FIRST BUSINESS FINANCIAL SERVICES, INC.
FIRST BUSINESS BANK
COMPENSATION PHILOSOPHY

Approved: October 24, 2019

Overview

First Business Financial Services, Inc. and First Business Bank ("Company") operates under a single, unified compensation philosophy. The purpose of the compensation philosophy is to define the common principles that will guide decision making and the development of compensation programs, practices and policies that support the Company's business strategy and align with our culture and values. These guiding principles include but are not limited to the following:

- Create a pay-for-performance culture;
- Provide compensation programs that support attracting and retaining the highest caliber of employees;
- Consider Company, individual and team success in compensation decision-making; and
- Motivate employees to achieve business goals.

Determination of Pay Levels

The Company determines employee pay levels based on a number of factors including the positions' roles and responsibilities, pay levels for like positions at similar organizations, and pay levels for peer positions within the Company. Compensation decisions for a particular employee are based on these factors and may be adjusted depending on the employee's performance, skills and experience.

In general, the Company strives to provide a compensation package that is competitive with the market, as defined by the Compensation Committee. Generally, competitive compensation is defined as approximating the 50th percentile of the market, though actual compensation positioning will vary by individual based on factors such as experience, performance and potential. In defining the competitive market, the Company will emphasize comparable organizations and those competing for the same employee talent. Benchmarks may include local and national community banks, bank holding companies, peer banks, commercial finance companies, leasing companies, trust and investment companies, and other industries in our market area. The Compensation Committee and management will periodically use outside consultants and external data to review our compensation and benefit programs.

Components of Pay

Depending on the employee's position, compensation may be provided through:

- Base salary or an hourly wage
- Annual incentives and commissions
- Long-term incentives including equity awards
- Benefits

The Role of Performance in Compensation Decisions

The compensation programs support a pay-for performance culture. All employees will have some portion of their compensation contingent on Company performance. The metrics used to determine performance may include financial and nonfinancial goals that are important determinants in the Company's long-term success.

Ultimately, the success of the Company and its employees is measured by the financial success of the shareholders, and the incentive plan metrics reflect that principle. Compensation plans are designed to preserve and grow book value, support sound business practices and credit quality and maintain and increase shareholder dividends. Incentive plan measures may also include team and individual performance, with a clear line-of-sight to outcomes in which employees directly influence.

The Company intends to make compensation decisions and design compensation programs that differentiate pay to our top performers. Top performers are defined as employees who consistently deliver superior performance/results, operate in a manner consistent with the Company's culture and values and act as a team player. The Company's compensation programs and policies create meaningful differences in pay between poor, average and top performers.

Compensation Management

The Company operates a diverse set of business lines and shared services departments within the highly competitive financial services industry. The compensation programs for each business line or department are tailored and designed to have business-specific goals and measures of performance. While the Company's compensation programs are designed in collaboration with Human Resources and members of senior management, the management team of each business line or department is expected to communicate directly with its employees about the design of its compensation programs and how its programs fit within this compensation philosophy.

Executive Compensation

The Compensation Committee reviews and approves the compensation of its executive officers. The Compensation Committee makes pay decisions based on this compensation philosophy and the guiding principles below:

- Base salaries are determined consistent with the philosophy stated above for all employees.

- A significant portion of the executive officers' compensation is directly and materially linked to operating performance. In particular, cash bonuses and incentive payments are heavily dependent on meeting or exceeding Company performance goals as well as objective and subjective criteria related to the executive officers' area of responsibility.

- The Company's equity incentive plans are an important component of executive officer compensation. The plans are intended to advance the interest of the Company and its shareholders by encouraging executive officers and other key employees to own Company stock, and through linking a significant portion of the awards to Company performance. Through equity grants, the long-range interests of executive officers and other key employees are aligned with those of shareholders as they accumulate meaningful stakes in the Company.

- In general, the Company only provides perquisites to executive officers if there is a meaningful benefit to the Company in doing so. This may include increasing the business productivity and/or effectiveness of our executives.