

# SHAREHOLDER NEWS



MAY 2018

## Bank First Achieves Total Health Thriving Together Award

Bank First has been honored with a Total Health Thriving Together Award for achieving one of the best wellness engagement rates in the country.

The award from Humana Inc. is a national honor recognizing companies, like Bank First, for engaging their employee workforce in a culture of health and well-being. Launched in 2015, Humana has presented the award to more than 50 companies across the nation.

Bank First engaged more than 80% percent of its employees and family dependents in Go365®, a wellness and rewards program that helps individuals focus on personal health and well-being. Company engagement in the Go365® program included providing premium discounts and health savings account benefits to encourage participation, as well as implementing biggest loser and fitness challenges with cash prizes.

Bank First has 243 employees. The bank's mission is to continually invest in its employees to help them grow personally and professionally. A large part of this investment is ensuring employees live a healthy and positive lifestyle. This is done by utilizing Go365®, hosting an annual Bank First Walk/Run, and forming teams to participate in fitness classes, fun runs, fitness challenges, among many other initiatives.

"Go365® has motivated me to become more active and has helped me along my weight-loss journey," said Ginger Hammel, Bank First employee. "I eat healthier and exercise on a regular basis and because of this, I have improved my overall health."

## MESSAGE FROM THE CEO



MIKE MOLEPSKE

To our shareholders,

I am pleased to inform you, our shareholders, that the integration of First National Bank of Waupaca continues to go well. Our financial results for the first quarter of 2018 demonstrate that Bank First garnered more operational efficiencies from the merger than our initial estimates, which, in turn, have positively impacted the bank more quickly than anticipated. There is still much work to be done, which will further improve the financial results of the merger.

The conversion of the Waupaca branches to Bank First's core systems went exceptionally well. More importantly, the bankers that joined the Bank First team from the merger are excited to be able to focus on community banking and building relationships with new and existing customers across our market.

In addition to the merger, the recent changes to the federal tax code also had a positive impact on our first quarter financial results. We estimate the changes in the tax code enhanced the earnings of the bank for the first three months ending March 31, 2018 of nearly \$7.1 million by \$822,000.

The bank's recent merger, combined with the lesser impact of 2018 corporate tax code changes, accelerated our historically improving financial performance. Bank First's return on average assets (what the bank earns on every \$100 of assets) rose to 1.58% in the first quarter of 2018, up from 1.16% over the same period in 2017. Moreover, earnings per share improved 64% to \$1.05 per share over the same period. Earnings per employee increased nearly \$6,000 to more than \$29,000 in the first quarter of 2018 from the same period in 2017.

Although the financial benefits from our merger with First National Bank have exceeded our expectations, there is still much that can be done to further improve the bank's efficiency and income. For example, assets per employee declined more than 8% to less than \$7.4 million due to the merger. Furthermore, the non-performing assets at the company rose nearly \$22.3 million to \$24.5 million at March 31, 2018 compared to March 31, 2017.

Again, we are very pleased with the results of the merger with First National Bank and thankful for the reduction of the bank's corporate income tax rate. We are excited with the level of positive interaction between the legacy employees of Bank First and our new teammates from First National Bank. Together, we will continue to improve our efficiency and reduce our heightened level of non-performing assets, as well as continue to grow Bank First one new relationship at a time.

Sincerely,

A handwritten signature in black ink that reads 'Mike'.

Michael B. Molepske,  
CEO and President  
(920) 652-3202

# FIRST QUARTER

**KEVIN LEMAHIEU**  
Chief Financial Officer  
(920) 652-3362



Total assets for the corporation increased by 32.4% to \$1.70 billion at March 31, 2018, compared to \$1.29 billion at March 31, 2017. Loans grew by nearly \$360 million, representing a 34.4% increase in loans year-over-year. Core deposits increased by nearly \$348 million during this same period, or 31.0%. The primary cause of the large increase in assets, loans and deposits was the acquisition of Waupaca Bancorporation, Inc. during the fourth quarter of 2017. Due to this acquisition, most comparisons to the prior year first quarter will show significant variances in both balance sheet and income statement categories.

Earnings per share for the quarter ended March 31, 2018, was \$1.05. This represents an increase of 64.1% compared to earnings per share of \$0.64 during the first quarter of 2017. Net income was \$7.06 million for the quarter ended March 31, 2018, compared to \$3.99 million during the quarter ended March 31, 2017.

Non-interest income totaled \$3.45 million for the quarter ended March 31, 2018, up from \$2.73 million during the first quarter of 2017. Some of this increase was due to the additional customer activity from six new branches added through the acquisition. Beyond that, however, our unconsolidated subsidiaries Ansay and Associates, LLC and UFS, LLC both had very strong starts to the year. We did experience a slight decline in activity in residential mortgage loan origination, leading to lower loan servicing income and gain on sales of mortgage loans year-over-year.

Non-interest expense totaled \$9.98 million for the quarter ended March 31, 2018, up from \$6.35 million for the first quarter of 2017. Nearly all of this increase was due to the added scale of maintaining six additional branches as well as staffing and data processing costs that come along with the many new relationships we garnered through the acquisition. The corporation continued its trend of efficient operations as its efficiency ratio, a measure of efficiency where a lower number indicates more efficient operations, was only slightly elevated from 49.3% for the first quarter of 2017 to 50.0% for the current quarter.

Another area where the impact of the acquisition is noticeable is in our credit quality ratios. Our ratio of non-performing assets to total assets as of March 31, 2018 was 1.44%, compared to 0.17% as of March 31, 2017. This decline in asset quality was anticipated as part of the acquisition, and the price paid as consideration for the deal was adjusted for it. This ratio has improved significantly since the close of the acquisition, when it stood at 1.67%. We continue to work aggressively through these problem assets to regain our historic level of peer leading asset quality metrics. The bank recognized a slight net recovery in loans through the first quarter of 2018, showing that we have been able to work through these assets with limited impact to operating results. Our provision for loan losses for the first quarter of 2018 was \$485,000, up from \$210,000 during the first quarter of 2017.

Total shareholders' equity increased by 24.22% to \$161.80 million at March 31, 2018, compared to \$130.25 million at March 31, 2017. This growth in shareholders' equity was accomplished while maintaining a consistent dividend for our shareholders and repurchasing nearly \$5.3 million in common shares during the first quarter of 2018. The board and management assesses our common stock dividend every quarter as we consider current capital levels, alternative needs for funds and strategic initiatives of the bank. We continue to aggressively pay down the debt incurred as a result of the acquisition, which has resulted in keeping the common stock dividend at \$0.16 per share. Current projections show that the portion of this debt which can be prepaid should be extinguished during the third or fourth quarter of 2018.

## BFNC Stock Repurchase Program

Bank First has a stock repurchase program under which the Corporation may repurchase shares of outstanding BFNC stock. Please contact Mike Molepske at (920) 652-3202 or Bridget Bonde at (920) 652-3222 for further information.

## Quarterly Common Stock Cash Dividend

The Corporation's Board of Directors approved a quarterly cash dividend of \$0.16 per common share, payable on July 6, 2018, to shareholders of record as of June 29, 2018.

# FINANCIAL PERFORMANCE

## Consolidated Statements of Financial Condition

	<u>3/31/2018</u>	<u>3/31/2017</u>
	<i>(In Thousands)</i>	
<b>ASSETS</b>		
Cash, Cash Equivalents and Fed Funds Sold	\$ 37,752	\$ 44,613
Investment Securities	163,320	128,697
Other Investments at Cost	4,687	5,588
Loans, Net	1,393,132	1,034,573
Premises and Equipment	24,343	13,823
Other Assets	80,389	59,297
<b>Total Assets</b>	<b>\$ 1,703,623</b>	<b>\$ 1,286,591</b>
<b>LIABILITIES</b>		
Deposits	\$ 1,468,713	\$ 1,120,776
Securities Sold Under Repurchase Agreements	25,879	27,122
Borrowed Funds	35,500	-
Other Liabilities	11,736	8,441
<b>Total Liabilities</b>	<b>\$ 1,541,828</b>	<b>\$ 1,156,339</b>
<b>Total Shareholder Equity</b>	<b>161,795</b>	<b>130,252</b>
<b>Total Liabilities and Shareholder Equity</b>	<b>\$ 1,703,623</b>	<b>\$ 1,286,591</b>

## Consolidated Statements of Income

	<u>3/31/2018</u>	<u>3/31/2017</u>
	<i>(In Thousands, Except Per Share Data)</i>	
Total Interest Income	\$ 19,309	\$ 11,464
Total Interest Expense	3,027	1,619
Net Interest Income	16,282	9,845
Provision for Loan Losses	485	210
Net Interest Income After Provision for Loan Losses	15,797	9,635
Total Other Income	3,446	2,734
Total Operating Expenses	9,980	6,353
Income Before Provision for Income Taxes	9,263	6,016
Provision for Income Taxes	2,200	2,023
<b>Net Income</b>	<b>\$ 7,063</b>	<b>\$ 3,993</b>
<b>Earnings Per Share: Basic and Diluted</b>	<b>\$ 1.05</b>	<b>\$ 0.64</b>

## Key Financial Metrics

	<u>3/31/2018</u>	<u>3/31/2017</u>
YTD Return on Average Assets	1.58%	1.16%
YTD Return on Average Equity	17.51%	12.36%
Average Assets per Average FTE	\$ 7,366	\$ 8,033
Net Interest Margin (YTD)	4.03%	3.26%
Full Time Equivalent - period end	244	169
Dividend Payout Ratio	15%	25%
Dividends Per Share (YTD)	\$ 0.16	\$ 0.16
Shares Outstanding - period end	6,692,407	6,205,479

# Omdahl joins Bank First team; Klahn promoted to Business Banking Officer

**TOM OMDAHL** recently joined Bank First as Compliance and BSA Officer. Omdahl has over 25 years of experience in the banking industry and is responsible for overseeing bank compliance with regulatory requirements and internal policies and procedures. He is also responsible for managing Bank First's Bank Secrecy Act (BSA) program, which is designed to detect and prevent money laundering.

"We are delighted to welcome Tom to the Bank First family," stated Mike Molepske, Chief Executive Officer of Bank First. "His extensive experience in banking, as well as his background working with the Federal Deposit Insurance Corporation (FDIC), makes him the ideal person to lead our Compliance team at Bank First. We have a very strong compliance culture throughout our organization, and we are excited to have Tom join and help continue to strengthen our compliance program."

Active in his community, Tom serves on the

Board of Directors of the Housing Partnership of the Fox Cities. He is also a member of the Wisconsin Bar Association and is a Certified Anti-Money Laundering Specialist and a Certified Regulatory Compliance Manager. Thomas earned his Bachelor of Business Administration degree and Juris Doctorate from the University of Wisconsin – Madison.

Bank First also recently announced the promotion of **DEREK KLAHN** to Business Banking Officer. Klahn joined the bank in 2014 as a Business Analyst and has quickly evolved into a key member of the Sheboygan business banking team. In his new role, Klahn will be responsible for developing new and enhancing existing business banking relationships as well as managing the bank's Small Business Administration (SBA) lending program.

Klahn earned his Bachelor of Business Administration degree from the University of Wisconsin – Madison and is currently pursuing



**OMDAHL**



**KLAHN**

his Master of Business Administration degree from the University of Wisconsin – Milwaukee. With a focus on community involvement, he is an active member of the Sheboygan Downtown Rotary. In his spare time, Derek enjoys fishing, hunting, golfing, and spending time with family and friends. Derek resides in Sheboygan with his wife, Shannon.

## Investing in our facilities supports the promise of superior customer service

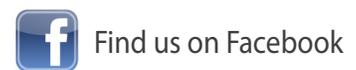
Bank First continues to invest in its future by building new and remodeling existing offices. The bank takes pride in offering employees a comfortable workspace and providing customers a modern and efficient place to do business.

"It is our mission to continually reinvest in the organization our founders created in 1894 and uphold their legacy of providing a superior customer experience in the communities we serve," stated Mike Molepske. "Investing in our facilities is a great way to reinforce Bank First's brand positioning and establish awareness of our presence in new markets." Often times, the first encounter consumers have with the bank is when they drive by it. Bank First's mission is to ensure these first impressions are positive and long-lasting. Investing in its unique architecture and contemporary design gives Bank First a distinctive identity and sets itself apart from others.

The bank recently completed interior renovations at its Custer Street, Manitowoc, location in May 2018. It also announced plans to renovate the lower level at its Eighth Street, Manitowoc location, as well as the Waupaca location in late 2018. Opportunities for the construction of new offices in Oshkosh, Green Bay, and Iola within the next three years are currently being explored.



*Interior renovations were recently completed at the Custer Street, Manitowoc, location. The branch spotlights artwork commissioned from local artist Jason Prigge.*



**APPLETON**  
4201 W. Wisconsin Avenue  
920-733-1927

**CHETEK**  
621 2nd Street  
715-924-4851

**KIEL**  
110 Fremont Street  
920-894-2215

**MISHICOT**  
110 Baugnet Street  
920-755-4200

**SEYMOUR**  
689 Woodland Plaza  
920-833-2515

**VALDERS**  
167 Lincoln Street  
920-775-4740

**ASHWAUBENON**  
2865 South Ridge Road  
920-499-0500

**CLINTONVILLE**  
135 S. Main Street  
715-823-3131

**MANITOWOC**  
402 N. 8th Street  
920-652-3100

**OSHKOSH**  
101 City Center  
920-237-5126

**SHEBOYGAN**  
2600 Kohler Memorial Dr.  
920-694-1900

**WAUPACA**  
111 Jefferson Street  
715-258-5511

**BELLEVUE**  
2747 Manitowoc Road  
920-469-0500

**IOLA**  
148 North Main Street  
715-445-3211

**MANITOWOC**  
2915 Custer Street  
920-652-3110

**PLYMOUTH**  
2700 Eastern Avenue  
920-893-1611

**TWO RIVERS**  
1703 Lake Street  
920-793-2274

**WEYAUWEGA**  
101 Main Street  
920-867-4611