **\$939.2 million and \$838.5 million \$908.6 million** as of December 31, 2023 and **June 30, 2023 September 30, 2023**, respectively. Interest rate swaps can be an attractive product for our commercial borrowers, although associated fee income **can be variable** varies from period to period based on loan activity and the interest rate environment.

Gain on sale of SBA loans decreased **\$95,000, \$391,000, or 21.4% 45.9%**, and **\$376,000, \$767,000, or 40.9% 43.3%**, for the three and **six nine** months ended **June 30, 2024 September 30, 2024**, respectively, compared to the same period in 2023. Management expects the SBA loan sales to increase **in the second half of the year** as production increases and previously closed commitments fully fund and become eligible for sale, due to additions to the business development team.

Service charges on deposits increased **\$185,000, Other non-interest income decreased \$913,000, or 24.2% 55.5%**, and **\$442,000, \$2.5 million, or 30.5% 45.0%**, for the three and **six nine** months ended **June 30, 2024 September 30, 2024**, respectively, compared to the same **period periods** in 2023, driven by new and expanded core deposit relationships. Treasury management business development efforts remain robust as gross treasury management service charges increased **\$198,000, or 14.0%, and \$327,000, or 11.6%, 2023. The decreases** for the three and **six nine** months ended **June 30, 2024 September 30, 2024**, respectively, compared was primarily due to the **same** lower returns on the Corporation's investments in SBIC mezzanine funds. Income from

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SBIC mezzanine funds varies from period to period based on changes in 2023. Management believes growth in gross analyzed service charges is a strong indicator the realized and unrealized fair value of success for the Corporation given the direct correlation to adding and expanding core business relationships, underlying investments.

**Comparison of Non-Interest Expense for the Three and Six Nine Months Ended June 30, 2024 September 30, 2024 and 2023**

**Non-Interest Expense**

Non-interest expense for the three and six nine months ended June 30, 2024 September 30, 2024 decreased by \$82,000, or 0.4% and increased by \$1.8 million \$3.3 million, or 8.4% and \$3.4 million, or 7.8% 5.0%, respectively, compared to the same period in 2023. Operating expense, which excludes certain one-time and discrete items as defined in the Efficiency Ratio table above, decreased \$313,000, or 1.4%, and increased \$2.1 million \$3.2 million, or 9.8%, and \$3.5 million, or 8.0% 4.8%, for the three and six nine months ended June 30, 2024 September 30, 2024, respectively, compared to the same period in 2023. The For the three month period, the decrease in operating expense was primarily due to decreases in compensation, other non-interest expense, and professional fees; partially offset by increases in computer software expense, marketing expense, and FDIC insurance. For the nine month period, the increase in operating expense was primarily due to an increase in compensation expense, computer software expense, and professional fees, FDIC insurance.

The components of non-interest expense were as follows:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,				For the Three Months Ended September 30,				For the Nine Months Ended Sep 30,		
			\$	%			\$	%			\$	%			\$
	2024	2023	Change	Change	2024	2023	Change	Change	2024	2023	Change	Change	2024	2023	Change
	(Dollars in Thousands)								(Dollars in Thousands)						
Compensation	\$ 16,215	\$ 15,129	\$ 1,086	7.2%	\$ 32,372	\$ 31,037	\$ 1,335	4.3%	\$ 15,198	\$ 15,573	\$ (375)	(2.4)%	\$ 47,570	\$ 46,610	\$ 960
Occupancy	593	603	(10)	(1.7)	1,200	1,234	(34)	(2.8)	585	575	10	1.7	1,785	1,809	(24)
Professional fees	1,472	1,240	232	18.7	3,043	2,583	460	17.8	1,305	1,429	(124)	(8.7)	4,348	4,012	336
Data processing	1,182	1,061	121	11.4	2,200	1,936	264	13.6	1,045	953	92	9.7	3,245	2,889	356
Marketing	850	779	71	9.1	1,669	1,407	262	18.6	922	758	164	21.6	2,591	2,165	426
Equipment	335	355	(20)	(5.6)	680	650	30	4.6	333	349	(16)	(4.6)	1,013	1,000	13
Computer software	1,555	1,197	358	29.9	2,973	2,379	594	25.0	1,608	1,289	319	24.7	4,581	3,668	913
FDIC insurance	612	580	32	5.5	1,222	974	248	25.5	810	680	130	19.1	2,032	1,653	379
Other non-interest expense	1,065	1,087	(22)	(2.0)	1,863	1,598	265	16.6	1,301	1,583	(282)	(17.8)	3,164	3,181	(17)
Total non-interest expense	<u>\$ 23,879</u>	<u>\$ 22,031</u>	<u>\$ 1,848</u>	8.4	<u>\$ 47,222</u>	<u>\$ 43,798</u>	<u>\$ 3,424</u>	7.8	<u>\$ 23,107</u>	<u>\$ 23,189</u>	<u>\$ (82)</u>	(0.4)	<u>\$ 70,329</u>	<u>\$ 66,987</u>	<u>\$ 3,342</u>
Total operating expense <sup>(1)</sup>	\$ 23,823	\$ 21,692	\$ 2,131	9.8	\$ 46,954	\$ 43,471	\$ 3,483	8.0	\$ 22,630	\$ 22,943	\$ (313)	(1.4)	\$ 69,584	\$ 66,414	\$ 3,170
Full-time equivalent employees	353	343			353	343									

Actual full-time equivalent employees	353	348	353	348
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(1) Total operating expense represents total non-interest expense, adjusted to exclude the impact of discrete items as previously defined in the non-GAAP efficiency ratio calculation, above.

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Compensation expense for the three and **six** **nine** months ended **June 30, 2024** increased **\$1.1 million**, **September 30, 2024** decreased **\$375,000**, or **7.2%** **2.4%**, and **\$1.3 million**, increased **\$960,000**, or **4.3%** **2.1%**, respectively, compared to the same **period** **periods** in 2023. **The** For the three month period, the decrease in compensation expense was primarily due to a cash bonus accrual adjustment decrease and an increase in capitalized software development compensation. For the nine month period, the increase in compensation expense was primarily due to an increase in average FTEs, annual merit increases, and promotions. These increases were partially offset by decreases in incentive compensation and share-based compensation. Successful hiring efforts to secure talent resulted in average full-time equivalent employees for the three months ended **June 30, 2024** **September 30, 2024** increasing to **351**, **355**, up **2.3%** **1.7%**, compared to **343** **349** for the three months ended **June 30, 2023** **September 30, 2023**.

Computer software expense increased **\$358,000**, **\$319,000**, or **29.9%** **24.7%**, and **\$594,000**, **\$913,000**, or **25.0%** **24.9%**, for the three and **six** **nine** months ended **June 30, 2024** **September 30, 2024**, respectively, compared to the same period in 2023. The increase was primarily due to **new investment in our commitment to** innovative technology to support growth initiatives, **to** enhance productivity, and **improve the** client experience.

**Professional fees** **Marketing expense** increased **\$232,000**, **\$164,000**, or **18.7%** **21.6%**, and **\$460,000**, **\$426,000**, or **17.8%** **19.7%**, for the three and **six** **nine** months ended **June 30, 2024**, respectively, compared to the same period in 2023. The increase was primarily due to an increase in recruiting expense and other professional consulting services for various projects.

FDIC insurance for the three and six months ended **June 30, 2024** increased **\$32,000**, or **5.52%**, and **\$248,000**, or **25.5%**, respectively, compared to the same period in 2023. The increase was primarily due to asset growth and an increase in the usage of brokered deposits in lieu of FHLB advances, as part of our funding strategy to match-fund fixed-rate loans and maintain adequate alternative sources of liquidity.

Marketing expense increased **\$71,000**, or **9.11%**, and **\$262,000**, or **18.6%**, for the three and six months ended **June 30, 2024** **September 30, 2024**, respectively, compared to the same period in 2023. The increase was primarily due to an increase in business development efforts and advertising projects related to the Company's growth initiatives.

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FDIC insurance for the three and nine months ended **September 30, 2024** increased **\$130,000**, or **19.1%**, and **\$379,000**, or **22.9%**, respectively, compared to the same period in 2023. The increase was primarily due to an increase in total assets and use of brokered deposits.

Data processing expense increased **\$121,000**, **\$92,000**, or **11.4%** **9.7%**, and **\$264,000**, **\$356,000**, or **13.6%** **12.3%**, for the three and **six** **nine** months ended **June 30, 2024** **September 30, 2024**, respectively, compared to the same period in 2023, primarily due to an increase in core processing costs due to loan and deposit account growth, private wealth and trust asset growth, and various project implementations.

Professional fees decreased **\$124,000**, or **8.7%**, and increased **\$336,000**, or **8.4%**, for the three and nine months ended **September 30, 2024**, respectively, compared to the same period in 2023. For the three month period, the decrease was primarily due to a decrease in recruiting expense and professional consulting services for various projects. For the nine month period, the increase was primarily due to an increase in recruiting expense and professional consulting services for various projects.

Other non-interest expense for the three and **six** **nine** months ended **June 30, 2024** **September 30, 2024** decreased **\$22,000**, **\$282,000**, or **2.02%** **17.8%**, and increased **\$265,000**, **\$17,000**, or **16.6%** **0.5%**, respectively, compared to the same period in 2023. The **six month period increase** **decrease** was primarily due to **an increase** other reserves and liquidation expense, partially offset by a decrease in **SBA recourse provision**, liquidation expenses.

Income Taxes



Income tax expense totaled \$3.7 million \$6.0 million for the six nine months ended June 30, 2024 September 30, 2024 compared to \$5.3 million \$7.4 million for the same period in 2023. Income tax expense included a \$752,000 \$1.1 million net benefit from tax credit investments compared to a \$300,000 benefit in the prior year period, both periods. The effective tax rate including the benefit from Low-Income Housing Tax Credits, for the six nine months ended June 30, 2024 September 30, 2024 was 15.8% 16.8% compared to 23.5% 21.4% for the same period in 2023. The decrease in effective tax rate is primarily due to a change in Wisconsin state tax legislation which reduced the Corporation's state taxable income. The Corporation expects to report an effective tax rate between 16% and 18% for 2024.

Generally, the provision for income taxes is determined by applying an estimated annual effective income tax rate to income before taxes and adjusting for discrete items. The rate is based on the most recent annualized forecast of pre-tax income, book versus tax differences and tax credits, if any. If we conclude that a reliable estimated annual effective tax rate cannot be determined, the actual effective tax rate for the year-to-date period may be used. We re-evaluate the income tax rates each quarter. Therefore, the current projected effective tax rate for the entire year may change.

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## Financial Condition

### General

Total assets increased by \$109.2 million \$207.9 million, or 6.2% 7.9%, to \$3.617 billion \$3.716 billion as of June 30, 2024 September 30, 2024 compared to \$3.508 billion at December 31, 2023. The increase in total assets was primarily driven by an increase in loans and leases receivable and available-for-sale securities, partially offset by a reduction in short-term investments. Total liabilities increased by \$93.6 million \$185.5 million, or 5.8% 7.7%, to \$3.312 billion \$3.404 billion at June 30, 2024 September 30, 2024 compared to \$3.218 billion at December 31, 2023. The increase in total liabilities was principally due to an increase in deposits. Total stockholders' equity increased by \$15.6 million \$22.4 million, or 10.8% 10.3%, to \$305.2 million \$312.0 million at June 30, 2024 September 30, 2024 compared to

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\$289.6 million \$289.6 million at December 31, 2023. The increase in total stockholders' equity was due to retention of earnings and unrealized gains on interest rate swaps, available-for-sale securities, partially offset by dividends paid to common and preferred stockholders and unrealized losses on available-for-sale securities, interest rate swaps.

### Cash and Cash Equivalents

Cash and cash equivalents include short-term investments and cash and due from banks. Cash and due from banks decreased \$5.9 million increased \$13.0 million to \$26.4 million \$45.3 million at June 30, 2024 September 30, 2024 from \$32.3 million at December 31, 2023. Short-term investments decreased by \$52.5 million \$20.5 million to \$54.7 million \$86.7 million at June 30, 2024 September 30, 2024 from \$107.2 million at December 31, 2023. Our short-term investments primarily consist of interest-bearing deposits held at the FRB. We value the safety and soundness provided by the FRB, and therefore, we incorporate short-term investments in our readily accessible liquidity program. As of June 30, 2024 September 30, 2024 and December 31, 2023, interest-bearing deposits held at the FRB were \$53.7 million \$85.7 million and \$106.8 million, respectively.

### Securities

Total securities, including available-for-sale and held-to-maturity, increased by \$10.4 million \$14.7 million, or 6.8% 6.4%, to \$315.9 million \$320.2 million, or 8.7% 8.6% of total assets at June 30, 2024 September 30, 2024 compared to \$305.5 million or 8.7% of total assets at December 31, 2023. During the six nine months ended June 30, 2024 September 30, 2024, the Corporation recognized unrealized losses gains of \$3.5 million \$5.6 million before income taxes through other comprehensive income, compared to unrealized gains losses of \$252,000 \$6.4 million for the same period in 2023. The unrealized losses gains in the current period were driven by the increase decrease in market interest rates. As of June 30, 2024 September 30, 2024 and December 31, 2023, our overall securities portfolio, including available-for-sale securities and held-to-maturity securities, had an estimated weighted-average expected maturity of 5.3 5.1 years and 5.6 years, respectively. Our investment philosophy remains as stated in our most recent Annual Report on Form 10-K.

We use a third-party pricing service as our primary source of market prices for our securities portfolio. On a quarterly basis, we validate the reasonableness of prices received from this source through independent verification, data integrity validation primarily through comparison of current price to an expectation-based analysis of movement in prices based upon the changes in the related yield curves, and other market factors. We did not recognize any credit losses in the securities portfolio as of June 30, 2024 September 30, 2024.

## Loans and Leases Receivable

Period-end loans and leases receivable, net of allowance for credit losses, increased by **\$133.3 million** **\$197.4 million**, or **9.5%** **9.3%** annualized, to **\$2.952 billion** **\$3.016 billion** at **June 30, 2024** **September 30, 2024** from \$2.819 billion at December 31, 2023 primarily driven by commercial loan growth. Management expects to manage loan growth towards our long term target of 10%.

**Commercial and Industrial ("C&I") loans increased \$55.9 million, or 10.1% annualized, to \$1.162 billion. The increase was due to growth in traditional commercial lending, Equipment Finance, and Floorplan Financing products.**

Total commercial real estate ("CRE") loans increased **\$75.5 million** **\$129.5 million**, or **8.9%** **10.2%** annualized, to **\$1.775 billion** **\$1.829 billion**. The increase was primarily due to an increase in the construction and multifamily loan portfolios.

CRE loans represented **59.5%** **60.0%** and 59.6% of our total loans as of **June 30, 2024** **September 30, 2024** and December 31, 2023, respectively. As of **June 30, 2024** **September 30, 2024**, **14.6%** **14.2%** of the CRE loans were owner-occupied CRE, compared to 15.1% as of December 31, 2023. We consider owner-occupied CRE more characteristic of the Corporation's C&I portfolio as, in general, the client's primary source of repayment is the cash flow from the operating entity occupying the commercial real estate property.

**Commercial and Industrial ("C&I") loans increased \$68.5 million, or 8.3% annualized, to \$1.174 billion. The increase was due to growth in traditional commercial lending, Equipment Finance, and Floorplan Financing loan portfolios.**

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

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

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While we continue to experience competition from banks operating in our primary geographic areas, we remain committed to our underwriting standards and will not deviate from those standards for the sole purpose of growing our loan and lease portfolio. We continue to expect our new loan and lease activity to be adequate to replace normal amortization, allowing us to continue growing in future years. The types of loans and leases we originate and the various risks associated with these originations remain consistent with information previously outlined in our most recent Annual Report on Form 10-K.

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

	As of June 30, 2024		As of December 31, 2023		As of September 30, 2024		As of December 31, 2023	
	Amount Outstanding	% of Total Loans and Leases	Amount Outstanding	% of Total Loans and Leases	Amount Outstanding	% of Total Loans and Leases	Amount Outstanding	% of Total Loans and Leases
	(Dollars in Thousands)				(Dollars in Thousands)			
Commercial real estate:								
Commercial real estate — owner occupied	\$ 258,636	8.7 %	\$ 256,479	9.0 %	\$ 259,532	8.5 %	\$ 256,479	9.0 %
Commercial real estate — non-owner occupied	777,704	26.1	773,494	27.1	768,195	25.2	773,494	27.1
Construction	229,181	7.7	193,080	6.8	266,762	8.8	193,080	6.8
Multi-family	470,176	15.8	450,529	15.8	494,954	16.2	450,529	15.8
1-4 family	39,680	1.3	26,289	0.9	39,933	1.3	26,289	0.9



Total commercial real estate	1,775,377	59.5	1,699,871	59.6	1,829,376	60.0	1,699,871	59.6
Commercial and industrial	1,161,711	38.9	1,105,835	38.8	1,174,295	38.5	1,105,835	38.8
Consumer and other	48,145	1.6	44,312	1.6	46,610	1.5	44,312	1.6
Total gross loans and leases receivable	2,985,233	100.0%	2,850,018	100.0%	3,050,281	100.0%	2,850,018	100.0%
Less:								
Allowance for credit losses	33,088		31,275		33,688		31,275	
Deferred loan fees and costs, net	(181)		(243)		202		(243)	
Loans and leases receivable, net	\$ 2,952,326		\$ 2,818,986		\$ 3,016,391		\$ 2,818,986	

Below is a view of selected loan portfolios disaggregated by North American Industry Classification ("NAICs") code as of **June 30, 2024** September 30, 2024:

	Wholesale and Retail and Transportation and						Wholesale and Retail and Transportation and					
	Real Estate	Manufacturing	Hospitality	Warehousing	Other	Total	Real Estate	Manufacturing	Hospitality	Warehousing	Other	Total
Commercial real estate — owner occupied	6%	28%	17%	13%	36%	100%	6%	28%	17%	13%	36%	100%
Commercial real estate — non-owner occupied	71% (1)	1%	11%	2%	15%	100%	71% (1)	1%	11%	2%	15%	100%
Commercial and industrial	3%	32%	15%	13%	37%	100%	3%	32%	16%	10%	39%	100%

(1) Includes approximately \$235 million \$269 million of office real estate, or 8% 9% of gross loans.

See **Asset Quality** for further discussion of industry-specific risks.

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## Deposits

### Deposit composition

	As of					As of				
	June 30, 2024	March 31, 2024	December 31, 2023	September 30, 2023	June 30, 2023	September 30, 2024	June 30, 2024	March 31, 2024	December 31, 2023	September 30, 2023
(in thousands)										
Non-interest-bearing transaction accounts	\$ 406,804	\$ 400,267	\$ 445,376	\$ 430,011	\$ 419,294	\$ 428,012	\$ 406,804	\$ 400,267	\$ 445,376	\$ 430,011
Interest-bearing transaction accounts	841,146	818,080	895,319	779,789	719,198	930,252	841,146	818,080	895,319	779,789
Money market accounts	837,569	813,467	711,245	694,199	641,969	817,129	837,569	813,467	711,245	694,199
Certificates of deposit	224,116	266,029	287,131	285,265	293,283	207,337	224,116	266,029	287,131	285,265
Wholesale deposits	575,548	457,563	457,708	467,743	455,108	587,217	575,548	457,563	457,708	467,743
Total deposits	\$ 2,885,183	\$ 2,755,406	\$ 2,796,779	\$ 2,657,007	\$ 2,528,852	\$ 2,969,947	\$ 2,885,183	\$ 2,755,406	\$ 2,796,779	\$ 2,657,007
Uninsured deposits	\$ 1,011,977	\$ 995,428	\$ 994,687	\$ 916,083	\$ 867,397	\$ 1,088,496	\$ 1,011,977	\$ 995,428	\$ 994,687	\$ 916,083
Less: uninsured deposits collateralized by pledged assets	34,810	16,622	17,051	28,873	37,670	10,755	34,810	16,622	17,051	28,873
Total uninsured, net collateralized deposits	\$ 977,167	\$ 978,806	\$ 977,636	\$ 887,210	\$ 829,727	\$ 1,077,741	\$ 977,167	\$ 978,806	\$ 977,636	\$ 887,210

% of total deposits	33.9 %	35.5 %	35.0 %	33.4 %	32.8 %	36.3 %	33.9 %	35.5 %	35.0 %	33.4 %
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As of ~~June 30, 2024~~ ~~September 30, 2024~~, total period-end deposits increased by ~~\$88.4 million~~ ~~\$173.2 million~~ to ~~\$2.885 billion~~ ~~\$2.970 billion~~ from \$2.797 billion at December 31, 2023, primarily due to increases of ~~\$126.3 million~~ ~~\$129.5 million~~, ~~\$105.9 million~~, and ~~\$117.8 million~~ ~~\$34.9 million~~ in ~~wholesale deposits~~, money market accounts, and ~~wholesale deposits~~, ~~interest-bearing transaction accounts~~, respectively. These increases were partially offset by decreases of ~~\$63.0 million~~, ~~\$54.2 million~~, ~~\$79.8 million~~ and ~~\$38.6 million~~ ~~\$17.4 million~~ in certificates of deposits ~~interest-bearing transaction accounts~~, and non-interest-bearing transaction accounts, respectively.

As of ~~June 30, 2024~~ ~~September 30, 2024~~, total period-end core deposits ~~decreased \$29.4 million~~ ~~increased \$43.7 million~~, or 2.5% annualized, to ~~\$2.310 billion~~ ~~\$2.383 billion~~, compared to \$2.339 billion at December 31, 2023. The ~~decrease~~ ~~increase~~ in period-end balances is due to ~~decreases~~ ~~increases~~ of ~~\$54.2 million~~, ~~\$38.6 million~~, ~~\$105.9 million~~ and ~~\$63.0 million~~ ~~\$34.9 million~~ in money market accounts and interest bearing transaction accounts, ~~non-interest bearing~~ respectively, offset by decreases of ~~\$79.8 million~~ and ~~\$17.4 million~~ in certificates of deposit and non-interest-bearing transaction accounts, and ~~certificate of deposit accounts~~, respectively. ~~The decline in period-end balances is due to the delayed receipt of a significant core deposit which typically occurs near the end of the month and was included in December 31, 2023 deposits. Including this recurring deposit inflow received by the Bank on July 1, period-end core deposits increased \$50.8 million.~~ Management believes the Bank’s deposit-centric sales strategy, led by treasury management sales, will ~~continue to~~ contribute to a net increase in deposits; however, period-end deposit balances associated with core relationships will fluctuate based upon maturity of time deposits, client demands for the use of their cash, and our ability to maintain existing and acquire new client relationships. Therefore, we believe average balances are a better indicator of our deposit growth.

Our strategic efforts remain focused on adding core deposit relationships. We measure the success of core deposit gathering efforts based on the number and average balances of our deposit accounts as compared to ending balances due to the variability of some of our larger relationships. The Bank’s average core deposits, consisting of all transaction accounts, money market accounts, and certificates of deposit, increased ~~\$342.4 million~~ ~~\$317.8 million~~, or ~~17.0%~~ ~~15.5%~~, to ~~\$2.361 billion~~ ~~\$2.366 billion~~ for the ~~six~~ ~~nine~~ months ended ~~June 30, 2024~~ ~~September 30, 2024~~ compared to ~~\$2.018 billion~~ ~~\$2.048 billion~~ for the ~~six~~ ~~nine~~ months ended ~~June 30, 2023~~ ~~September 30, 2023~~.

#### FHLB Advances and Other Borrowings

As of ~~June 30, 2024~~ ~~September 30, 2024~~, FHLB advances and other borrowings ~~decreased~~ ~~increased~~ by ~~\$3.1 million~~ ~~\$18.2 million~~, or ~~1.9%~~ ~~7.3%~~, to ~~\$327.9 million~~ ~~\$349.1 million~~ from \$330.9 million at December 31, 2023. As average deposit balances have increased, we have been able to reduce our usage of FHLB ~~advances~~. ~~advances as a percentage of total funding~~. In addition, we have strategically reduced our usage of FHLB advances in favor of wholesale deposits to increase the Bank’s readily accessible liquidity. We will continue to utilize FHLB advances and wholesale deposits to manage interest rate risk, liquidity, and contingency funding.

As of ~~June 30, 2024 and~~ ~~September 30, 2024~~, the Corporation has ~~no other borrowings~~. As of December 31, 2023, the Corporation had other borrowings of ~~\$10,000~~, and \$20,000, respectively, which consisted of a sold tax credit investments accounted for as secured borrowings because they did not qualify for true sale accounting.

~~During~~ ~~As of August 15, 2024~~, the ~~third quarter of 2024~~, management intends to redeem \$15.0 million of 5.50% fixed to floating rate subordinated notes payable originally that bore a fixed interest rate of 5.5% were redeemed. The Corporation issued ~~August 15th, 2019 and~~ reissue up to \$20.0 million in new subordinated notes payable. payable on September 13, 2024. The aggregate principal amount of the newly issued subordinated notes payable was \$20.0 million. The subordinated notes payable bear a fixed interest rate of 7.5% with a maturity date of September 13, 2034.

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

#### Preferred Stock

The Corporation has 12,500 shares, or \$12.5 million in aggregate liquidation preference, of 7.0% Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series A, par value \$0.01 per share, with a liquidation preference of \$1,000 per share (the “Series A Preferred Stock”) outstanding as of ~~June 30, 2024~~ ~~September 30, 2024~~ and December 31, 2023.

The Corporation expects to pay dividends on the Series A Preferred Stock when and if declared by its Board, at a fixed rate of 7.0% per annum, payable quarterly, in arrears, on March 15, June 15, September 15 and December 15 of each year up to, but excluding, March 15, 2027. For each dividend period from and including March 15, 2027, dividends will be paid at a floating rate of Three-Month Term SOFR plus a spread of 539 basis points per annum. During the three and ~~six~~ ~~nine~~ months ended ~~June 30~~,

2024 September 30, 2024, the Corporation paid \$219,000 \$218,000 and \$438,000, \$656,000, respectively, in cash dividends with respect to the Series A Preferred Stock. The Series A Preferred Stock is perpetual and has no stated maturity. The Corporation may redeem the Series A Preferred Stock at its option at a redemption price equal to \$1,000 per share, plus any declared and unpaid dividends (without regard to any undeclared dividends), subject to regulatory approval, on or after March 15, 2027 or within 90 days following a regulatory capital treatment event, in accordance with the terms of the Series A Preferred Stock.

## Derivatives

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

As of June 30, 2024 September 30, 2024, the aggregate amortizing notional value of interest rate swaps with various commercial borrowers was approximately \$962.6 million \$975.8 million, compared to \$939.2 million as of December 31, 2023. We receive fixed rates and pay floating rates based upon designated benchmark interest rates on the swaps with commercial borrowers. These swaps mature between July 2024 June 2025 and July 2040, 2041. Commercial borrower swaps are completed independently with each borrower and are not subject to master netting arrangements. As of June 30, 2024 September 30, 2024, the commercial borrower swaps were reported on the Consolidated Balance Sheet as a derivative asset of \$2.1 million \$11.4 million and liability of \$61.8 million \$39.8 million compared to a derivative asset of \$7.9 million and liability of \$51.1 million as of December 31, 2023. On the offsetting swap contracts with dealer counterparties, we pay fixed rates and receive floating rates based upon designated benchmark interest rates. These interest rate swaps also have maturity dates between July 2024 June 2025 and July 2040, 2041. Dealer counterparty swaps are subject to master netting agreements among the contracts within our Bank and were reported on the Consolidated Balance Sheet as a net derivative asset of \$59.6 million \$28.4 million as of June 30, 2024 September 30, 2024, compared to a net derivative asset of \$43.2 million as of December 31, 2023. The gross amount of dealer counterparty swaps as of June 30, 2024 September 30, 2024, without regard to the enforceable master netting agreement, was a gross derivative liability of \$2.1 million \$11.4 million and gross derivative asset of \$61.8 million \$39.8 million, compared to a gross derivative liability of \$7.9 million and gross derivative asset of \$51.1 million as of December 31, 2023.

The Corporation also enters into interest rate swaps to manage interest rate risk and reduce the cost of match-funding certain long-term fixed rate loans. These derivative contracts involve the receipt of floating rate interest from a counterparty in exchange for the Corporation making fixed-rate payments over the life of the agreement, without the exchange of the underlying notional value. The instruments are designated as cash flow hedges as the receipt of floating rate interest from the counterparty is used to manage interest rate risk associated with forecasted interest payments on issuances of short-term FHLB advances or purchases of wholesale deposits. The change in the fair value of these hedging instruments is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged transactions affect earnings. As of June 30, 2024 September 30, 2024, the aggregate notional value of interest

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notional value of interest rate swaps designated as cash flow hedges was \$437.7 million \$499.7 million. These interest rate swaps mature between July October 2024 and February 2041. A pre-tax unrealized gain loss of \$300,000 \$11.6 million and \$5.1 million \$6.5 million was recognized in other comprehensive income for the three and six nine months ended June 30, 2024 September 30, 2024, respectively, and there was no ineffective portion of these hedges.

The Corporation also enters into interest rate swaps to mitigate market value volatility on certain long-term fixed securities. The objective of the hedge is to protect the Corporation against changes in fair value due to changes in benchmark interest rates. The instruments are designated as fair value hedges as the changes in the fair value of the interest rate swap are expected to offset changes in the fair value of the hedged item attributable to changes in the SOFR swap rate, the designated benchmark interest rate. These derivative contracts involve the receipt of floating rate interest from a counterparty in exchange for the Corporation making fixed-rate payments over the life of the agreement, without the exchange of the underlying notional value. The change in the fair value of these hedging instruments is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged transactions affect earnings. As of June 30, 2024 September 30, 2024, the aggregate notional value of interest rate swaps designated as fair value hedges was \$12.5 million. These interest rate swaps mature between February 2031 and October 2034. A pre-tax unrealized gain loss of \$82,000 \$246,000 and \$223,000 \$24,000 was recognized in other comprehensive income for the three and six nine months ended June 30, 2024 September 30, 2024, respectively, and there was no ineffective portion of these hedges.

For further information and discussion of our derivatives, see **Note 13 — Derivative Financial Instruments** of the Consolidated Financial Statements.

## Asset Quality

### Non-performing Assets

Total non-performing assets consisted of the following at June 30, 2024 September 30, 2024 and December 31, 2023, respectively:

	June 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
	(Dollars in Thousands)		(Dollars in Thousands)	
Non-accrual loans and leases				
Commercial real estate:				
Commercial real estate - owner occupied	\$ —	\$ —	\$ —	\$ —
Commercial real estate - non-owner occupied	—	—	—	—
Construction	—	—	—	—
Multi-family	—	—	—	—
1-4 family	18	22	16	22
Total non-accrual commercial real estate	18	22	16	22
Commercial and industrial	18,981	20,575	19,348	20,575
Consumer and other	—	—	—	—
Total non-accrual loans and leases	18,999	20,597	19,364	20,597
Reposessed assets, net	54	247	56	247
Total non-performing assets	\$ 19,053	\$ 20,844	\$ 19,420	\$ 20,844
Total non-accrual loans and leases to gross loans and leases	0.64 %	0.72 %	0.63 %	0.72 %
Total non-accrual loans to gross loans and leases plus reposessed assets, net	0.64	0.73	0.64	0.73
Total non-performing assets to total assets	0.53	0.59	0.52	0.59
Allowance for credit losses to gross loans and leases	1.17	1.16	1.16	1.16
Allowance for credit losses to non-accrual loans and leases	183.96	160.21	183.38	160.21

Non-accrual loans decreased **\$1.6 million** **\$1.2 million**, to **\$19.0 million** **\$19.4 million** at **June 30, 2024** **September 30, 2024**, compared to \$20.6 million at December 31, 2023. The Corporation's non-accrual loans as a percentage of total gross loans and leases measured **0.64%** **0.63%** and 0.72% at **June 30, 2024** **September 30, 2024** and December 31, 2023, respectively. The change in non-accrual loans was driven by charge-offs in the Equipment Finance pool and a paydown in the Asset-Based Lending ("ABL") pool both within the C&I portfolio segment, partially offset by newly defaulted loans in Equipment **Finance**. **Finance and SBA lending pools**. While we continue to expect full repayment of the one **asset-based lending (ABL)** **ABL** loan that defaulted during the second quarter of 2023, the liquidation process has transitioned into Chapter 7 bankruptcy, likely delaying final resolution until late 2024 or 2025. Through our collections efforts, the current balance of this loan is **\$6.5 million** **\$6.2 million**, down from \$10.9 million in the prior year quarter. Excluding this credit, non-performing assets totaled **\$12.6 million** **\$13.2 million**, or **0.35%** **0.36%** of total assets in the current quarter and **\$12.7 million** **\$12.6 million**, or **0.36%** **0.35%** of total assets in the prior quarter.

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We use a wide variety of available metrics to assess the overall asset quality of the portfolio and no one metric is used independently to make a final conclusion as to the asset quality of the portfolio. Non-performing assets as a percentage of total assets was **0.53%** **0.52%** and 0.59% at **June 30, 2024** **September 30, 2024** and December 31, 2023, respectively. As of **June 30, 2024** **September 30, 2024** and December 31, 2023, the payment performance of our loans and leases did not point to any new areas of concern, as approximately 99.4% and 99.2%, respectively, of the total portfolio at the end of each period was in a current payment status.

We reviewed loans and leases with exposure to certain industries:

- Transportation and Logistics, Equipment Finance: 2% of total loans - Management considered the following: **9%** **10%** of Equipment Finance Transportation loans are rated Category IV. Based on our reserve methodology for individually and collectively evaluated loans, we believe our reserves related to this industry to be appropriate.
- Transportation and Logistics, other than Equipment Finance: 2% of total loans - Management considered the following: Less than 1% of the Transportation loans outside c Equipment Finance are rated Category IV. Collateral on these loans includes commercial real estate, business assets, and equipment. Based on **these** **our reserve methodology for individually** and **other borrower-specific considerations, no additional reserve requirements were identified. collectively evaluated loans, we believe our reserves related to this industry to be appropriate.**
- Office, Commercial Real Estate: **8%** **9%** of total loans - Management considered the following: office exposure is concentrated in the Wisconsin markets where local market vacancy rates are below national rates, a majority of the loan maturity dates are beyond 2031 with the borrower paying a fixed rate, either directly or through an interest rate

swap, and there are no non-accrual loans in the portfolio. Based on these our reserve methodology for individually and other borrower-specific considerations, no additional reserve requirements were identified. collectively evaluated loans, we believe our reserves related to this loan category to be appropriate.

- Multifamily, Commercial Real Estate: 16% of total loans - Management considered the following: multifamily exposure is concentrated in the Wisconsin markets where local market vacancy rates are below national rates, a majority of the loan maturity dates are beyond 2031 with the borrower paying a fixed rate, either directly or through an interest rate swap, and there are no non-accrual loans in the portfolio. Based on these our reserve methodology for individually and other borrower-specific considerations, additional reserve requirements were identified. collectively evaluated loans, we believe our reserves related to this loan category to be appropriate.

We also monitor asset quality through our established categories as defined in **Note 5 – Loans, Lease Receivables, and Allowance for Credit Losses** of the Consolidated Financial Statements. As we continue to actively monitor the credit quality of our loan and lease portfolios, we may identify additional loans and leases for which the borrowers or lessees are having difficulties making the required principal and interest payments based upon factors including, but not limited to, the inability to sell the underlying collateral, inadequate cash flow from the operations of the underlying businesses, liquidation events, or bankruptcy filings. We proactively work with our loan borrowers experiencing financial difficulty to find meaningful solutions to difficult situations that are in the best interests of the Bank.

As of June 30, 2024 September 30, 2024, as well as in all previous reporting periods, there were no loans over 90 days past due and still accruing interest. Loans and leases greater than 90 days past due are placed on non-accrual status and individually evaluated for reserve requirement. Cash received while a loan or a lease is on non-accrual status is generally applied solely against the outstanding principal. If collectability of the contractual principal and interest is not in doubt, payments received may be applied to both interest due on a cash basis and principal.

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The following represents additional information regarding our non-accrual loans and leases:

	As of and for the Six Months Ended June 30,		As of and for the Year Ended December 31,	As of and for the Nine Months Ended September 30,		As of and for the Year Ended December 31,
	2024	2023	2023	2024	2023	2023
	(In Thousands)			(In Thousands)		
Individually evaluated loans and leases with no specific reserves required	\$ 9,564	\$ 11,290	\$ 9,690	\$ 8,025	\$ 11,381	\$ 9,691
Individually evaluated loans and leases with specific reserves required	9,435	4,431	10,907	11,339	6,247	10,906
Total individually evaluated loans and leases	18,999	15,721	20,597	19,364	17,628	20,597
Less: Specific reserves (included in allowance for credit losses)	5,581	2,715	5,989	6,339	3,982	5,989
Net non-accrual loans and leases	\$ 13,418	\$ 13,006	\$ 14,608	\$ 13,025	\$ 13,646	\$ 14,608
Average non-accrual loans and leases	\$ 20,172	\$ 3,599	\$ 10,450	\$ 19,761	\$ 7,702	\$ 10,450

## Allowance for Credit Losses

The allowance for credit losses, including unfunded commitment reserves, increased \$2.0 million \$2.5 million, or 11.8%, 10.2% annualized, to \$35.0 million \$35.5 million as of June 30, 2024 September 30, 2024 from \$33.0 million as of December 31, 2023. The allowance for credit losses as a percentage of gross loans and leases increased to 1.17% was 1.16% as of June 30, 2024 from September 30, 2024 compared to 1.16% as of December 31, 2023.

During the six nine months ended June 30, 2024 September 30, 2024, we recorded net charge-offs of \$2.1 million \$3.6 million, comprised of \$2.5 million \$4.1 million of charge-offs and \$418,000 \$509,000 of recoveries. We will continue to experience some level of periodic charge-offs in the future as exit strategies are considered and executed. Loans and leases with previously established specific reserves, may ultimately result in a charge-off under a variety of scenarios.

As of June 30, 2024 September 30, 2024 and December 31, 2023, our ratio of allowance for credit losses to total non-accrual loans and leases was 183.96% 183.38% and 160.21%, respectively. This ratio increased because of charge-offs and paydowns on non-accrual loans and an increase in general reserves. reserves primarily due to loan growth. Non-accrual loans and leases exhibit weaknesses that inhibit repayment in compliance with the original terms of the note or lease; however, the evaluation of non-accrual loans and leases may not always result in a specific reserve included in the allowance for credit losses. As part of the underwriting process, as well as our ongoing monitoring efforts, we try to ensure that we have sufficient collateral to protect our interest in the related loan or lease. As a result of this practice, a significant portion of our outstanding balance of non-accrual loans or leases may not require additional specific reserves or require only a minimal amount of required specific reserve. Management is proactive in recording charge-offs to bring loans to their net realizable value in situations where it is determined with certainty that we will not recover the entire amount of our principal. This

practice may lead to a lower allowance for credit loss to non-accrual loans and leases ratio as compared to our peers or industry expectations. As asset quality strengthens, our allowance for credit losses is measured more through collective characteristics of our portfolio rather than through specific identification and we would therefore expect this ratio to rise. Conversely, if we identify further non-accrual loans, this ratio could fall if the non-accrual loans are adequately collateralized and therefore require no specific or general reserve. Given our business practices and evaluation of our existing loan and lease portfolio, we believe this coverage ratio is appropriate for the probable losses inherent in our loan and lease portfolio as of **June 30, 2024** **September 30, 2024**.

To determine the level and composition of the allowance for credit losses, we break out the portfolio by segments with similar risk characteristics. First, we evaluate loans and leases for non-accrual classification. We analyze each loan and lease identified as non-accrual on an individual basis to determine a specific reserve based upon the estimated value of the underlying collateral for collateral-dependent loans, or alternatively, the present value of expected cash flows. For efficiency, smaller dollar value loans within the Equipment Finance pool are reserved based on a past-due criteria. Accruing loans may be evaluated individually. All loans not evaluated individually are evaluated collectively as part of a portfolio segment or portfolio segment and class. These collective evaluations utilized a reasonable and supportable forecast which includes projections of credit losses based on one of two established methods: discounted cash flow or weighted average remaining maturity. Each model includes a set of assumptions which are evaluated not less than annually by management. The methodology also focuses on evaluation of several qualitative factors for each portfolio segment or portfolio segment and class, including but not limited to: product growth rates, management's ongoing review and grading of the loan and lease portfolios, consideration of delinquency experience, changes in the size of the loan and lease

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portfolios, level of loans and leases subject to more frequent review by management, changes in underlying collateral, concentrations in specific industries, and other qualitative factors that could affect credit losses.

When it is determined that we will not receive our entire contractual principal or the loss is confirmed, we record a charge against the allowance for credit loss reserve to bring the loan or lease to its net realizable value. It is typically part of our process to obtain appraisals on individually evaluated loans and leases that are primarily secured by real estate. As we complete new appraisals and/or market evaluations, in specific situations current fair values collateralizing certain collateral-dependent loans are inadequate to support the entire amount of the outstanding debt.

As a result of our review process, we have concluded an appropriate allowance for credit losses for the funded loan and lease portfolio was **\$33.1 million** **\$33.7 million**, or **1.11%** **1.1%** of gross loans and leases, at **June 30, 2024** **September 30, 2024**. Given ongoing complexities with current workout situations and the uncertainty surrounding future economic conditions, further charge-offs, and increased provisions for credit losses may be recorded if additional facts and circumstances lead us to a different conclusion. Various federal and state regulatory agencies review the allowance for credit losses. These agencies could require certain loan and lease balances to be classified differently or charged off when their credit evaluations differ from those of management, based on their judgments about information available to them at the time of their examination.

A summary of the activity in the allowance for credit losses follows:

	As of and for the Three Months Ended June 30,		As of and for the Six Months Ended June 30,		As of and for the Three Months Ended September 30,		As of and for the Nine Months Ended September 30,	
	2024	2023	2024	2023	2024	2023	2024	2023
	(Dollars in Thousands)				(Dollars in Thousands)			
Allowance at beginning of period	\$ 34,629	\$ 27,550	\$ 32,997	\$ 24,230	\$ 34,950	\$ 29,697	\$ 32,997	\$ 24,230
Impact of adoption of ASC 326	—	—	—	1,818	—	—	—	1,818
Charge-offs:								
Commercial real estate:								
Commercial real estate — owner occupied	—	—	—	—	—	—	—	—
Commercial real estate — non-owner occupied	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—	—	—
1-4 family	—	—	—	—	—	—	—	—
Commercial and industrial	(1,583)	(329)	(2,482)	(495)	(1,619)	(562)	(4,101)	(1,057)

Consumer and other	—	—	(22)	—	—	—	(22)	—
Total charge-offs	(1,583)	(329)	(2,504)	(495)	(1,619)	(562)	(4,123)	(1,057)
Recoveries:								
Commercial real estate:								
Commercial real estate — owner occupied	—	2	1	2	1	3	2	5
Commercial real estate — non-owner occupied	—	—	—	1	—	—	—	1
Construction	—	—	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—	—	—
1-4 family	5	21	115	21	6	9	121	30
Commercial and industrial	165	220	281	314	84	72	365	386
Consumer and other	21	2	21	13	—	—	21	13
Total recoveries	191	245	418	351	91	84	509	435
Net charge-offs	(1,392)	(84)	(2,086)	(144)	(1,528)	(478)	(3,614)	(622)
Provision for credit losses	1,713	2,231	4,039	3,793	2,087	1,817	6,126	5,610
Allowance at end of period	\$ 34,950	\$ 29,697	\$ 34,950	\$ 29,697	\$ 35,509	\$ 31,036	\$ 35,509	\$ 31,036
Components:								
Allowance for credit losses on loans	\$ 33,088	\$ 28,115	\$ 33,088	\$ 28,115	\$ 33,688	\$ 29,331	\$ 33,688	\$ 29,331
Allowance for credit losses on unfunded credit commitments	1,862	1,582	1,862	1,582	1,821	1,705	1,821	1,705
Total ACL	\$ 34,950	\$ 29,697	\$ 34,950	\$ 29,697	\$ 35,509	\$ 31,036	\$ 35,509	\$ 31,036
Annualized net charge offs (recoveries) as a percent of average gross loans and leases	0.19 %	0.01 %	0.07 %	0.01 %	0.20 %	0.07 %	0.16 %	0.03 %

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### Liquidity and Capital Resources

The Corporation expects to meet its liquidity needs through existing cash on hand, established cash flow sources, its third-party senior line of credit, and dividends received from the Bank. While the Bank is subject to certain generally applicable regulatory limitations regarding its ability to pay dividends to the Corporation, we do not believe that the Corporation will be adversely affected by these dividend limitations. The Corporation's principal liquidity requirements at **June 30, 2024** **September 30, 2024** were the interest payments due on subordinated notes and debentures and cash dividends payable to both common and preferred stockholders. The capital ratios of the Bank met all applicable regulatory capital adequacy requirements in effect on **June 30, 2024** **September 30, 2024**, and continue to meet the heightened requirements imposed by Basel III, including the capital conservation buffer. The Corporation's Board and management teams adhere to the appropriate regulatory guidelines on decisions which affect their capital positions, including but not limited to, decisions relating to the payment of dividends and increasing indebtedness.

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

#### Sources of liquidity

(in thousands)	As of					As of				
			December	September				December	September	
	June 30, 2024	March 31, 2024	31, 2023	30, 2023	June 30, 2023	September 30, 2024	June 30, 2024	March 31, 2024	31, 2023	30, 2023
Short-term investments	\$ 54,680	\$ 46,984	\$ 107,162	\$ 109,612	\$ 80,510	\$ 86,670	\$ 54,680	\$ 46,984	\$ 107,162	\$ 109,612
Collateral value of unencumbered pledged loans	401,602	340,639	367,471	315,067	265,884	397,852	401,602	340,639	367,471	315,067



Market value of unencumbered securities	289,104	288,965	259,791	236,618	217,074	279,191	289,104	288,965	259,791	236,618
Readily accessible liquidity	745,386	676,588	734,424	661,297	563,468	763,713	745,386	676,588	734,424	661,297
Fed fund lines	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000
Excess brokered CD capacity <sup>1</sup>	1,051,678	1,166,661	1,231,791	1,090,864	1,017,590	1,102,767	1,051,678	1,166,661	1,231,791	1,090,864
Total liquidity	\$ 1,842,064	\$ 1,888,249	\$ 2,011,215	\$ 1,797,161	\$ 1,626,058	\$ 1,911,480	\$ 1,842,064	\$ 1,888,249	\$ 2,011,215	\$ 1,797,161
Total uninsured, net collateralized deposits	977,167	978,806	977,636	887,210	829,727					
Total uninsured, net of collateralized deposits	1,077,741	977,167	978,806	977,636	887,210					

(1) Bank internal policy limits brokered CDs to 50% of total bank funding when combined with FHLB advances.

We view readily accessible liquidity as a critical element to meet our cash and collateral obligations. We define our readily accessible liquidity as the total of our short-term investments, our unencumbered securities available-for-sale, and our unencumbered pledged loans. Our readily accessible liquidity **decreased** **increased** quarter over quarter. At **June 30, 2024** **September 30, 2024** and December 31, 2023, the Bank had **\$53.7 million** **\$85.7 million** and \$106.8 million on deposit with the FRB recorded in short-term investments, respectively. Any excess funds not used for loan funding or satisfying other cash obligations were maintained as part of our readily accessible liquidity in our interest-bearing accounts with the FRB, as we value the safety and soundness provided by the FRB. We plan to utilize excess liquidity to fund loan and lease portfolio growth, pay down maturing debt, allow run off of maturing wholesale certificates of deposit or invest in securities to maintain adequate liquidity at an improved margin.

We had **\$853.9 million** **\$881.7 million** of outstanding wholesale funds at **June 30, 2024** **September 30, 2024**, compared to \$739.2 million of wholesale funds as of December 31, 2023, which represented 27.0% and 24.0%, respectively, of ending balance total bank funding. Wholesale funds include FHLB advances **and** brokered certificates of **deposit, and deposits gathered from internet listing services, deposit**. Total bank funding is defined as total deposits plus FHLB advances. We are committed to raising core deposits while utilizing wholesale funds to mitigate interest rate risk. Wholesale funds continue to be an efficient and cost effective source of funding for the Bank and allows it to gather funds across a larger geographic base at price levels and maturities that are more attractive than local time deposits when required to raise a similar level of core deposits within a short time period. Access to such deposits and borrowings allows us the flexibility to refrain from pursuing single service deposit relationships in markets that have experienced unfavorable pricing levels. The administrative costs associated with wholesale funds are considerably lower than those that would be incurred to administer a similar level of local deposits with a similar maturity structure. Wholesale funds are also stable as each issuance has a structured maturity date and may **only be redeemed in**

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**only be redeemed in** certain limited circumstances. During the time frames necessary to accumulate wholesale funds in an orderly manner, we will use short-term FHLB advances to meet our temporary funding needs. The short-term FHLB advances will typically have terms of one week to one month to cover the overall expected funding demands.

Period-end core deposits **decreased \$29.4 million** **increased \$43.7 million** as of **June 30, 2024** **September 30, 2024**, compared to December 31, 2023. The **decrease** **increase** was primarily due to **decreases** **increases** of **\$54.2 million**, **\$38.6 million**, **\$105.9 million** and **\$63.0 million** **\$34.9 million** in **money market accounts** and interest bearing transaction accounts, **non-interest bearing transaction accounts, and certificate of deposit accounts**, respectively. These **decreases** **increases** were partially offset by a **\$126.3 million** **increase** **\$79.8 million** and **\$17.4 million** **decrease** in **money market accounts, certificates of deposit and non-interest-bearing transaction accounts, respectively**. We will continue to use wholesale funds in specific maturity periods, typically three to five years, needed to effectively mitigate the interest rate risk measured through our asset/liability management process or in shorter time periods if core deposit balances decline. In order to provide for ongoing liquidity and funding, none of our wholesale certificates of deposit allow for withdrawal at the option of the depositor before the stated maturity (**with the exception of deposits accumulated through the internet listing service which have the same early withdrawal privileges and fees as do our other core deposits**) **date** and FHLB advances **with** **have** contractual maturity terms. The Bank limits the percentage of wholesale funds to total bank funds in accordance with liquidity policies approved by its Board. The Bank was in compliance with its policy limits as of **June 30, 2024** **September 30, 2024**.

The Bank was able to access the wholesale funding market as needed at rates and terms comparable to market standards during the quarter ended **June 30, 2024** **September 30, 2024**. In the event that there is a disruption in the availability of wholesale funds at maturity, the Bank has managed the maturity structure, in compliance with our approved liquidity policy, so at least one year of maturities could be funded through readily accessible liquidity. These potential funding sources include deposits maintained at the FRB or Federal Reserve Discount Window utilizing currently unencumbered securities and acceptable loans as collateral. As of **June 30, 2024** **September 30, 2024**, the accessible liquidity was in excess of the stated policy minimum. We believe the Bank will also have access to the unused federal funds lines, cash flows from borrower repayments, and cash flows from security maturities. The Bank also has the ability to raise local market deposits by offering attractive rates to generate the level required to fulfill its liquidity needs.



The Corporation has a shelf registration statement on file with the Securities and Exchange Commission that would allow the Corporation to offer and sell, from time to time and in one or more offerings, up to \$75.0 million in aggregate initial offering price of common and preferred stock, debt securities, warrants, subscription rights, units, or depository shares, or any combination thereof. The Corporation has in recent years, and may from time to time in the future, raise capital through the sale of debt or equity securities in private placements exempt from registration under federal securities laws.

During the **six nine** months ended **June 30, 2024** **September 30, 2024**, operating activities resulted in a net cash inflow of **\$21.7 million** **\$35.5 million**, which included net income of **\$19.3 million** **\$29.8 million**. Net cash used by investing activities for the **six nine** months ended **June 30, 2024** **September 30, 2024** was **\$159.7 million** **\$226.4 million** primarily due to net loan disbursements, investments made in securities available for sale, and additional investments in federal home loan bank stock. Net cash provided by financing activities was **\$79.6 million** **\$183.3 million** for the **six nine** months ended **June 30, 2024** **September 30, 2024** primarily due to a net increase in **deposits, partially offset by the repayment of FHLB advances, deposits**. Please refer to the **Consolidated Statements of Cash Flows** included in **PART I., Item 1** for further details regarding significant sources of cash flow for the Corporation.

Contractual Obligations and Off-Balance Sheet Arrangements

As of **June 30, 2024** **September 30, 2024**, there were no material changes to our contractual obligations and off-balance sheet arrangements disclosed in our Annual Report on Form 10-K for the year ended December 31, 2023. We continue to believe that we have adequate capital and liquidity accessible from various sources to fund projected contractual obligations and commitments.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

The primary technique we use to measure interest rate risk is simulation of earnings. In this measurement technique the balance sheet is modeled as an ongoing entity whereby future growth, pricing, and funding assumptions are utilized. These assumptions are modeled under different rate scenarios that include a simultaneous, instant, and sustained change in interest rates. During the **second third** quarter of 2024, the Corporation's interest rate risk exposure model incorporated updated assumptions regarding the level of interest rate, including indeterminable maturity deposits (non-interest bearing deposits, interest bearing transaction accounts and money market accounts). In the current environment of changing short-term rates, deposit pricing can vary by product and client. These assumptions have been developed through a combination of historical analysis and projection of future expected pricing behavior. This modeling indicated interest rate sensitivity as follows:

Instantaneous Rate Change in Basis Points	Impact on Net Interest Income as of	
	June	September 30, 2024
Down 300	3.31	(1.43)%
Down 200	4.41	(0.45)
Down 100	5.38	(0.17)
No Change		—
Up 100	5.49	(0.08)
Up 200	4.62	0.07
Up 300	3.74	0.21

Management believes market risk is well managed with minimal impact on net interest income in simulated instantaneous rate shock scenarios, and we will continually monitor and adjust the balance sheet for optimal positioning as new data becomes available. The simulations used to manage market risk are based on numerous assumptions regarding the effect of changes in interest rates on the timing and extent of repricing characteristics, future cash flows and client behavior. These assumptions are inherently uncertain and, as a result, the model cannot precisely estimate net interest income or precisely predict the impact of higher or lower interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions, client behavior and management strategies, among other factors.

We manage the structure of interest-earning assets and interest-bearing liabilities by adjusting their mix, yield, maturity, and/or repricing characteristics based on market conditions. FHLB advances and wholesale deposits are a significant source of funds. We use a variety of maturities to augment our management of interest rate exposure. Management has the authorization, as permitted within applicable approved policies, and ability to utilize derivatives should they be appropriate to manage interest rate exposure.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Corporation's management, with the participation of the Corporation's Chief Executive Officer and Chief Financial Officer, has evaluated the Corporation's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective as of **June 30, 2024** **September 30, 2024**.

Changes in Internal Control over Financial Reporting

There was no change in the Corporation's internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) that occurred during the quarter ended **June 30, 2024** **September 30, 2024** that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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PART II. Other Information

Item 1. Legal Proceedings

From time to time, the Corporation and its subsidiaries are engaged in legal proceedings in the ordinary course of their respective businesses. Management believes that any liability arising from any such proceedings currently existing or threatened will not have a material adverse effect on the Corporation's financial position, results of operations, or cash flows.

Item 1A. Risk Factors

There were no material changes to the risk factors previously disclosed in Item 1A. to Part I of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2023.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Securities

As previously announced, on April 26, 2024, the Corporation's Board of Directors authorized the repurchase by the Corporation of shares of its common stock with a maximum aggregate purchase price of \$5.0 million, **on in** such quantities, at such prices and on such other terms and conditions as the Corporation's Chief Executive Officer or Chief Financial Officer determine in their discretion to be in the best interests of the Corporation and its shareholders, any time with no expiration date. As of **June 30, 2024** **September 30, 2024**, the Corporation has not repurchased any shares under this repurchase program.

The following table sets forth information about the Corporation's purchases of its common stock during the three months ended **June 30, 2024** **September 30, 2024**.

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Total Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2024 - April 30, 2024	18,787	\$ 34.30	—	—
May 1, 2024 - May 31, 2024	640	34.50	—	—
June 1, 2024 - June 30, 2024	—	—	—	—
Total	19,427	34.31	—	135,172

Total Number

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share	of Shares Purchased as Part of Publicly Announced Plans or Programs	Total Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2024 - July 31, 2024	—	\$ —	—	—
August 1, 2024 - August 31, 2024	257	42.96	—	—
September 1, 2024 - September 30, 2024	—	—	—	—
Total	257	42.96	—	109,673

- (1) During the **second third** quarter of 2024, the Corporation repurchased an aggregate **19,427 257** shares of the Corporation's common stock in open-market transactions, all of which were surrendered to us to satisfy income withholding obligations in connection with the vesting of restricted awards.
- (2) Number of shares available to purchased under the April 26, 2024 share repurchase program was calculated by dividing the closing stock price on **June 28, 2024 September 30, 2024** of **\$36.99 \$45.59** by the \$5.0 million remaining capacity.

#### Item 5. Other Information

During the three months ended **June 30, 2024 September 30, 2024**, no director or "officer" of the Corporation adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

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#### Item 6. Exhibits

- 4.1** [Form of 7.5% Subordinated Debenture \(incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on September 19, 2024\).](#)
- 31.1** [Certification of the Chief Executive Officer](#)
- 31.2** [Certification of the Chief Financial Officer](#)
- 32** [Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350](#)
- 101** The following financial information from First Business Financial Services, Inc.'s Quarterly Report on Form 10-Q for the quarter ended **June 30, 2024 September 30, 2024**, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of **June 30, 2024 September 30, 2024** and December 31, 2023, (ii) Consolidated Statements of Income for the three and **six nine** months ended **June 30, 2024 September 30, 2024** and 2023, (iii) Consolidated Statements of Comprehensive Income for the three and **six nine** months ended **June 30, 2024 September 30, 2024** and 2023, (iv) Consolidated Statements of Changes in Stockholders' Equity for the three and **six nine** months ended **June 30, 2024 September 30, 2024** and 2023, (v) Consolidated Statements of Cash Flows for the **six nine** months ended **June 30, 2024 September 30, 2024** and 2023, and (vi) the Notes to Unaudited Consolidated Financial Statements
- 104** The cover page from First Business Financial Services, Inc.'s Quarterly Report on Form 10-Q for the quarter ended **June 30, 2024 September 30, 2024** has been formatted in Inline XBRL and contained in Exhibit 101.

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#### 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.

**FIRST BUSINESS FINANCIAL SERVICES, INC.**

July 26, October 25, 2024

/s/ Corey A. Chambas

Corey A. Chambas

Chief Executive Officer

July 26, October 25, 2024

/s/ Brian D. Spielmann

Brian D. Spielmann

Chief Financial Officer

(principal financial officer)

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**Exhibit 31.1**

**Certifications**

I, Corey A. Chambas, certify that:

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

/s/ Corey A. Chambas

Corey A. Chambas

Exhibit 31.2

Certifications

I, Brian D. Spielmann, certify that:

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

/s/ Brian D. Spielmann

Brian D. Spielmann

Chief Financial Officer

July 26, October 25, 2024

Exhibit 32

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

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned Chief Executive Officer and Chief Financial Officer, of First Business Financial Services, Inc., a Wisconsin Corporation (the "Corporation"), hereby certify, based on our knowledge that the Quarterly Report on Form 10-Q of the Corporation for the quarter ended June 30, 2024 September 30, 2024 (the "Report") fully complies with the requirements of Section 13(a) or Section

15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ Corey A. Chambas  
\_\_\_\_\_  
Corey A. Chambas  
Chief Executive Officer  
July 26, October 25, 2024

/s/ Brian D. Spielmann  
\_\_\_\_\_  
Brian D. Spielmann  
Chief Financial Officer  
July 26, October 25, 2024

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