FIRST BUSINESS FINANCIAL SERVICES, INC.
Form DEF 14A
March 15, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the Securities
EXCHANGE ACT OF 1934 (AMENDMENT NO.)

Filed by the Registrant ý
Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
ý Definitive Proxy Statement
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o Soliciting Material Pursuant to §240.14a-12

First Business Financial Services, Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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NOTICE OF 2019 ANNUAL MEETING OF SHAREHOLDERS

PROXY STATEMENT

FIRST BUSINESS FINANCIAL SERVICES, INC.
401 Charmany Drive
Madison, WI 53719

March 15, 2019

Dear Fellow Shareholder:

You are cordially invited to attend the 2019 annual meeting of shareholders of First Business Financial Services, Inc. (the “Company”), which will be held at 5:00 P.M., local time, on Thursday, May 2, 2019 at the Monona Terrace Community and Convention Center located at One John Nolen Drive, Madison, Wisconsin 53703. At the annual meeting, we will review the Company’s activities during the past year and shareholders will be given an opportunity to address questions to the Company’s management.

The Board of Directors of the Company (“The Board”) recommends that you vote your shares “FOR” all the nominees listed in proposal one, “FOR” proposals two, three, and five, and for the “EVERY YEAR” frequency alternative in proposal four.

As previously announced, Jerry Smith retired from the Board in October 2018, after 28 years of service on the Board. Mr. Smith was founding CEO of both First Business Bank and the Company and started First Business Bank in 1990. We miss working with Mr. Smith but are happy that he is able to pursue a well-earned retirement after an amazing 50 years in banking. Please join us in thanking Mr. Smith for his service to the Company.

Your continued support is appreciated and we hope you will attend the annual meeting. Whether or not you are personally present, it is very important that your shares are represented at the meeting. Accordingly, please vote your shares by following the instructions on the Notice. Your vote is important. Please join us and the Board of Directors in supporting these proposals.

Sincerely,

Jerry Kilcoyne	Corey Chambas
Board Chair	President and Chief Executive Officer

FIRST BUSINESS FINANCIAL SERVICES, INC.
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 2, 2019

To the Shareholders of First Business Financial Services, Inc.:

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders of First Business Financial Services, Inc. (the “Company”) will be held on Thursday, May 2, 2019, at 5:00 P.M., local time, at the Monona Terrace Community and Convention Center located at One John Nolen Drive, Madison, Wisconsin 53703, for the following purposes:

1. To elect the four Class III director nominees named in the accompanying Proxy Statement, each to hold office until the 2022 annual meeting of shareholders and until their successors are duly elected and qualified.

2. To act upon a proposal to approve the First Business Financial Services, Inc. 2019 Equity Incentive Plan.

3. To approve, in a non-binding, advisory vote, the compensation of the Company’s named executive officers as described in the accompanying Proxy Statement, which is referred to as a “say-on-pay” proposal.

4. To approve, in a non-binding, advisory vote, the frequency with which shareholders will vote on future say-on-pay proposals.

5. To ratify the appointment of Crowe LLP as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2019.

6. To consider and act upon such other business as may properly come before the meeting or any adjournment or postponement thereof.

The close of business on March 4, 2019 has been fixed as the record date for the determination of shareholders entitled to notice of, and to vote at, the meeting. In the event there is an insufficient number of votes for a quorum or to approve any of the proposals at the time of the annual meeting, the meeting may be adjourned or postponed in order to permit the further solicitation of proxies.

You may vote your shares by following the instructions on the Notice of Internet Availability of Proxy Materials or in person at the 2019 annual meeting of shareholders. You may revoke your proxy and vote your shares in person at the meeting or by using any of the voting options in accordance with the instructions provided. Please review the Notice of Internet Availability of Proxy Materials and follow the directions carefully in exercising your vote.

By Order of the Board of Directors
FIRST BUSINESS FINANCIAL SERVICES, INC.
Lynn Ann Parrish
Director of Corporate Governance & Corporate Secretary
Madison, Wisconsin
March 15, 2019

Your vote is important, no matter how large or small your holdings may be. To assure your representation at the meeting, please vote by following the instructions on the Notice of Internet Availability of Proxy Materials.

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FIRST BUSINESS FINANCIAL SERVICES, INC.
401 Charmany Drive
Madison, Wisconsin 53719

PROXY STATEMENT
For
ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 2, 2019

SOLICITATION OF PROXY, REVOCABILITY AND VOTING OF PROXIES

This proxy statement is being furnished to shareholders by the Board of Directors (the “Board”) of First Business Financial Services, Inc. (the “Company”) beginning on or about March 15, 2019 in connection with a solicitation of proxies by the Board for use at the annual meeting of shareholders to be held on Thursday, May 2, 2019, at 5:00 P.M., local time, at the Monona Terrace Community and Convention Center at One John Nolen Drive, Madison, Wisconsin 53703, and all adjournments or postponements thereof (the “Annual Meeting”) for the purposes set forth in the Notice of Annual Meeting of Shareholders. In accordance with rules and regulations of the Securities and Exchange Commission (the “SEC”), we furnish proxy materials, which include this proxy statement, the Notice of Annual Meeting and our Annual Report on Form 10-K for fiscal year ended December 31, 2018, to our shareholders by making such materials available on the Internet unless otherwise instructed by the shareholder. The Notice is not a proxy card and cannot be used to vote your shares. To vote your shares, you should follow the instructions included on the Notice. If you received a Notice of Internet Availability of Proxy Materials (the “Notice”) by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials included in the Notice, which is first being mailed to shareholders on or about March 15, 2019.

Voting your shares in advance of the Annual Meeting will not affect your right to attend the Annual Meeting and to vote in person. However, when you vote pursuant to the proxy card or one of the methods set forth in the Notice, you appoint the proxy holder as your representative at the Annual Meeting. The proxy holder will vote your shares as you instruct, thereby ensuring that your shares will be voted whether or not you attend the Annual Meeting. Presence at the Annual Meeting of a shareholder who has appointed a proxy does not in itself revoke a proxy. Any shareholder appointing a proxy may revoke that appointment at any time before it is exercised by: (i) giving notice thereof to the Company in writing or at the Annual Meeting; (ii) signing another proxy, if you voted by mailing in a proxy card, with a later date and returning it to the Company; (iii) timely submitting another proxy via the telephone or Internet, if that is the method you used to submit your original proxy; or (iv) voting in person at the Annual Meeting. Even if you plan to attend the Annual Meeting, we ask that you instruct the proxies how to vote your shares in advance of the Annual Meeting in case your plans change.

If you appointed the proxies to vote your shares and an issue comes up for a vote at the Annual Meeting that is not identified in the proxy materials, the proxy holder will vote your shares, pursuant to your proxy, in accordance with his or her judgment.

If you sign and return a proxy card or vote over the Internet or by telephone without giving specific voting instructions, the shares represented by your proxy will be voted “FOR” the four persons nominated for election as directors referred to in this proxy statement, “FOR” the approval of the First Business Financial Services, Inc. 2019

Equity Incentive Plan, “FOR” the approval of the non-binding, advisory proposal on the compensation of named executive officers, which is referred to as a “say-on-pay” proposal, for the “EVERY YEAR” alternative on a non–binding, advisory proposal regarding the frequency with which shareholders will vote on such say-on-pay proposals in the future, “FOR” the ratification of the appointment of Crowe LLP as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2019, and on such other business matters which may properly come before the Annual Meeting in accordance with the judgment of the persons named as proxies. Other than the above proposals, the Board has no knowledge of any matters to be presented for action by the shareholders at the Annual Meeting.

Only holders of record of the Company’s common stock, par value $0.01 per share (the “Common Stock”), at the close of business on March 4, 2019 are entitled to vote at the Annual Meeting. On that date, the Company had outstanding and entitled to vote 8,778,859 shares of Common Stock, each of which is entitled to one vote.

CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES

The Company is committed to good corporate governance, which promotes the long-term interests of the shareholders and provides a strong foundation for business operations. In 2018, as part of the Company’s ongoing strategy to achieve an efficient and effective governance structure, eliminate redundant processes and meetings and allow the Board and its committees to focus on the most significant issues facing the Company, the Corporate Governance and Nominating Committee, at the request of the Board, undertook a comprehensive review of the Company’s and its affiliates’ board and governance structures and practices. Historically, the board of directors of the Company’s wholly-owned affiliate, First Business Bank (the “FBB Board”) was comprised of separate individuals with little or no overlap in membership between the Board and the FBB Board.

As part of this evaluation, the Corporate Governance and Nominating Committee and management examined peer bank holding company best practices and reexamined board and committee structures, number of directors, committee charters and meeting frequency. Following this year-long review, the Corporate Governance and Nominating Committee recommended the establishment of a mirror image board structure with all Company directors serving as directors of both the Company and First Business Bank (“FBB”) to simplify and streamline processes between directors and the two boards. The Corporate Governance and Nominating Committee also reviewed the Company’s overall committee structure and recommended changes to charters and membership and the elimination of redundant committees along with the establishment of an Operational Risk Committee. See page 15 for additional information about this new committee. The Corporate Governance and Nominating Committee’s recommendations were unanimously approved by the Board and effective December 2018.

As previously disclosed, in March 2018, the Board of Directors redeemed the common share purchase rights pursuant to the Rights Agreement dated as of June 5, 2008.

Jerry Smith, founding CEO of the Company and Board Chair, retired as a director, effective October 26, 2018. Mr. Smith served as a director of the Company since 1990 and Board Chair since July 2006. In connection with Mr. Smith's retirement, the Board unanimously appointed Gerald L. Kilcoyne, an independent director, to become the Board Chair effective October 26, 2018. To facilitate the Board Chair transition, Mr. Smith will serve as an outside consultant to the Board Chair through the date of the 2019 annual meeting of shareholders.

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Director Selection, Qualifications and Nominations

In making recommendations to the Company's Board with respect to nominees to serve as directors, the Corporate Governance and Nominating Committee will examine each director nominee on a case-by-case basis regardless of who recommended the nominee and take into account all factors it considers appropriate, which may include strength of character, mature judgment, career specialization, relevant technical skills or financial acumen and industry knowledge. While the Company does not have a separate diversity policy, in evaluating director nominees, the Board, with the assistance of the Corporate Governance and Nominating Committee, considers diversity of viewpoint, backgrounds, technical skills, industry knowledge and experience and local or community ties as well as diversity of personal characteristics such as race, gender, age, ethnicity and geographic representation to ensure a balanced, diverse Board, with each director contributing talents, skills and experiences needed for the Board as a whole.

The Board also believes the following minimum qualifications must be met by a director nominee to be recommended by the Corporate Governance and Nominating Committee:

- Strong personal and professional ethics, integrity and values.
- The ability to exercise sound business judgment.
- Accomplished in his or her respective field as an active or former executive officer of a public or private organization, with broad experience at the administrative and/or policy-making level in business, government, education, technology or public interest.
- Relevant expertise and experience and the ability to offer advice and guidance based on that expertise and experience.
- Independence from any particular constituency, the ability to represent all shareholders of the Company and a commitment to enhancing long-term shareholder value.
- Sufficient time available to devote to activities of the Board and to enhance his or her knowledge of the Company's business.

The Corporate Governance and Nominating Committee works with the full Board to evaluate:

1) Board composition and assess whether directors should be added in view of director departures,
2) the number of directors needed to fulfill the Board's responsibilities under the Company's Corporate Governance Guidelines and committee charters, and
3) the skills and capabilities that are relevant to the Board's work and the Company's strategy.

The following table summarizes key qualifications, skills and attributes relevant to the decision to nominate candidates to serve on the Board and possessed by current directors. A mark indicates this particular qualification, skill or attribute was identified as one of the director's top five strongest qualifications, skills or attributes, but the absence of a mark does not mean the director does not possess that qualification, skill or attribute. Detailed director biographies are included on pages 6 through 12 of this proxy statement.

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Director Skills, Attributes and Qualifications	Laurie Benson	Mark Bugher	Corey Chambas	Carla Chavarria	Jan Eddy	John Harris	Ralph Kauten	Tim Keane	Jerry Kilcoyne	W. Kent Lorenz	Dan Olszewski	Carol Sande
Other Public Company Board Service and Governance												
Financial Services Industry												
Financial Reporting, Accounting and Controls/Audit												
Human Resources/Compensation Committee												
Enterprise Risk Management												
Strategic Planning												
Legal, Regulatory, Government or Public Policy												
Sales and Marketing												
Mergers and Acquisitions												
Entrepreneurial												
Technology												
Ethnic, Gender, Racial or Other Personal Diversity												

In making recommendations to the Board, the Corporate Governance and Nominating Committee also considers the mix of different tenures of directors, taking into account the benefits of directors with longer tenures including greater Board stability, continuity of organizational knowledge and the critical importance of expertise and understanding of the commercial banking industry as well as the benefits of directors with shorter tenures who help to foster new ideas and examination of the status quo. As part of its on-going responsibility to identify prospective directors to provide an appropriate balance of knowledge, experience, background and capability on the Board, the Corporate Governance and Nominating Committee continually evaluates director candidates to recommend for the Board’s consideration and possible appointment to the Board.

The Corporate Governance and Nominating Committee will consider persons recommended by shareholders to become nominees for election as directors. Recommendations for consideration by the Corporate Governance and Nominating Committee should be sent to the Corporate Secretary of the Company in writing together with appropriate biographical information concerning each proposed nominee. The Company’s Amended and Restated By-Laws also set forth certain requirements for shareholders wishing to nominate director candidates directly for consideration by the shareholders. With respect to an election of directors to be held at an annual meeting, a shareholder must, among other things, give notice of an intent to make such a nomination to the Corporate Secretary of the Company not less than 60 days or more than 90 days prior to the date of the previous year’s annual meeting (subject to certain exceptions if the annual meeting is advanced or delayed a certain number of days). Under the Amended and Restated By-Laws, if the Company does not receive notice of an intent to make such a nomination on or after February 1, 2020 and on or prior to March 3, 2020, then the notice will be considered untimely and the Company will not be required to present such nomination at the 2020 annual meeting.

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Director Refreshment: Evaluation Process, Development and Education

The Board recognizes that a constructive evaluation process is an essential component of director refreshment and annually conducts a robust peer and self-evaluation in conjunction with its annual board and committee evaluation process. The Corporate Governance and Nominating Committee oversees the evaluation process and reviews the format of the evaluation to ensure that actionable feedback is solicited related to the operation of the Board, its committees and director performance. In addition to evaluating the Board and committees, the peer and self-evaluation process serves as a mechanism to measure clear performance standards, both objective and subjective, and the Board Chair meets annually with each director to review their evaluation results. The chart below outlines the evaluation process.

The Board is committed to continuing director education and development and solicits director feedback on education topics. This feedback was utilized to develop educational opportunities in 2018 including internally developed presentations as well as programs presented by third parties on topics such as: strategic planning, executive compensation best practices and trends, cybersecurity, and emerging issues in the financial services sector. The Company provides financial support for director education, the Board reviews the Director Education Report at each quarterly Board meeting, and all directors are in compliance with the Board’s director education guidelines.

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ITEM 1 - ELECTION OF DIRECTORS

The Company's Amended and Restated By-Laws provide that the directors shall be divided into three classes, with staggered terms of three years each. At the Annual Meeting, the shareholders will elect four directors to hold office until the 2022 annual meeting of shareholders and until their successors are duly elected and qualified. Unless shareholders otherwise specify, the shares represented by the proxies received will be voted in favor of the election as directors of the four persons named as nominees by the Board herein. The Board has no reason to believe that the listed nominees will be unable or unwilling to serve as directors if elected. In the event that any nominee should be unable or unwilling to serve, the shares represented by proxies received will be voted for another nominee selected by the Board. Each director will be elected by a plurality of the votes cast at the Annual Meeting (assuming a quorum is present). Consequently, any shares not voted at the Annual Meeting, whether due to abstentions, broker non-votes or otherwise, will have no impact on the election of the directors. Votes will be tabulated by an inspector of elections appointed by the Board.

Prior to the conversion to the previously discussed mirror image board structure, the Company and FBB Boards consisted of a combined total of 20 directors. The new structure simplified and streamlined processes between the two boards and decreased the total number of directors to 12. The following sets forth certain information, about the Board's nominees for election at the Annual Meeting and each director of the Company whose term will continue after the Annual Meeting.

Nominees for Election at the Annual Meeting

Terms expiring at the 2022 Annual Meeting
Jan A. Eddy, age 69, has served as a director of the Company since October 2003, is the Corporate Governance and Nominating Committee Chair and serves on the Compensation Committee. Ms. Eddy joined the FBB Board in November 2018 as part of the establishment of the mirror image board structure. She previously served as a director of FBB from April 1990 to May 2010 and served as FBB Board Chair from January 2004 to May 2010. Ms. Eddy founded Wingra Technologies, a designer and distributor of software, and served as President and Chief Executive Officer of Wingra Technologies from October 1991 to January 2005, when Quest Software purchased Wingra Technologies. Ms. Eddy held the position of Business Development Executive at Quest Software from January 2005 until her retirement in October 2005. Ms. Eddy serves on the boards of Edgewood College and the Sauk Prairie Healthcare Foundation, and serves or has served on the boards of other privately held companies and non-profit organizations.

The particular and specific experience, qualifications, attributes or skills that led the Board to conclude Ms. Eddy is qualified to serve on the Board, as well as on the Corporate Governance and Nominating Committee and the Compensation Committee, include the items referenced on the Director Skills, Attributes and Qualifications Matrix as well as her financial services industry expertise as an FBB director, CEO-level experience as founder and chief executive officer of her own company in strategy development and implementation, mergers and acquisitions and enterprise risk management, her significant governance experience from service on other boards and her strong background in information technology.

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W. Kent Lorenz, age 56, has served as a director of the Company since June 2018 and serves on the Audit Committee and Operational Risk Committee. He has served as a director of FBB since August 2017. He previously served on the FBB-Milwaukee Board from January 2010 until the Bank charter consolidation in June 2017 at which time he became a member of the FBB Milwaukee Advisory Board. Mr. Lorenz is the retired Chairman and CEO of Acieta LLC, a provider of advanced industrial robotic automation systems to North American manufacturers and their global affiliates. He is the Managing Partner of DKR Investors LLC, a commercial real estate investment company. Mr. Lorenz serves on the Wisconsin Technical College System Board of Directors where he currently serves as board secretary and also serves on the boards of other private and non-profit organizations.

The particular and specific experience, qualifications, attributes or skills that led the Board to conclude Mr. Lorenz is qualified to serve on the Board, as well as the Audit Committee and Operational Risk Committee, include the items referenced on the Director Skills, Attributes and Qualifications Matrix as well as his financial services industry expertise as an FBB director, his CEO-level experience in core management disciplines, strategy development and implementation, human resources, financial management, mergers and acquisitions, and his governance experience through service on other boards.

Timothy J. Keane, age 72, has served as a director of the Company since December 2018 and serves on the Operational Risk Committee. He has served as a director of FBB since August 2017. He previously served on the FBB-Milwaukee Board from January 2004 until the Bank charter consolidation in June 2017 at which time he became a member of the FBB Milwaukee Advisory Board. Mr. Keane has served on the FBB Kansas City Advisory Board since August 2017. Mr. Keane is the Managing Investor and Director of Golden Angels Investors, LLC, President of Keane Consultants, is a limited partner in several venture and private equity funds, and provides data analytics strategy consulting services to a small group of companies. He was the founder and CEO of Retail Target Marketing Systems (RTMS), now a unit of Fidelity Information Services. Mr. Keane serves on the boards of other privately held companies.

The particular and specific experience, qualifications, attributes or skills that led the Board to conclude Mr. Keane is qualified to serve on the Board, as well as the Operational Risk Committee, include the items referenced on the Director Skills, Attributes and Qualifications Matrix as well as his financial services industry expertise as a FBB director, his CEO-level experience as founder of multiple companies, 15 years of leading entrepreneurship programs, and his experience in enterprise risk management, data analytics, and mergers and acquisitions.

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Carol P. Sanders, age 51, has served as a director of the Company since September 2016 and is the Audit Committee Chair. Ms. Sanders joined the FBB Board in November 2018 as part of the establishment of the mirror image board structure. Ms. Sanders has been the President of Carol P. Sanders Consulting LLC, a consulting firm providing executive-level consulting services to the insurance and technology industries, since July 2015. Ms. Sanders has over 25 years of experience in the insurance industry, including serving as the Executive Vice President, Chief Financial Officer and Treasurer of Sentry Insurance from July 2013 to June 2015 and as Executive Vice President and Chief Operating Officer of Jewelers

Mutual Insurance Company from November 2012 to June 2013 where she previously served in other executive capacities from September 2004 to November 2012. Ms. Sanders has served on the board of directors of Alliant Energy Corporation (“Alliant”), a publicly traded Wisconsin-based public utility holding company, and its two utility subsidiaries since December 2005. She currently serves as chair of Alliant’s audit committee and as a member of Alliant’s nominating and governance and executive committees and previously served as a member and chair of Alliant’s compensation and personnel committee. Ms. Sanders has served on the board of directors of RenaissanceRe Holdings Ltd. (“RenaissanceRe”), a publicly traded global provider of reinsurance and insurance, since 2016 and is a member of that company’s audit committee. Ms. Sanders also serves on the board of a privately held company.

The particular and specific experience, qualifications, attributes or skills that led the Board to conclude Ms. Sanders is qualified to serve on the Board, as well as the Audit Committee, include the items referenced on the Director Skills, Attributes and Qualifications Matrix as well as over 25 years of experience as an executive in the insurance industry, her board and committee service with other public companies and her executive-level background in finance, operations, strategic planning, enterprise risk management and human resources.

THE BOARD RECOMMENDS EACH OF THE FOREGOING NOMINEES FOR ELECTION AS DIRECTOR AND URGES EACH SHAREHOLDER TO VOTE “FOR” EACH OF THE NOMINEES.

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Directors Continuing in Office

Terms expiring at the 2020 Annual Meeting

Ralph R. Kauten, age 67, has served as a director of the Company since December 2018 and is a member of the Audit Committee and Operational Risk Committee. He has served on the FBB Board since July 2004 and served as FBB Board Chair from June 2018 until November 2018. Mr. Kauten is the co-owner of Mirus Bio and owner of Air-Lec Industries, both private companies. Mr. Kauten served as an executive for a number of Wisconsin biotechnology companies, including Promega Corporation, PanVera Corporation, Quintessence Biosciences, Inc. and Lucigen Corporation. His prior positions include being a Faculty Member at the University of Wisconsin-Whitewater, Plant Controller of the Ortega taco plant for Heublein, Inc., and Senior Auditor for Grant Thornton, CPAs. Mr. Kauten is a member of the board of SSM Healthcare of Wisconsin, currently serving as chair, and serves or has served on the boards of other privately held companies and non-profit organizations.

The particular and specific experience, qualifications, attributes or skills that led the Board to conclude Mr. Kauten is qualified to serve on the Board, as well as the Audit Committee and Operational Risk Committee, include the items referenced on the Director Skills, Attributes and Qualifications Matrix as well as his financial services industry expertise as an FBB director, being a co-founder and serving as the CEO and chairman of the board for numerous companies in the biotechnology industry, his role in shaping the purpose, vision and strategy of those companies, and his experience in mergers and acquisitions.

Gerald L. (Jerry) Kilcoyne, age 59, has served as a director of the Company since November 2011, Board Chair since October 2018 and is the Operational Risk Committee Chair. Mr. Kilcoyne joined the FBB Board and was elected FBB Board Chair in November 2018 as part of the establishment of the mirror image board structure. He previously served as a director of FBB from August 2005 through July 2018 and served as FBB Board Chair from May 2010 until June 2018. He served as a director of First Business Equipment Finance, LLC, a wholly-owned subsidiary of FBB, from January 2006 until August 2017 and as a director of Alterra Bank from May 2016 until June 1, 2017 at which time Alterra Bank was consolidated into FBB. He served as a director of First Business Capital Corp., a wholly-owned subsidiary of FBB, from January 2006 to December 2013. Mr. Kilcoyne has been Managing Partner of Pinnacle Enterprises, LLC, a private investment holding company since February 1997.

The particular and specific experience, qualifications, attributes or skills that led the Board to conclude Mr. Kilcoyne is qualified to serve on the Board, as well as the Operational Risk Committee, include the items referenced on the Director Skills, Attributes and Qualifications Matrix as well as his financial services industry expertise as an FBB director, CEO-level experience in strategic planning and financial management, and over 25 years involvement in mergers and acquisitions.

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Daniel P. Olszewski, age 53, has served as a director of the Company since December 2018 and is a member of the Operational Risk Committee. He has served as a director of FBB since August 2010 and he served as a director of First Business Capital Corp., a wholly-owned subsidiary of FBB, from January 2011 to November 2018. Mr. Olszewski is the Director of the Weinert Center for Entrepreneurship, a campus-wide Entrepreneurship Program, at the UW-Madison School of Business. He previously served as the COO, CEO and chair of the board of PNA Holdings, LLC/Parts Now!, and was CEO of Katun Corporation. He began his career with strategic management consulting firm, McKinsey & Company. Mr. Olszewski currently serves on the board of the National Guardian Life Insurance Company, a private company, and has served on the boards of other privately held companies and non-profit organizations.

The particular and specific experience, qualifications, attributes or skills that led the Board to conclude Mr. Olszewski is qualified to serve on the Board include the items referenced on the Director Skills, Attributes and Qualifications Matrix as well as his financial services industry expertise as an FBB director, background as an executive with responsibility for strategic development in international agribusiness and biotechnology industries as well as his CEO-level experience in acquisition and strategic planning and growth.

Carla C. Chavarria, (formerly known as Carla C. Sanders), age 53, has served as a director of the Company since June 2017 and is a member of the Compensation Committee. Ms. Chavarria joined the FBB Board in November 2018 as part of the establishment of the mirror image board structure. Ms. Chavarria is Senior Vice President of Human Resources and a member of the executive committee for AMC Entertainment Inc., a publicly traded company. In this role she is responsible for the strategic development and implementation of benefits, community relations, compensation, employment practices, human resource systems, talent acquisition and training and development. Ms. Chavarria currently serves on the boards of several community and non-profit organizations.

The particular and specific experience, qualifications, attributes or skills that led the Board to conclude Ms. Chavarria is qualified to serve on the Board, as well as the Compensation Committee, include the items referenced on the Director Skills, Attributes and Qualifications Matrix as well as her background as an executive in human resources, recruitment, and strategic development of human resources systems and services for over 20 years as well as her executive-level experience in enterprise risk management and strategic planning.

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Terms expiring at the 2021 Annual Meeting

Laurie S. Benson, age 65, has served as a director of the Company since December 2018 and is a member of the Corporate Governance and Nominating Committee and the Compensation Committee. She has served as director on the FBB Board since July 2009 and as a member of the FBB Northeast Advisory Board since August 2012. Ms. Benson has served as the Executive Director of Nurses on Boards Coalition since 2016. Ms. Benson is the CEO of LSB Unlimited, which provides consulting services to businesses on complex issues and opportunities. Ms. Benson co-founded and served as CEO of Inacom Information Services from its inception in 1984 until its sale to CORE BTS in 2009. She currently serves on the boards of several privately held companies.

The particular and specific experience, qualifications, attributes or skills that led the Board to conclude Ms. Benson is qualified to serve on the Board, as well as the Corporate Governance and Nominating Committee and Compensation Committee, include the items referenced on the Director Skills, Attributes and Qualifications Matrix as well as her financial services industry expertise as an FBB director, CEO-level experience in strategy development and implementation, governance experience through service on boards and other board committees, marketing and business sales expertise, and a strong background in the technology solutions sector.

Mark D. Bugher, age 70, has served as a director of the Company since July 2005, is Compensation Committee Chair and a member of the Corporate Governance and Nominating Committee. Mr. Bugher joined the FBB Board in November 2018 as part of the establishment of the mirror image board structure. Mr. Bugher served as the Director of University Research Park in Madison, Wisconsin from 1999 until his retirement in November 2013. University Research Park is a non-profit research and technology park involved in developing, leasing and managing properties for technology sector businesses affiliated with the University of Wisconsin-Madison. Prior to this role, Mr. Bugher served as Secretary of the State of Wisconsin Department of Revenue and Secretary of the State of Wisconsin Department of Administration. Mr. Bugher serves on the board of directors of MGE Energy, Inc., a publicly traded utility company, and its affiliate, Madison Gas and Electric Company and also serves on the audit committee and compensation committee of MGE Energy, Inc. Mr. Bugher additionally serves on the board of directors and as Chair of the Marshfield Clinic Health System and has served in leadership positions as chairman or board member for many organizations promoting economic development in Wisconsin.

The particular and specific experience, qualifications, attributes or skills that led the Board to conclude Mr. Bugher is qualified to serve on the Board, as well as the Compensation Committee and Corporate Governance and Nominating Committee, include the items referenced on the Director Skills, Attributes and Qualifications Matrix as well as his executive-level experience in strategy development and implementation, governance experience through service on boards including another public company board and other board committees, economic development expertise, and a strong background in the commercial real estate, government and health care sectors.

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Corey A. Chambas, age 56, has served as a director of the Company since July 2002, as Chief Executive Officer ("CEO") of the Company since December 2006 and as President of the Company since February 2005. He served as Chief Operating Officer of the Company from February 2005 to September 2006 and as Executive Vice President of the Company from July 2002 to February 2005. Mr. Chambas joined the FBB Board in November 2018 as part of the establishment of the mirror image board structure. He served as CEO of FBB from July 1999 to September 2006 and as President of FBB from July 1999 to February 2005. He currently serves as a director of First Madison Investment Corp., a wholly-owned
subsidiary of FBB. Mr. Chambas also serves as chair on the board of directors and as a member of the management development & compensation committee of M3 Insurance Solutions, Inc., a privately held insurance agency, and has served on the boards of other privately held companies and non-profit organizations.

The particular and specific experience, qualifications, attributes or skills that led the Board to conclude Mr. Chambas is qualified to serve on the Board include the items referenced on the Director Skills, Attributes and Qualifications Matrix as well as the depth and breadth of his experience as CEO of the Company and his over 30 years of financial services industry experience with specific focus in the commercial banking sector, his CEO-level experience in core management disciplines including strategy development and implementation, human resources, financial management and sales and marketing and his governance experience through service on the boards of other privately held companies and non-profit organizations.

John J. Harris, age 66, has served as a director of the Company since January 2012 and is a member of the Audit Committee and Corporate Governance and Nominating Committee. Mr. Harris joined the FBB Board in November 2018 as part of the establishment of the mirror image board structure. Mr. Harris served as a professional in the investment banking industry for most of his career, most recently as Managing Director of the Investment Banking Financial Institutions Group of Stifel Nicolaus Weisel. Mr. Harris retired from this position in 2010. Prior to this role, Mr. Harris was Managing Director of the Investment Banking Financial Institutions Group of Piper Jaffray & Co. from 2005 to 2007 and a Principal in the Investment Banking Financial Institutions Group of William Blair & Co., LLC from 2000 to 2005.

The particular and specific experience, qualifications, attributes or skills that led the Board to conclude Mr. Harris is qualified to serve on the Board, as well as on the Audit Committee and Corporate Governance and Nominating Committee, include the items referenced on the Director Skills, Attributes and Qualifications Matrix as well as over 25 years of experience providing financial advisory services to senior management, boards and special committees of publicly traded and privately held companies, extensive experience in the financial services sector and with mergers and acquisitions, and significant work advising clients on capital formation and execution of public and private capital raises.

Director Disclosures

None of the above-named directors or director nominees held a directorship at any public company or any company registered as an investment company under the Investment Company Act during the past five years, except for (i) Mr. Bugher, who serves on the board of directors and the compensation and audit committees of MGE Energy,

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Inc., (ii) Ms. Sanders, who serves on the board of directors, as chair of the audit committee and as a member of both the nominating and governance and executive committees of Alliant, and is on the board of directors and a member of the audit committee of RenaissanceRe, and (iii) Mr. Chambas, who, until February 26, 2018, served on the board of directors of Three Lakes Securities, LLC , which was a registered investment advisor. None of the directors, executive officers or nominees is related to one another and there are no arrangements or understandings between any of the directors, executive officers or any other person pursuant to which any of the Company's directors or executive officers have been selected for their respective positions. None of the above-named directors or director nominees was a party to any SEC enforcement actions or any legal proceedings that are material to an evaluation of their ability or integrity in the past ten years.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's directors, executive officers and holders of 10% or more of the outstanding Common Stock to file reports concerning their ownership of Company equity securities with the SEC. Based solely upon a review of such reports, other than one Form 4 filing related to the withholding of shares to satisfy tax withholding obligations and one Form 3 filing related to the appointment of a Section 16 officer, the Company believes that during the fiscal year ended December 31, 2018, all of its directors and executive officers complied with the Section 16(a) filing requirements.

Independent Directors and Meeting Attendance

Of the twelve directors currently serving on the Board, the Board has determined that all except for Mr. Chambas, the Company's President and Chief Executive Officer, are "independent directors" for purposes of applicable Nasdaq rules.

Directors are expected to attend the Company's annual meeting of shareholders each year. All directors who were Board members at the time, attended the Company's 2018 annual meeting.

The Board held nine meetings in 2018. Each director attended at least 75% of the aggregate of (1) the total number of meetings of the Board during 2018 while he or she was a director and (2) the total number of meetings held by all committees of the Board on which such director served during 2018 while he or she was a member of such committees.

Board Leadership Structure

The roles of Board Chair and Chief Executive Officer are held separately. Mr. Kilcoyne serves as Board Chair and Mr. Chambas serves as Chief Executive Officer. The Board believes that at this time, separation of these roles is in the best interests of the Company and its shareholders because separation:

- allows for additional talents, perspectives and skills on the Board;
- preserves the distinction between the Chief Executive Officer's leadership of management and the Board Chair's leadership of the Board;
- promotes a balance of power and an avoidance of conflict of interest;
- provides an effective channel for the Board to express its views on management; and

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- allows the Chief Executive Officer to focus on leading the Company and the Board Chair to focus on leading the Board, monitoring corporate governance and shareholder issues.

Mr. Kilcoyne has served on the Company's Board since November 2011 and as a member of the FBB Board since August 2005. This separation provides the Company with the benefit of a Board Chair who fully understands the risks, issues and opportunities relating to the Company and the financial services industry.

Committees

The Board conducts its business through meetings of the Board and the following standing Committees: Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee and Operational Risk Committee. Each of these committees has the responsibilities set forth in a formal written charter approved by the Board. The Board has also adopted guidelines on significant corporate governance matters that, together with the Company’s Code of Conduct and other policies, create the Board’s corporate governance standards. Copies of these charters and the Corporate Governance Guidelines are available on the Company’s website located at ir.firstbusiness.com/govdocs. The following table reflects the current membership of each standing Board Committee:

Name[1]	Audit	Compensation	Corporate Governance and Nominating	Operational Risk
Laurie S. Benson				
Mark D. Bugher		Chair		
Carla C. Chavarria				
Jan A. Eddy			Chair	
John J. Harris				
Ralph R. Kauten				
Timothy J. Keane				
Gerald L. Kilcoyne[2]				Chair
W. Kent Lorenz				
Daniel P. Olszewski				
Carol P. Sanders[3]	Chair			
Number of Meetings in 2018	5	7	5	0[4]

(1) Mr. Chambas is not a member of a standing committee.

(2) Mr. Kilcoyne served as a member of the Audit Committee and Compensation Committee until October 26, 2018 and was elected Operational Risk Committee Chair on October 26, 2018.

(3) Ms. Sanders qualifies as an “audit committee financial expert”.

(4) The Operational Risk Committee was formed on October 26, 2018 and the first meeting was held on January 23, 2019.

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Audit Committee

The Audit Committee's primary function is to assist the Board in fulfilling its oversight responsibilities by overseeing the Company's accounting and financial reporting processes and the audits of the financial statements of the Company. The Audit Committee presently consists of Carol P. Sanders (Chair), John J. Harris, Ralph R. Kauten, and W. Kent Lorenz, each of whom meets the requirements set forth in Nasdaq Listing Rule 5605(c)(2)(A) and the independence standards set forth in Rule 10A-3(b)(1) promulgated by the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Board has thus determined that each of the Audit Committee's current members is qualified to serve in such capacity. The Board has determined that Carol P. Sanders qualifies as an "audit committee financial expert," for purposes of applicable SEC regulations, and has the financial sophistication required by applicable Nasdaq rules because she has the requisite attributes through, among other things, her education and experience as a certified public accountant and financial executive in the insurance industry and her service on the audit committee of other public companies.

Compensation Committee

The Compensation Committee reviews and recommends to the Board the compensation structure for the Company's directors and executive officers, including salary rates, participation in incentive compensation and benefit plans, fringe benefits, non-cash perquisites and other forms of compensation, and administers the Company's long-term incentive plan. Mark D. Bugher (Chair), Laurie S. Benson, Carla C. Chavarria, and Jan A. Eddy are the current members of the Compensation Committee, each of whom is considered to be "independent" and meets the requirements set forth in applicable Nasdaq rules and the independent standards set forth in Rule 10C-1(b)(1) promulgated by the SEC under the Exchange Act. The Board has determined that none of the aforementioned directors has a relationship to the Company which is material to his or her ability to be independent from management in connection with the duties of a Compensation Committee member and has further determined that each of the Compensation Committee's current members is qualified to serve in such capacity.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee's primary functions are to recommend persons to be selected by the Board as nominees for election as directors; recommend persons to be elected to fill any vacancies on the Board; lead the Board in its annual review of Board performance, Board and committee structure and director independence; develop and recommend to the Board corporate governance principles, policies and procedures and oversee execution of the Company's enterprise risk management and succession planning programs and advise the Board on the effectiveness of these programs. The Corporate Governance and Nominating Committee presently consists of Jan A. Eddy (Chair), Laurie S. Benson, Mark D. Bugher, and John J. Harris. The Board has determined that each of the Corporate Governance and Nominating Committee members is considered to be "independent" according to applicable Nasdaq rules and has further determined that each current member is qualified to serve in such capacity.

Operational Risk Committee

As part of the Corporate Governance and Nominating Committee's comprehensive review of the Company's overall governance structure and practices as discussed on page 2 - "Corporate Governance Principles and Practices", the Board unanimously approved the creation of the Operational Risk Committee as a new standing committee. While the Board continues to maintain primary responsibility and oversight for Enterprise Risk Management ("ERM"), the Operational Risk Committee's primary functions are to evaluate, monitor and advise the Board on all matters relating to maintaining the right "tone at the top" and to evaluate the Company's strategic risk based on an assessment of the Company's strategies in the context of the Company's overall risk tolerance, related opportunities and capacity to

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manage the resulting risk. The Board has additionally delegated assessment and management of credit, compliance, operational, information security/cyber and liquidity risks to the Operational Risk Committee. The Operational Risk Committee presently consists of Gerald L. Kilcoyne (Chair), Ralph R. Kauten, Timothy J. Keane, W. Kent Lorenz, and Daniel P. Olszewski.

Board Role in Risk Oversight

Oversight of Risk

- The Board has an active and ongoing role in the management of the risks of the Company. It is responsible for general oversight of risk management;

- The Corporate Governance and Nominating Committee has responsibility for the oversight of the Company's enterprise risk management program ("ERM Program") including overseeing management's execution of the ERM Program, periodically evaluating the effectiveness of the Board's risk management structure and processes and ensuring appropriate Board-level risk reporting;

- The Operational Risk Committee was established in 2018 to evaluate and monitor the Company's strategic risk and its key operational risks;

- Company management is responsible for assessing and managing risk through robust internal processes and effective internal controls and for providing the status of each category of Company risk effective reporting to the Board and its committees.

The Company believes that establishing the right "tone at the top" and providing for full and open communication between management and the Board is essential for effective risk management and oversight. The Board, acting as a whole and through its committees, is responsible for oversight of the Company's enterprise wide risk management including, but not limited to, strategic, financial, credit, liquidity, compensation, information security, regulatory and operational risks. Given the critical link between strategy and risk, the Board is also responsible for developing strategies based on an assessment of the Company's overall risk tolerance, the related opportunities and the capacity to manage the resulting risk. As part of its ongoing planning, the Board discusses with executive management the strategies, key challenges, risks and opportunities facing the Company.

Under the ERM Program, a Risk Dashboard has been developed, the Company's most significant risks along with related metrics/key risk indicators ("KRIs") have been identified and risk tolerance thresholds established. ERM is a standing agenda item for each of the Board's regular quarterly meetings. At these meetings the Board reviews the Risk Dashboard, the status of each KRI relative to the designated tolerance threshold and the related remediation plans. The Board has delegated oversight of each of the key risks to either the Audit, Compensation, Corporate Governance and Nominating or Operational Risk Committee in accordance with the committee charters. These charters are reviewed annually to reflect the changing risk environment. Each committee monitors the assigned specific key risks, determines whether the key risk is within tolerance and ensures that appropriate mitigation plans are in place for all out-of-tolerance risks, identifies emerging risks, reports back to the Board with recommendations and updates and apprises the Board of any areas of concern. The following table summarizes each committee's role in the risk oversight function:

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Committee	Risk Oversight Focus
Audit Committee	• Monitors the integrity of the financial statements, effectiveness of internal controls over financial reporting, compliance with applicable legal and regulatory requirements, and the performance of the Company's internal independent auditors.
Compensation Committee	• Oversees the Company’s executive compensation program, evaluates risks presented by all compensation programs and confirms that the programs do not encourage risk-taking to a degree that is likely to have a materially adverse impact on the Company, do not encourage the management team to take unnecessary and excessive risks that threaten the value of the Company and do not encourage the manipulation of reported earnings of the Company.
Corporate Governance and Nominating Committee	• Assures the ERM Program is operating effectively. • Monitors key risks including risks relating to corporate governance structure, director independence, succession, and reputation. • Monitors the strategic risk based on an assessment of the Company's strategies in the context of the Company's overall risk tolerance, related opportunities and capacity to manage the resulting risk.
Operational Risk Committee	• Evaluates, monitors and advises the Board on all matters relating to maintaining the right tone at the top. • Monitors key risks, including: credit risk; information security/cyber risk; regulatory, compliance and legal risk; operational risk and liquidity and market risk.

Management is responsible for the day to day management of the Company’s key risks and operates through a Senior Management Risk Committee (“SMRC”) which monitors key risks, develops and executes remediation plans as appropriate, identifies emerging risks, evaluates the effectiveness of the Company’s risk management processes and reports such to the Board or its committees on a regular basis.

More information about risks facing the Company is available in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, Part I, Item IA, Risk Factors.

CEO and Executive Officer Succession Planning

Succession planning and leadership development are top priorities for the Board and management. Because of the significance of the CEO’s leadership, the Board retains primary responsibility for oversight of CEO succession planning as well as overall executive leadership development and succession planning practices and strategies. The Board has delegated certain responsibility for the ongoing development and monitoring of CEO and executive officer succession planning to the Corporate Governance and Nominating Committee, and at least annually, that committee reviews the policies and principles of selecting a successor to the CEO. The Board participates in this annual review of the CEO succession plan. This review includes an assessment of potential CEO candidates, contingency plans in the event of a sudden termination (including death or disability), development plans that are being utilized to strengthen the skills and qualifications of candidates and the Company CEO’s recommendations for contingency and longer term succession planning for the CEO and executive officer positions. The Corporate Governance and Nominating Committee in accordance with its charter also reviews succession plans for the other executive officers.

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Communications with the Board of Directors

Shareholders may communicate with the Board by writing to First Business Financial Services, Inc., Board of Directors (or, at the shareholder's option, to a specific director), c/o Lynn Ann Parrish, Corporate Secretary, 401 Charmany Drive, Madison, Wisconsin 53719. The Corporate Secretary will ensure that the communication is delivered to the Board or the specified director, as the case may be.

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PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of Common Stock as of March 4, 2019 by: (i) each director and director nominee; (ii) each of the executive officers named in the Summary Compensation Table (the “Named Executive Officers”); (iii) all of the directors, director nominees and executive officers (including the Named Executive Officers) as a group; and (iv) persons known to the Company to be the beneficial owner of more than five percent of the Company’s Common Stock. Except as otherwise indicated in the footnotes, each of the holders listed below has sole voting and investment power over the shares beneficially owned by such holder. The percentage of beneficial ownership shown in the following table is based on 8,778,859 shares of Common Stock outstanding as of March 4, 2019. For purposes of calculating each person’s or group’s percentage ownership, shares of common stock issuable pursuant to the terms of restricted stock units vesting within 60 days after March 4, 2019 are included as outstanding and beneficially owned for that person or group, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person or group.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned		Percent of Common Stock Beneficially Owned
Laurie S. Benson	3,200	(1)	*
Mark D. Bugher	9,533	(2)	*
Corey A. Chambas	139,103	(3)	1.6%
Carla C. Chavarria	0		*
Jan A. Eddy	17,056	(4)	*
John J. Harris	10,000	(5)	*
Ralph R. Kauten	25,188	(6)	*
Timothy J. Keane	7,123	(7)	*
Gerald L. Kilcoyne	44,636	(8)	*
W. Kent Lorenz	19,169	(9)	*
Michael J. Losenegger	32,930	(10)	*
Mark J. Meloy	49,026	(11)	*
Daniel P. Olszewski	19,176	(12)	*
Carol P. Sanders	1,507	(13)	*
David R. Seiler	10,846	(14)	*
Edward G. Sloane, Jr	10,119	(15)	*
All directors, nominees and executive officers as a group (19 persons)	461,783	(16)	5.3%
5% Holders			
The Banc Funds Company, LLC	675,852	(17)	7.7%
Manulife Financial Corporation	504,731	(18)	5.7%
BlackRock, Inc.	456,005	(19)	5.2%

* Denotes less than 1%.

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(1) All shares held by Ms. Benson through an IRA.
(2) Includes 160 shares held by Mr. Bugher through an IRA, 6,873 shares held in a revocable trust held jointly with his spouse, 500 shares held by Mr. Bugher's spouse directly and 2,000 shares held by his spouse through an IRA.
(3) Includes 16,623 restricted shares over which Mr. Chambas has voting power but does not have investment power, and 16,992 shares held through Mr. Chambas' 401(k) Plan.
(4) All shares held jointly with Ms. Eddy's spouse.
(5) All shares held jointly with Mr. Harris' spouse.
(6) Includes 12,687 shares held by Mr. Kauten through a family-owned LLC.
(7) Includes 2,217 shares held jointly with Mr. Keane's spouse.
(8) All shares held in a revocable trust held jointly with Mr. Kilcoyne's spouse.
(9) Includes 2,520 shares held by Mr. Lorenz through an IRA, 8,471 shares held in a revocable trust held jointly with his spouse, and 8,178 shares held by his spouse through an IRA.
(10) Includes 5,397 restricted shares over which Mr. Losenegger has voting power but does not have investment power, and 2,000 shares held by Mr. Losenegger through an IRA and 400 shares held jointly with Mr. Losenegger's spouse.
(11) Includes 6,150 restricted shares over which Mr. Meloy has voting power but does not have investment power, and 41,246 shares held jointly with Mr. Meloy's spouse.
(12) All shares held in a revocable trust held jointly with Mr. Olszewski's spouse.
(13) Includes 670 shares held jointly with Ms. Sanders' spouse and 837 shares held by Ms. Sanders through a SEP IRA.
(14) Includes 8,316 restricted shares over which Mr. Seiler has voting power but does not have investment power.
(15) Includes 7,089 restricted shares over which Mr. Sloane has voting power but does not have investment power, and 1,000 shares held jointly with Mr. Sloane's spouse.
(16) Includes 59,322 restricted shares over which the individuals have voting power but do not have investment power, 10,678 shares held by spouses of the group members, 76,413 shares held through direct joint ownership with spouses of the group members and 79,826 shares held in revocable trusts of the group members and their spouses.
(17) Information based on Schedule 13G/A filed with the SEC on February 12, 2019 by Banc Fund VII L.P., Banc Fund VIII L.P., Banc Fund IX L.P., and Banc Fund X L.P. (collectively, the "Banc Fund Reporting Persons"). According to the Schedule 13G/A, Banc Fund VIII L.P. had sole voting and dispositive power with respect to 459,100 shares, Banc Fund IX L.P. had sole voting and dispositive power with respect to 206,752 shares, and Banc Fund X L.P. had sole voting and dispositive power with respect to 10,000 shares. According to the Schedule 13G/A, each of the Banc Fund Reporting Persons lists its address as 20 North Wacker Drive, Suite 3300, Chicago, IL 60606.
(18) Information based on Schedule 13G/A filed with the SEC on February 14, 2019 by Manulife Financial Corporation, Manulife Asset Management (US) LLC, and Manulife Asset Management Limited. According to the Schedule 13G/A, Manulife Asset Management (US) LLC had sole voting and dispositive power with respect to 497,460 shares and Manulife Asset Management Limited had sole voting and dispositive power with respect to 7,271 shares. According to the Schedule 13G/A, the principal business offices of Manulife Financial Corporation and Manulife Asset Management Limited are located at 200 Bloor Street East, Toronto, Ontario, Canada, M4W 1E5 and the principal business office of Manulife Asset Management (US) LLC is located at 197 Clarendon Street, Boston, Massachusetts 02116.
(19) Information based on Schedule 13G filed with the SEC on February 8, 2019 by BlackRock, Inc. According to the Schedule 13G, BlackRock, Inc. held sole voting power with respect to 442,062 shares, and sole dispositive power with respect to 456,005 shares. According to the Schedule 13G, their principal business office is 55 East 52nd Street New York, NY 10055.

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DIRECTOR COMPENSATION

In 2018, each non-employee director of the Company received an annual retainer of $24,000, paid quarterly. As the Company's Board Chair and founder, Mr. Smith received additional cash compensation of $151,675. Effective, October 26, 2018, Mr. Kilcoyne began to receive an additional annual retainer of $60,250, paid quarterly, for his role as Board Chair. The Compensation Committee Chair and the Corporate Governance and Nominating Committee Chair received additional annual retainers of $5,000, while the Audit Committee Chair received an additional annual retainer of $10,000. All Board and committee members, except those serving as executive officers of the Company, were paid $750 for each Board and committee meeting attended. All director and committee fees were paid in cash.

	Fees earned or paid in cash	Stock awards	All other compensation(1)	Total
Laurie S. Benson	$3,500	—	$17,317	$20,817
Mark D. Bugher	$42,500	—	—	$42,500
Carla C. Chavarria	$33,750	—	—	$33,750
Jan A. Eddy	$42,500	—	—	$42,500
John J. Harris	$34,500	—	—	$34,500
Ralph R. Kauten	$2,000	—	$21,417	$23,417
Timothy J. Keane	$2,000	—	$21,467	$23,467
Gerald L. Kilcoyne	$49,563	—	$13,200	$62,763
W. Kent Lorenz	$15,600	—	$17,600	$33,200
Daniel P. Olszewski	$2,750	—	$21,667	$24,417
Carol P. Sanders	$37,250	—	—	$37,250
Jerome J. Smith(2)	$175,675	—	—	$175,675

(1) Includes FBB Board retainer and FBB Board and committee meeting attendance fees paid in cash.

(2) Mr. Smith retired from the Board effective October 26, 2018. In connection with his retirement, the Company entered into a consulting agreement with Mr. Smith, which provides for future compensation following his retirement as described in our current reports on Form 8-K filed on August 17, 2018.

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COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

Company Overview and Strategy

The Company is a registered bank holding company engaged in the commercial banking business through its wholly-owned bank subsidiary ("FBB" or the "Bank"), headquartered in Madison, Wisconsin. All of the Company's operations are conducted through the Bank and certain subsidiaries of the Bank. FBB operates 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. The Bank's target markets are in Wisconsin, Kansas and Missouri and its specialty business lines serve clients nationwide. The Bank's products and services include commercial lending, Small Business Administration ("SBA") lending and servicing, asset based lending, equipment financing, factoring, trust and investment services, treasury management services and a broad range of deposit products.

The Company's operating philosophy is predicated on deep client relationships in its target markets fostered by local expertise. This philosophy is built on guiding principles including an entrepreneurial spirit and disciplined sales process as core differentiators balanced with a conservative credit culture and the efficiency associated with providing centralized services. The Company's business banking focus does not rely on an extensive branch network to attract retail clients and it supplements the business banking deposit base with a wholesale funding strategy.

New Long-Term Strategic Plan

Strategic planning was a top priority in 2018 as the Company rigorously challenged its strategic plan and developed a new long-term strategic plan to be executed over a five-year time horizon. The Company's vision statement or objective over this five-year period is to excel by building the best team that works together to impact our client's success more than any other financial partner. To meet this objective, the Company identified four key strategies which are linked to corporate financial goals and to all business units to ensure communication and execution are consistent at all levels. These four strategies are described below:

1. The Company will identify, attract, develop and retain high performing talent to positively impact the overall performance and efficiency of the Company.
2. The Company will increase internal efficiencies, deliver a differentiated client experience and drive client experience utilizing technology where possible.
3. The Company will diversify and grow its deposit base.
4. The Company will optimize its business lines for diversification and performance.

The Company has considered these strategies in setting criteria for the 2019 key performance measures used in the executive compensation program.

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2018 Key Performance Measures

The Compensation Committee has identified the following as important financial metrics for the Company, which drive the execution of the Company's long-term strategy and accordingly, have been selected as the performance measures for the executive compensation program.

Adjusted Top Line Revenue

- Adjusted top line revenue was $84.1 million for the year ended December 31, 2018, defined as net interest income plus non-interest income less gains on the sale of SBA loans, was above superior primarily due to greater than anticipated average loan and lease balances and loan fees collected in lieu of interest.
- The Company benefited from fourth quarter 2017 loan growth of $35.0 million, which predominately occurred in December of 2017, and $61.9 million of loan growth in the first quarter of 2018 marking the highest first quarter of growth in the history of the Company.

Efficiency Ratio

- The efficiency ratio was 67.77% for the year ended December 31, 2018, which fell between threshold and target primarily due to greater than expected compensation expense resulting from the opportunistic addition of business development staff across the Company's business lines.
- The Company completed the rebuild of its SBA platform in 2017 and continued to add business development staff throughout 2018. Over time, the Company intends to achieve its target efficiency ratio range of 58-62% through proactive expense management and revenue growth efforts. These include our newly consolidated board membership, as well as efforts to increase SBA lending production and to increase commercial banking market share, particularly in our less mature markets, by continuing to prudently invest in production talent.

Return on Average Assets

- Return on average assets ("ROAA") was 0.86% for the year ended December 31, 2018, which fell between threshold and target. The reasons for the lower than expected ratio are consistent with the efficiency ratio variances discussed above, as well as the higher than anticipated credit costs and less than expected gains on the sale of SBA loans.
- While strong fundamental performance in 2018 was partially offset by credit losses and SBA recourse provision from the acquired legacy SBA portfolio, management is encouraged by the progress in 2018 and confident the significant investment made across the Company's footprint has built a foundation for sustainable growth in 2019 and beyond.

Additional information on the Company's business results, including a discussion of the efficiency ratio, can be found in the Company's 2018 Annual Report on Form 10-K under the Management's Discussion and Analysis section.

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The following chart depicts total return to the Company’s shareholders during the period beginning December 31, 2013 and ending December 31, 2018 compared to the Total Return Index for the Nasdaq Composite, which is a broad, nationally recognized index of stock performance by publicly traded companies and the SNL Bank Nasdaq, which is an index that contains securities of Nasdaq-listed companies classified according to the Industry Classification Benchmark as banks. The chart assumes that the value of the investment in the Company’s common stock and each of the three indices was $100 on December 31, 2013, and that all dividends were reinvested in FBIZ common stock.

Index	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
First Business Financial Services, Inc.	100.00	129.80	138.15	133.96	127.77	115.43
Nasdaq Composite Index	100.00	114.75	122.74	133.62	173.22	168.30
SNL Bank Nasdaq Index	100.00	103.57	111.80	155.02	163.20	137.56

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Executive Compensation Highlights

The Company's executive compensation program is designed to align with the Company's business strategy and with creating long-term shareholder value. The executive compensation program is heavily weighted toward compensating its executives based on Company performance. To that end, the Company has implemented executive compensation policies and practices that reinforce its pay for performance philosophy and align with commonly viewed best practices and sound governance principles. Highlights include:

Linking Pay with Performance

The executive compensation program is rigorous in linking pay and performance and the program provides for the Compensation Committee's and the Board's use of judgment as appropriate to ensure alignment. The Long-Term Incentive Plan ("LTI Plan") provides for grants of equity ownership thereby aligning the interests of the executive officers with those of the shareholders.

- Beginning in 2019, the Company issued a combination of Performance Restricted Stock Units ("PRSU") and Restricted Stock Awards ("RSA") to its executive officers. The Company believes PRSUs incentivize executive officers to drive long-term company performance, thereby aligning the executive officers' interests with the long-term interests of shareholders. The PRSUs will be measured on Total Shareholder Return ("TSR") and Return on Equity ("ROE") and will cliff-vest after a three-year measurement period based on the Company's performance relative to a custom peer group. The executive officers' grants will be weighted approximately 60% in PRSUs and 40% in RSAs.
- Based on Company performance, and in particular based on the key financial metrics described previously, the Compensation Committee and Board exercised their judgment in reducing the restricted stock awarded in 2018 to its CEO and other Named Executive Officers ("NEOs") by 50% from typical award levels.
- Based on 2016 performance, and in particular based on the key metrics described previously, the Compensation Committee and Board exercised their judgment and no equity awards were granted to its CEO or Chief Credit Officer.

The Annual Cash Bonus Plan ("Annual Bonus Plan" or "Bonus Plan") is designed to link pay and performance and uses a variety of key performance metrics (Adjusted Top Line Revenue, ROAA, Efficiency Ratio) which drive shareholder value and the Company's business strategy. In 2017, the Compensation Committee and Board exercised their judgment and no annual cash bonus was paid to the CEO.

Based on 2017 performance, the Compensation Committee and Board exercised their judgment and determined NEO base salaries would not be increased in 2018.

Compensation Overview

- The Company's compensation philosophy utilizes a compensation mix of base salary, annual cash bonuses under the Company's Bonus Plan and on long-term equity awards under the LTI Plan; this mix provides a variety of time horizons to balance near-term and long-term strategic goals.
- The CEO's employment agreement and executive officers' change-in-control agreements require double-triggers upon a change-in-control. In addition, none of these agreements include an excise tax gross-up.

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- The Bonus Plan has a clawback provision that applies to all current and former executive officers. In the event that the financial results of the Company are restated as a result of material noncompliance with financial reporting requirements, the Company has the right to recoup certain incentive compensation paid.
- The Company has Stock Ownership Guidelines; the CEO and all NEOs are in compliance.
- The Company has no-hedging and no-pledging policies which prohibit all executive officers and Company directors from hedging or pledging Company shares; the CEO, all executive officers and all Company directors are in compliance.

Consideration of 2018 Say on Pay

At the Company's 2018 annual meeting of shareholders, approximately 92% of voting shareholders approved the non-binding advisory proposal on the compensation of the Named Executive Officers, (commonly referred to as a "say-on-pay" vote).

The Board and the Compensation Committee pay careful attention to communications received from shareholders regarding executive compensation, including the non-binding advisory vote. The Company carefully considered the result of the 2018 advisory vote on executive compensation but not for specific 2018 compensation decisions.

Executive Compensation Program Overview

This Compensation Discussion and Analysis describes the Company's compensation philosophy and policies for 2018 as applicable to the NEOs in the Summary Compensation Table on page 35. This section explains the structure and rationale associated with each material component of the NEOs' compensation, and it provides important context for the more detailed disclosure tables and specific compensation amounts provided following the section. For 2018, the Compensation Committee engaged McLagan, a part of Aon Hewitt, as its outside independent compensation consultant. The Compensation Committee's consultant regularly attends committee meetings and attends executive sessions as requested by the Compensation Committee's Chair. McLagan facilitated a review of the Company's compensation philosophy, short-term and long-term incentive plans and change in control agreements. McLagan was instrumental in designing and establishing measures for the PRSUs that were issued beginning in 2019.

The NEOs include the Company's principal executive officer (i.e. CEO), principal financial officer (i.e. CFO) and the three other executive officers of the Company having the highest total compensation for executive officers serving in that capacity at the end of 2018. These five individuals, identified below, and throughout the proxy statement are the NEOs.

Named Executive Officer	Title
Corey A. Chambas	President and Chief Executive Officer of First Business Financial Services, Inc.
Edward G. Sloane, Jr.	Chief Financial Officer of First Business Financial Services, Inc.
David R. Seiler	Chief Operating Officer of First Business Financial Services, Inc.
Mark J. Meloy	Chief Executive Officer of First Business Bank
Michael J. Losenegger	Chief Credit Officer of First Business Financial Services, Inc.

The Compensation Committee reviews the performance of the CEO and determines and recommends to the Board for approval the salary, bonus and other compensation paid to him. The Compensation Committee relies upon

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the CEO’s assessment of each NEO’s individual performance, which considers the NEO’s efforts in achieving his individual goals each year, managing and developing employees and the enhancement of long-term relationships with clients, if applicable to his position.

Compensation Program Components

The Compensation Committee strives to provide an appropriate mix of compensation components, including finding a balance between current and long-term compensation and between cash and equity incentive compensation. Cash payments primarily are aligned with and reward more recent performance, while equity awards encourage the Company’s executives to continue to deliver results over a longer period of time and also serve as a retention tool. Compensation for the NEOs was allocated between base salary, annual incentive compensation and longer-term awards as follows.

Base Salary. The Compensation Committee generally reviews the base salaries of the NEOs at its December meeting and also makes periodic adjustments in connection with promotions, market conditions or changes in position. The salaries for 2018, determined by the Compensation Committee at the end of 2017, are set forth in the Summary Compensation Table on page 35. The Compensation Committee considers various factors including the base salary paid to the NEO in comparable positions in the Peer Group, the overall professional experience and background of the NEO, the performance of the Company versus key financial objectives as well as information provided by its compensation consultant in making these decisions.

At the end of 2018, the Compensation Committee reviewed the base salaries of the NEOs for 2019 and increased base salaries as shown below:

Name	Position	2018 Base Salary	2019 Base Salary
Corey A. Chambas	President and Chief Executive Officer	$443,456	$466,000
Edward G. Sloane, Jr.	Chief Financial Officer	$257,500	$270,375
David R. Seiler	Chief Operating Officer	$280,000 (1)	$291,200
Mark J. Meloy	CEO - First Business Bank	$220,001	$231,001
Michael J. Losenegger	Chief Credit Officer	$236,599	$250,795

(1) Mr. Seiler's salary increased to $280,000 on August 1, 2018.

Annual Bonus Plan. The Compensation Committee typically determines eligibility for annual bonus payments using the parameters defined in the Company’s Bonus Plan, which is a performance-based bonus plan for eligible officers and employees of the Company, including the NEOs. The plan is formulaic and has clear disclosure of the business drivers. As established, the Compensation Committee retains the right to modify the Bonus Plan or withhold payment at any time.

In 2018, the NEOs participating in the Bonus Plan earned bonuses based on the performance of the Company. The measure of the Company’s performance is based on a combination of measures including revenue growth goals, operating profitability goals and goals related to strategic objectives, as established and measured by the Compensation Committee and the Board. Each measure is equally weighted.

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In January of each year, the Compensation Committee approves threshold, target and superior levels for each of the measures used in the Bonus Plan, given the expectations and strategies for each particular year.

Bonus payments under the Bonus Plan are determined by the formulas described below, although the Board reserves the right to modify downward the payouts in its sole judgment. The Bonus Plan has a safeguard of requiring that the Company must meet one-half of the return on asset threshold before any bonus payment can be made based on performance on any criteria.

The following chart outlines the performance measures that were used in the NEOs' bonus calculations. The bonus calculations for all NEOs, were based 100% on the performance of the Company.

	Measure	Threshold	Target	Superior	Actual	Weighting
	Adjusted Top Line Revenue(1)	77,000,000	79,000,000	81,000,000	84,058,000	33.33%
Company	Efficiency Ratio(2)	68%	65%	62%	67.77%	33.33%
	Return on Average Assets(3)	0.85%	0.95%	1.05%	0.86%	33.33%

(1) Adjusted Top Line Revenue is defined as net interest income ($67.3 million) plus non-interest income ($18.2 million) less gains from the sale of the guaranteed portion of SBA loans ($1.5 million).

(2) Efficiency Ratio is defined as non-interest expense excluding the effects of the SBA recourse provision, impairment of tax credit investment losses or gains on foreclosed properties, amortization of other intangible assets and other non-operating items, if any.

(3) Return on Average Assets is defined as net income divided by average assets.

The specific performance metrics established with respect to the Company's 2018 performance include the following non-GAAP financial measures, which management believes are relevant measures to align employees' performance with the Company's profitability, growth and achievement of the Company's strategic objectives:

- Adjusted top line revenue is a key measure of growth and income diversification. Gains from the sale of SBA loans were excluded from the performance metric due to the volatility of SBA gains in 2017 and 2018.
- The efficiency ratio measures operating expenses in relation to top line revenue. Certain non-operating and discrete items were excluded to remove volatility from the measure.

With respect to the bonus formula, bonuses under the Bonus Plan provide for bonus payments of 0% to 95% of eligible salary. The target annual incentive opportunities did not change in 2018. In 2018, the Bonus Plan provided that the President and Chief Executive Officer would receive up to 95% of his salary with a target payment of 45%, the Chief Financial Officer and the Chief Operating Officer would each receive up to 75% of his salary with a target payment of 35%, and the Chief Credit Officer and the Chief Executive Officer of FBB would each receive up to 60% of his salary with a target payment of 30%.

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Named Executive Officer	Targeted Payout as % of Base Salary	Actual Payout as % of Bonus Eligible Compensation	Bonus Payout ($)
Corey A. Chambas	45.00%	40.39%	179,132
Edward G. Sloane, Jr.	35.00%	33.14%	85,333
David R. Seiler	35.00%	33.14%	88,802
Mark J. Meloy	30.00%	27.84%	61,258
Michael J. Losenegger	30.00%	27.84%	65,880

After the end of fiscal 2018, the Compensation Committee determined the extent to which the performance goals were achieved and subsequently approved the award to each NEO.

Clawback Provision of Bonus Plan Payments. The Company's Bonus Plan includes a clawback provision that applies to all current and former executive officers. In the event of a material restatement of the Company's financial results, other than a restatement due to changes in accounting principles or applicable law or interpretations thereof, the Board will review the facts and circumstances that led to the requirement for the restatement and will take such actions, including clawback, as it deems necessary or appropriate. The Board will consider whether any executive officer received incentive compensation based on the original financial statements because it appeared he or she achieved financial performance targets which in fact were not achieved based on the restatement. The Board will also consider the accountability of any executive officer whose acts or omissions were responsible in whole or in part for the events that led to the restatement and whether such acts or omissions constituted misconduct.

Long-Term Incentive Plan. The LTI Plan was established to advance the interests of the Company's shareholders by enhancing the Company's ability to attract, retain and motivate persons who make or are expected to make important contributions to the Company by providing equity ownership opportunities and equity-based incentives, thereby aligning the interests of such persons with those of the shareholders. The LTI Plan is administered by the Compensation Committee of the Board 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 LTI Plan.

The Compensation Committee considers Company and individual performance in determining whether or not a grant will be awarded to an NEO. The Compensation Committee annually evaluates the financial performance of the Company against its peers and the individual performance of each NEO to determine if performance meets or exceeds expectations and whether or not a grant is awarded. As a result of this evaluation, in 2018 the Compensation Committee reduced the awarded grants to the CEO and the other NEOs by 50% from their typical levels. This reduction was in recognition of recent performance challenges and resulting shareholder returns. The Company currently issues restricted stock and restricted stock units which generally vest in equal increments over a four-year period.

The targeted amount of the long-term incentive awarded for each of the NEOs is determined utilizing market data for similar positions within the industry as well as relative roles and responsibilities within the Company. Awards made in 2018 include restricted stock awards to NEOs which generally vest in equal increments over a four-year period. The following chart outlines the number of restricted shares awarded to each of the NEOs in 2018.

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Name	Position	Target Award as % of Base Salary	Actual Award Granted as % of Base Salary	Actual # of Restricted Shares Issued
Corey A. Chambas	President and Chief Executive Officer	45.00%	22.50%	4,175
Edward G. Sloane, Jr.	Chief Financial Officer	25.00%	12.50%	1,345
David R. Seiler	Chief Operating Officer	25.00%	12.50%	1,355
Mark J. Meloy	CEO - First Business Bank	25.00%	12.50%	1,150
Michael J. Losenegger	Chief Credit Officer	25.00%	12.50%	1,235

These restricted stock awards are also listed in the Outstanding Equity Awards at Fiscal Year End table on page 38.

Beginning in 2019, the Company issued a combination of Performance Restricted Stock Units (“PRSUs”) and Restricted Stock Awards (“RSAs”) to its executive officers. The PRSUs will be measured on Total Shareholder Return (“TSR”) and Return on Equity (“ROE”) and will cliff-vest after a three-year measurement period based on the Company’s performance relative to a custom peer group. The RSAs will vest ratably over a three-year period. The Company implemented these plan design changes to further enhance the alignment between Company performance and executive officer pay, while continuing to allow executive officers to increase share ownership and align their economic interests with those of shareholders.

All Other Compensation and Perquisites. While the Compensation Committee reviews and monitors the level of other compensation offered to the NEOs, it typically does not adjust the level of benefits offered on an annual basis. The Compensation Committee does consider the benefits and perquisites offered to the NEOs in its evaluation of the total compensation received by each. It is the Company’s belief that perquisites for NEOs should be very limited in scope and value and reflective of similar perquisites from competitive employers both in the industry and the region. Due to this philosophy, the Company has generally provided nominal benefits to NEOs that are not available to other employees and plans to continue this approach in the future. The benefits offered in 2018 to the NEOs will continue for 2019. The perquisites received by the NEOs in 2018 are reported in the Summary Compensation Table on page 35.

Director and Executive Officer Stock Ownership Guidelines

The Board has established director and executive officer stock ownership guidelines as another means by which to align their decisions with creating shareholder value. The guidelines are based on a multiple of base salary for the CEO and executive officers and a multiple of the annual retainer fee for the directors as follows:

Position	Baseline	Minimum Ownership as a multiple of the Baseline
Director	Annual Board Retainer	3x
CEO	Base Salary	3x(1)
Executive Officer	Base Salary	1x

(1) As of December 31, 2018, the CEO's ownership of Company shares represented 6.1x of his 2018 base salary.

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Executive officers and directors are allowed five years from the later of the establishment of the guidelines or their appointment to accumulate the minimum number of shares to satisfy these guidelines. All executive officers and directors who have been subject to these guidelines for over five years are currently in compliance. The complete details of the ownership guidelines are available in the Company's Corporate Governance Guidelines posted on its website ir.firstbusiness.com/govdocs.

No-Hedging and No-Pledging Policies

The Company has an Insider Trading Policy that prohibits Section 16 officers and directors from hedging Company stock, from holding Company stock in a margin account and from pledging Company stock as collateral for a loan. All Section 16 officers, including all executive officers, and directors are currently in compliance with these policies.

Compensation Factors

General. The Compensation Committee's decisions regarding each NEO are based, in part, on the Compensation Committee's subjective judgment, and also take into account qualitative and quantitative factors, as will be set forth in the discussion below. In reviewing an NEO's compensation, the Compensation Committee considers and evaluates all components of the NEO's total compensation package.

Company Performance. In establishing NEO compensation, the Compensation Committee measures the Company's performance compared to management's and the Board's goals and objectives, and also compares Company performance to that of the Company's peer group of financial institutions. The Compensation Committee believes that using the Company's performance as a factor in determining an NEO's compensation is effective in helping to align the NEO's interests with those of the Company's shareholders. With that in mind, the Compensation Committee focuses on key financial performance criteria such as revenue growth goals, operating profitability goals and goals related to strategic objectives, as determined by the Board. As part of the evaluation and review of these criteria, the Compensation Committee will also take into account various subjective issues, such as general economic conditions and its impact on performance, and how they may affect the Company's performance.

Peer Group Companies and Analysis. The Compensation Committee reviews compensation levels and design at peer companies as part of its decision-making process so it can set total compensation levels that it believes are competitive and aligned with the Company and level of performance. The Compensation Committee generally sets target total direct compensation for its executive officers to be competitive with peer companies and considers other market data, and also taking into consideration scope of a particular job responsibilities, individual performance of the executive officer, internal pay equity and other factors. The Compensation Committee's executive officer compensation determinations are based on its review of such factors and is informed by the experiences of the members of the Compensation Committee as well as input from, and peer group data provided by, the Compensation Committee's independent compensation consultant, McLagan.

For purposes of peer analysis in assessing performance, the Company utilizes a peer group that includes commercial banks of similar asset size. Given the ever-changing landscape within the banking industry, the Compensation Committee regularly reviews and recalibrates the group of banks used for this analysis and confirms the criteria and process utilized with McLagan.

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In 2017 the Company compiled an updated market reference group of high performing publicly-traded bank holding companies with an asset size between $915 million and $3.5 billion, which at the time was approximately one-half to two times the Company’s size, a commercial lending concentration of at least 65%, headquarters in the continental United States (excluding some specific states due to different market and compensation conditions), similar product offerings, listed on a national exchange and a minimum of 0.50% ROAA for the current year and prior two years. This updated reference group had median assets of $1.65 billion at the time of the analysis and was used for 2018 and 2019 compensation decisions.

The peer group used for purposes of 2018 compensation decisions is reflected below. The companies included in this peer group are as follows:

Atlantic Capital Bancshares, Inc.
CapStar Financial Holdings, Inc.
Civista Bancshares, Inc.
CoBiz Financial, Inc.*
Community Financial Corporation
First Community Corporation
First Community Financial Partners*
First Financial Northwest, Inc.
Franklin Financial Network, Inc.
Guaranty Bancorp*
Macatawa Bank Corporation
Mercantile Bank Corporation
Mid Penn Bancorp, Inc.
National Commerce Corporation
Old Line Bancshares, Inc.
Paragon Commercial Corporation*
Park Sterling Corporation*
People’s Utah Bancorp
QCR Holdings, Inc.
Southern National Bancorp of Virginia, Inc.
Southwest Bancorp, Inc.*
Stock Yards Bancorp, Inc.
West Bancorporation, Inc.
* Banks acquired during 2017 and 2018.

Assessment of Compensation Risk

As a publicly-traded financial institution, the Company must comply with several often overlapping layers of regulations when considering and implementing compensation-related decisions. These regulations do not set specific parameters within which compensation decisions must be made, but do require the Company and the Compensation Committee to be mindful of the risks that often go hand-in-hand with compensation programs designed to incentivize the achievement of better than average performance.

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The Compensation Committee believes that a sensible approach to balancing risk-taking and rewarding reasonable, but not necessarily easily attainable, goals has always been a component of its overall assessment of the compensation plans, programs and arrangements it has established for the NEOs.

In 2018, the Compensation Committee completed its thorough annual review of all compensation programs offered at the Company, including those described in this Compensation Discussion and Analysis, to determine whether any aspect of the plans or programs encourages excessive or unnecessary risk that would adversely affect the long-term value or performance of the Company. Based on the risk assessment process, the Compensation Committee concluded that the compensation plans and programs, considered individually and as a whole, do not encourage excessive risk-taking by NEOs or other employees.

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COMPENSATION COMMITTEE REPORT

Based on review and discussion with management, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement and in the Company's Annual report on Form 10-K for the year ended December 31, 2018.

Submitted by:
Mark D. Bugher, Compensation Committee Chair
Laurie S. Benson
Carla C. Chavarria
Jan A. Eddy

Members of the Compensation Committee

Compensation Committee Interlocks and Insider Participation

The persons named above were the only persons who served on the Compensation Committee of the Board of Directors during the last fiscal year, except for Gerald L. Kilcoyne, who served on the Compensation Committee until his appointment as Board Chair effective October 26, 2018.

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EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information concerning the compensation of the NEOs for the years ended December 31, 2018, 2017 and 2016:

Name and Principal Position	Year	Salary ($)	Stock Awards ($)(1)	Bonus ($)	Non-equity incentive plan compensation ($)(2)	Change in pension value and nonqualified deferred compensation earnings(3)	All other compensation ($)(4)	Total ($)
Corey A. Chambas Chief Executive Officer	2018	$443,456	$93,061	---	$179,132	$145,144	$38,963	$899,756
	2017	$443,456	$173,362	---	$0	$136,712	$22,445	$775,975
	2016	$432,640	$0	---	$58,185	$124,095	$25,316	$640,236
Edward G. Sloane, Jr. Chief Financial Officer(5)	2018	$257,500	$29,980	---	$85,333	---	$22,544	$395,357
	2017	$257,500	$62,876	---	$19,456	---	$12,513	$352,345
	2016	$237,821	$91,756	---	$24,993	---	$89,651	$444,221
David R. Seiler Chief Operating Officer(6)	2018	$267,969	$30,203	---	$88,802	---	$27,882	$414,856
	2017	$259,375	$63,410	---	$19,597	---	$49,153	$391,535
	2016	$178,045	$128,892	---	$18,711	---	$10,986	$336,634
Mark J. Meloy Chief Executive Officer First Business Bank	2018	$220,001	$25,634	---	$61,258	---	$37,795	$344,688
	2017	$220,001	$53,695	---	$53,788	---	$29,126	$356,610
	2016	$213,040	$51,891	---	$54,434	---	$28,029	$347,394
Michael J. Losenegger Chief Credit Officer	2018	$236,599	$27,528	---	$65,880	---	$28,476	$358,483
	2017	$236,599	$57,752	---	$15,878	---	$18,769	$328,998
	2016	$230,828	$0	---	$20,357	---	$18,923	$270,108

(1) The value of the restricted stock award is computed by multiplying the number of shares granted by the market value on the grant date. See "Outstanding Equity Awards at December 31, 2018." See also the discussion of equity awards in the Company's consolidated financial statements for the year ended December 31, 2018 for further information regarding these awards.

(2) The amounts reported in the "Non-equity incentive plan compensation" column were earned under the Annual Bonus Plan in the calendar year reported. The Board defined specific threshold, target, and superior award opportunities as a percentage of salary for each NEO. The specific percentages were based on the individual NEO's position and competitive market data for similar positions. The 2018 awards were contingent primarily on performance relative to goals as described on pages 27 through 30. The performance criteria were equally weighted and reflect the Company's strategic objectives.

(3) These values are for the retirement benefit that is included in Chambas' employment agreement.

(4) The amounts for 2018 set forth in the "All other compensation" column include a 3.0% 401(k) plan matching contribution, an auto use/reimbursement payment, a 4.06% discretionary 401(k) profit sharing contribution,

dividends paid on unvested restricted stock, and a club membership.

(5) Mr. Sloane began his position at the Company on January 19, 2016.

(6) Mr. Seiler began his position at the Company on April 15, 2016.

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All Other Compensation:

	401(k) match	Auto use/ reimbursement	Profit Sharing	Dividend on restricted stock	Country Club Membership	Total
Corey A. Chambas	$8,250	$12,059	$11,165	$7,489		