

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2023

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

For the transition period from _____ to _____

Commission file number: 001-37700

NICOLET BANKSHARES, INC.

(Exact Name of Registrant as Specified in its Charter)

Wisconsin

(State or Other Jurisdiction of Incorporation or Organization)

47-0871001

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

111 North Washington Street

Green Bay, Wisconsin

(Address of Principal Executive Offices)

54301

(Zip Code)

(920) 430-1400

(Registrant's Telephone Number, Including Area Code)

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.01 per share	NIC	New York Stock Exchange

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

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

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

As of July 31, 2023 there were 14,740,465 shares of \$0.01 par value common stock outstanding.

Nicolet Bankshares, Inc.
Quarterly Report on Form 10-Q
June 30, 2023
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PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS:

NICOLET BANKSHARES, INC. Consolidated Balance Sheets (In thousands, except share and per share data)

	June 30, 2023 (Unaudited)	December 31, 2022 (Audited)
Assets		
Cash and due from banks	\$ 122,021	\$ 121,211
Interest-earning deposits	383,185	33,512
Cash and cash equivalents	505,206	154,723
Certificates of deposit in other banks	9,808	12,518
Securities available for sale (“AFS”), at fair value	921,108	917,618
Securities held to maturity (“HTM”), at amortized cost	—	679,128
Other investments	57,578	65,286
Loans held for sale	3,849	1,482
Loans	6,222,776	6,180,499
Allowance for credit losses - loans (“ACL-Loans”)	(62,811)	(61,829)
Loans, net	6,159,965	6,118,670
Premises and equipment, net	117,278	108,956
Bank owned life insurance (“BOLI”)	167,192	165,137
Goodwill and other intangibles, net	398,194	402,438
Accrued interest receivable and other assets	142,450	138,013
Total assets	\$ 8,482,628	\$ 8,763,969
Liabilities and Stockholders’ Equity		
Liabilities:		
Noninterest-bearing demand deposits	\$ 2,059,939	\$ 2,361,816
Interest-bearing deposits	5,138,665	4,817,105
Total deposits	7,198,604	7,178,921
Short-term borrowings	50,000	317,000
Long-term borrowings	197,577	225,342
Accrued interest payable and other liabilities	58,809	70,177
Total liabilities	7,504,990	7,791,440
Stockholders’ Equity:		
Common stock	147	147
Additional paid-in capital	624,897	621,988
Retained earnings	417,863	407,864
Accumulated other comprehensive income (loss)	(65,269)	(57,470)
Total stockholders’ equity	977,638	972,529
Total liabilities and stockholders’ equity	\$ 8,482,628	\$ 8,763,969
Preferred shares authorized (no par value)	10,000,000	10,000,000
Preferred shares issued and outstanding	—	—
Common shares authorized (par value \$0.01 per share)	30,000,000	30,000,000
Common shares outstanding	14,717,938	14,690,614
Common shares issued	14,788,928	14,764,104

See accompanying notes to unaudited consolidated financial statements.

ITEM 1. Financial Statements Continued:

NICOLET BANKSHARES, INC.
Consolidated Statements of Income
(In thousands, except share and per share data) (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Interest income:				
Loans, including loan fees	\$ 84,091	\$ 52,954	\$ 163,233	\$ 104,253
Investment securities:				
Taxable	4,133	5,135	9,094	10,262
Tax-exempt	1,476	647	3,213	1,322
Other interest income	2,357	790	3,893	1,607
Total interest income	92,057	59,526	179,433	117,444
Interest expense:				
Deposits	29,340	2,410	54,277	4,602
Short-term borrowings	1,108	28	4,320	28
Long-term borrowings	2,570	2,004	5,076	3,935
Total interest expense	33,018	4,442	63,673	8,565
Net interest income	59,039	55,084	115,760	108,879
Provision for credit losses	450	750	3,540	1,050
Net interest income after provision for credit losses	58,589	54,334	112,220	107,829
Noninterest income:				
Wealth management fee income	5,870	4,992	11,382	10,691
Mortgage income, net	1,822	2,205	3,288	5,458
Service charges on deposit accounts	1,529	1,536	3,009	3,013
Card interchange income	3,331	2,950	6,364	5,531
BOLI income	1,073	768	2,273	1,701
Deferred compensation plan asset market valuations	499	(1,316)	1,445	(1,783)
LSR income, net	1,135	(143)	2,290	(525)
Asset gains (losses), net	(318)	1,603	(38,786)	2,916
Other income	1,900	1,536	3,732	3,072
Total noninterest income	16,841	14,131	(5,003)	30,074
Noninterest expense:				
Personnel	23,900	19,681	48,228	40,872
Occupancy, equipment and office	8,845	6,891	17,628	13,835
Business development and marketing	1,946	2,057	4,067	3,888
Data processing	4,218	3,596	8,206	6,983
Intangibles amortization	2,083	1,347	4,244	2,771
FDIC assessments	1,009	480	1,549	960
Merger-related expense	26	555	189	653
Other expense	2,930	1,931	5,721	4,126
Total noninterest expense	44,957	36,538	89,832	74,088
Income before income tax expense	30,473	31,927	17,385	63,815
Income tax expense	7,878	7,942	3,688	15,666
Net income	\$ 22,595	\$ 23,985	\$ 13,697	\$ 48,149
Earnings per common share:				
Basic	\$ 1.54	\$ 1.79	\$ 0.93	\$ 3.56
Diluted	\$ 1.51	\$ 1.73	\$ 0.91	\$ 3.43
Weighted average common shares outstanding:				
Basic	14,711,490	13,402,455	14,703,018	13,524,919
Diluted	14,959,778	13,852,179	15,011,418	14,035,086

See accompanying notes to unaudited consolidated financial statements.

ITEM 1. Financial Statements Continued:

NICOLET BANKSHARES, INC.
Consolidated Statements of Comprehensive Income (Loss)
(In thousands) (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income	\$ 22,595	\$ 23,985	\$ 13,697	\$ 48,149
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on securities AFS:				
Net unrealized holding gains (losses)	(5,893)	(23,520)	9,401	(63,468)
Net realized (gains) losses included in income	135	—	348	(15)
Reclassification adjustment for securities transferred from held to maturity to available for sale	—	—	(20,434)	—
Income tax (expense) benefit	1,556	6,350	2,886	17,140
Total other comprehensive income (loss)	(4,202)	(17,170)	(7,799)	(46,343)
Comprehensive income (loss)	\$ 18,393	\$ 6,815	\$ 5,898	\$ 1,806

See accompanying notes to unaudited consolidated financial statements.

ITEM 1. Financial Statements Continued:

NICOLET BANKSHARES, INC.
Consolidated Statements of Stockholders' Equity
(In thousands) (Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at March 31, 2023	\$ 147	\$ 623,746	\$ 398,966	\$ (61,067)	\$ 961,792
Comprehensive income:					
Net income, three months ended June 30, 2023	—	—	22,595	—	22,595
Other comprehensive income (loss)	—	—	—	(4,202)	(4,202)
Stock-based compensation expense	—	2,006	—	—	2,006
Cash dividends on common stock, \$0.25 per share	—	—	(3,698)	—	(3,698)
Exercise of stock options, net	1	451	—	—	452
Issuance of common stock	—	214	—	—	214
Purchase and retirement of common stock	(1)	(1,520)	—	—	(1,521)
Balances at June 30, 2023	<u>\$ 147</u>	<u>\$ 624,897</u>	<u>\$ 417,863</u>	<u>\$ (65,269)</u>	<u>\$ 977,638</u>
Balances at March 31, 2022	\$ 135	\$ 524,478	\$ 337,768	\$ (26,071)	\$ 836,310
Comprehensive income:					
Net income, three months ended June 30, 2022	—	—	23,985	—	23,985
Other comprehensive income (loss)	—	—	—	(17,170)	(17,170)
Stock-based compensation expense	—	2,154	—	—	2,154
Exercise of stock options, net	—	190	—	—	190
Issuance of common stock	—	197	—	—	197
Purchase and retirement of common stock	(1)	(6,278)	—	—	(6,279)
Balances at June 30, 2022	<u>\$ 134</u>	<u>\$ 520,741</u>	<u>\$ 361,753</u>	<u>\$ (43,241)</u>	<u>\$ 839,387</u>
Balances at December 31, 2022	<u>\$ 147</u>	<u>\$ 621,988</u>	<u>\$ 407,864</u>	<u>\$ (57,470)</u>	<u>\$ 972,529</u>
Comprehensive income:					
Net income, six months ended June 30, 2023	—	—	13,697	—	13,697
Other comprehensive income (loss)	—	—	—	(7,799)	(7,799)
Stock-based compensation expense	—	3,430	—	—	3,430
Cash dividends on common stock, \$0.25 per share	—	—	(3,698)	—	(3,698)
Exercise of stock options, net	1	599	—	—	600
Issuance of common stock	—	400	—	—	400
Purchase and retirement of common stock	(1)	(1,520)	—	—	(1,521)
Balances at June 30, 2023	<u>\$ 147</u>	<u>\$ 624,897</u>	<u>\$ 417,863</u>	<u>\$ (65,269)</u>	<u>\$ 977,638</u>
Balances at December 31, 2021	\$ 140	\$ 575,045	\$ 313,604	\$ 3,102	\$ 891,891
Comprehensive income:					
Net income, six months ended June 30, 2022	—	—	48,149	—	48,149
Other comprehensive income (loss)	—	—	—	(46,343)	(46,343)
Stock-based compensation expense	—	3,953	—	—	3,953
Exercise of stock options, net	1	2,076	—	—	2,077
Issuance of common stock	—	372	—	—	372
Purchase and retirement of common stock	(7)	(60,705)	—	—	(60,712)
Balances at June 30, 2022	<u>\$ 134</u>	<u>\$ 520,741</u>	<u>\$ 361,753</u>	<u>\$ (43,241)</u>	<u>\$ 839,387</u>

See accompanying notes to unaudited consolidated financial statements.

ITEM 1. Financial Statements Continued:

NICOLET BANKSHARES, INC.
Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2023	2022
Cash Flows From Operating Activities:		
Net income	\$ 13,697	\$ 48,149
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization, and accretion	9,274	11,804
Provision for credit losses	3,540	1,050
Increase in cash surrender value of life insurance	(2,159)	(1,701)
Stock-based compensation expense	3,430	3,953
Asset (gains) losses, net	38,786	(2,916)
Gain on sale of loans held for sale, net	(1,860)	(3,468)
Net change due to:		
Proceeds from sale of loans held for sale	64,117	150,037
Origination of loans held for sale	(65,244)	(146,891)
Accrued interest receivable and other assets	(3,846)	8,112
Accrued interest payable and other liabilities	(11,368)	(18,787)
Net cash provided by (used in) operating activities	48,367	49,342
Cash Flows From Investing Activities:		
Net (increase) decrease in loans	(39,223)	(359,145)
Net (increase) decrease in certificates of deposit in other banks	2,710	6,427
Purchases of securities AFS	—	(8,017)
Purchases of securities HTM	—	(56,479)
Proceeds from sales of securities AFS	26,798	3,400
Proceeds from sales of securities HTM	460,051	—
Proceeds from calls and maturities of securities AFS	133,027	47,052
Proceeds from calls and maturities of securities HTM	2,916	12,509
Purchases of other investments	(12,022)	(11,303)
Proceeds from sales of other investments	18,883	1,734
Proceeds from redemption of BOLI	117	117
Net (increase) decrease in premises and equipment	(12,565)	(6,173)
Net (increase) decrease in other real estate and other assets	794	9,836
Net cash (paid) received in branch sale	—	147,833
Net cash provided by (used in) investing activities	581,486	(212,209)
Cash Flows From Financing Activities:		
Net increase (decrease) in deposits	19,849	(173,145)
Net increase (decrease) in short-term borrowings	(267,000)	—
Repayments of long-term borrowings	(28,000)	(20,000)
Purchase and retirement of common stock	(1,521)	(60,712)
Cash dividends paid on common stock	(3,698)	—
Proceeds from issuance of common stock	400	372
Proceeds from exercise of stock options	600	2,077
Net cash provided by (used in) financing activities	(279,370)	(251,408)
Net increase (decrease) in cash and cash equivalents	350,483	(414,275)
Cash and cash equivalents:		
Beginning	154,723	595,292
Ending *	\$ 505,206	\$ 181,017
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$ 61,769	\$ 11,367
Cash paid for taxes	12,400	19,610
Transfer of securities from HTM to AFS	177,727	—
Transfer of loans and bank premises to other real estate owned	—	432
Capitalized mortgage servicing rights	620	1,685

* There was no restricted cash in cash and cash equivalents at either June 30, 2023 or June 30, 2022.

See accompanying notes to unaudited consolidated financial statements.

NICOLET BANKSHARES, INC.
Notes to Unaudited Consolidated Financial Statements

Note 1 – Basis of Presentation

General

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the consolidated balance sheets, statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows of Nicolet Bankshares, Inc. (the "Company" or "Nicolet") and its subsidiaries, as of and for the periods presented, and all such adjustments are of a normal recurring nature. All material intercompany transactions and balances have been eliminated. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the entire year.

These interim consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission and, therefore, certain information and footnote disclosures normally presented in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") have been omitted or abbreviated. These consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

Critical Accounting Policies and Estimates

Preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, assumptions, and judgments that affect the amounts reported in the consolidated financial statements and accompanying disclosures. Estimates are used in accounting for, among other items, the allowance for credit losses, valuation of loans in acquisition transactions, useful lives for depreciation and amortization, fair value of financial instruments, impairment calculations, valuation of deferred tax assets, uncertain income tax positions and contingencies. These estimates are based on management's knowledge of historical experience, current information, and other factors deemed to be relevant; accordingly, as this information changes, actual results could differ from those estimates. Factors that may cause sensitivity to the aforementioned estimates include but are not limited to: external market factors such as market interest rates and employment rates, changes to operating policies and procedures, changes in applicable banking or tax regulations, and changes to deferred tax estimates. Nicolet considers accounting estimates to be critical to reported financial results if the accounting estimate requires management to make assumptions about matters that are highly uncertain and different estimates that are reasonably likely to occur from period to period, could have a material impact on the financial statements. The accounting estimates we consider to be critical include business combinations and the valuation of loans acquired, the determination of the allowance for credit losses, and income taxes.

There have been no material changes or developments with respect to the assumptions or methodologies that the Company uses when applying critical accounting policies and developing critical accounting estimates as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

Recent Accounting Pronouncements Adopted

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings ("TDRs") and Vintage Disclosures*. This ASU eliminated the accounting guidance for TDRs by creditors and enhanced the disclosure requirements for loan modifications to borrowers experiencing financial difficulty. The ASU also requires public business entities to expand the vintage disclosures to include gross charge-offs by year of origination. The updated guidance is effective for fiscal years beginning after December 15, 2022. Adoption of this ASU did not have a material impact on the Company's consolidated financial statements; however, it resulted in new disclosures. See Note 6 for the new disclosures.

Future Accounting Pronouncements

In March 2023, the FASB issued ASU 2023-02, *Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. This ASU permits reporting entities to elect to account for tax equity investments, regardless of the tax credit program for which the income tax credits are received, using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the income tax credits and other income tax benefits received and recognizes the net amortization and income tax credits and other income tax benefits in the income statement as a component of income tax expense. A reporting entity makes an accounting policy election to apply the proportional amortization method on a tax-credit-program-by-tax-credit-program basis rather than electing to apply the proportional amortization method at the reporting entity level or to individual investments. This ASU also requires specific disclosures of investments that generate income tax credits and other income tax benefits from a tax credit program for which the entity has elected to apply the proportional amortization method. The updated guidance is effective for fiscal years beginning after December 15, 2023.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. It provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. In December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, which defers the sunset date of the original guidance from December 31, 2022 to December 31, 2024. The Company continues to work through the cessation of LIBOR, including the modification of its loans and other financial instruments with attributes that are either directly or indirectly influenced by LIBOR. The Company expects to utilize the reference rate reform transition guidance, as applicable, and does not expect such adoption to have a material impact on its consolidated financial statements or financial disclosures.

Reclassifications

Certain amounts in the 2022 consolidated financial statements have been reclassified to conform to the 2023 presentation. These reclassifications were not material and did not impact previously reported net income or comprehensive income.

Note 2 – Acquisition

Charter Bankshares, Inc. (“Charter”): On August 26, 2022, Nicolet completed its merger with Charter, pursuant to the Agreement and Plan of Merger dated March 29, 2022, at which time Charter merged with and into Nicolet, and Charter Bank, the wholly owned bank subsidiary of Charter, was merged with and into Nicolet National Bank (the “Bank”), the wholly owned bank subsidiary of Nicolet. In the merger, Charter stockholders received 15.458 shares of Nicolet common stock and \$475 in cash for each share of Charter owned. As a result, Nicolet issued approximately 1.26 million shares of Nicolet common stock for stock consideration of \$98 million and cash consideration of \$39 million, for a total purchase price of \$137 million. With the Charter merger, Nicolet expanded to Western Wisconsin and Minnesota.

A summary of the assets acquired and liabilities assumed in the Charter transaction, as of the acquisition date, including the purchase price allocation was as follows.

(In millions, except share data)	Acquired from Charter	Fair Value Adjustments	Estimated Fair Value
Assets Acquired:			
Cash and cash equivalents	\$ 10	\$ —	10
Investment securities	218	—	218
Loans	848	(21)	827
ACL-Loans	(9)	7	(2)
Premises and equipment	9	1	10
BOLI	29	—	29
Core deposit intangible	—	19	19
Other assets	5	5	10
Total assets	\$ 1,110	\$ 11	1,121
Liabilities Assumed:			
Deposits	\$ 869	\$ 1	870
Borrowings	161	—	161
Other liabilities	3	—	3
Total liabilities	\$ 1,033	\$ 1	1,034
Net assets acquired			\$ 87
Purchase Price:			
Nicolet common stock issued (in shares)			1,262,360
Value of Nicolet common stock consideration		\$	98
Cash consideration paid			39
Total purchase price		\$	137
Goodwill		\$	50

The Company purchased loans through the acquisition of Charter for which there was, at the date of acquisition, more than insignificant deterioration of credit quality since origination (purchased credit deteriorated loans or “PCD” loans). The carrying amount of these loans at acquisition was as follows.

(In thousands)	August 26, 2022	
Purchase price of PCD loans at acquisition	\$	24,031
Allowance for credit losses on PCD loans at acquisition		1,709
Par value of PCD acquired loans at acquisition	\$	25,740

The Company accounted for the Charter acquisition under the acquisition method of accounting, and thus, the financial position and results of operations of Charter prior to the consummation date were not included in the accompanying consolidated financial statements. The accounting required assets purchased and liabilities assumed to be recorded at their respective estimated fair values at the date of acquisition. The estimated fair value was determined with the assistance of third party valuations, appraisals, and third party advisors. Goodwill arising as a result of the Charter acquisition is not deductible for tax purposes.

Note 3 – Earnings per Common Share

Basic earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share are calculated by dividing net income by the weighted average number of shares adjusted for the dilutive effect of common stock awards (outstanding stock options and unvested restricted stock), if any. Presented below are the calculations for basic and diluted earnings per common share.

(In thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income	\$ 22,595	\$ 23,985	\$ 13,697	\$ 48,149
Weighted average common shares outstanding	14,711	13,402	14,703	13,525
Effect of dilutive common stock awards	249	450	308	510
Diluted weighted average common shares outstanding	14,960	13,852	15,011	14,035
Basic earnings per common share*	\$ 1.54	\$ 1.79	\$ 0.93	\$ 3.56
Diluted earnings per common share*	\$ 1.51	\$ 1.73	\$ 0.91	\$ 3.43

*Cumulative quarterly per share performance may not equal annual per share totals due to the effects of the amount and timing of capital increases. When computing earnings per share for an interim period, the denominator is based on the weighted average shares outstanding during the interim period, and not on an annualized weighted average basis. Accordingly, the sum of the earnings per share data for the quarters will not necessarily equal the year to date earnings per share data.

For both the three and six months ended June 30, 2023, options to purchase approximately 0.3 million shares were excluded from the calculation of diluted earnings per common share as the effect of their exercise would have been anti-dilutive. For both the three and six months ended June 30, 2022, options to purchase approximately 0.1 million shares were excluded from the calculation of diluted earnings per common share as the effect of their exercise would have been anti-dilutive.

Note 4 – Stock-Based Compensation

The Company may grant stock options and restricted stock under its stock-based compensation plans to certain officers, employees and directors. These plans are administered by a committee of the Board of Directors, and at June 30, 2023, approximately 0.7 million shares were available for grant under these stock-based compensation plans.

A Black-Scholes model is utilized to estimate the fair value of stock option grants, while the market price of the Company's stock at the date of grant is used to estimate the fair value of restricted stock awards. The weighted average assumptions used in the Black-Scholes model for valuing stock option grants were as follows.

	Six Months Ended June 30,	
	2023	2022
Dividend yield	1.6 %	— %
Expected volatility	30 %	30 %
Risk-free interest rate	3.74 %	1.77 %
Expected average life	7 years	7 years
Weighted average per share fair value of options	\$ 20.94	\$ 32.99

A summary of the Company's stock option activity is summarized below.

Stock Options	Option Shares Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding - December 31, 2022	1,853,064	\$ 59.79		
Granted	7,000	64.36		
Exercise of stock options *	(48,979)	31.67		
Forfeited	(13,000)	78.32		
Outstanding - June 30, 2023	1,798,085	\$ 60.44	5.5	\$ 19,976
Exercisable - June 30, 2023	1,310,642	\$ 54.41	4.6	\$ 19,862

* The terms of the stock option agreements permit having a number of shares of stock withheld, the fair market value of which as of the date of exercise is sufficient to satisfy the exercise price and/or tax withholding requirements. For the six months ended June 30, 2023, 14,772 such shares were withheld by the Company.

Intrinsic value represents the amount by which the fair market value of the underlying stock exceeds the exercise price of the stock options. The intrinsic value of options exercised for the six months ended June 30, 2023 and 2022 was approximately \$1.4 million and \$3.3 million, respectively.

A summary of the Company's restricted stock activity is summarized below.

Restricted Stock	Weighted Average Grant Date Fair Value	Restricted Shares Outstanding
Outstanding - December 31, 2022	\$ 76.49	73,490
Granted	55.65	11,674
Vested	59.50	(14,174)
Outstanding - June 30, 2023	\$ 76.45	70,990

The Company recognized approximately \$2.8 million and \$3.3 million of stock-based compensation expense (included in personnel on the consolidated statements of income) for the six months ended June 30, 2023 and 2022, respectively, associated with its common stock awards granted to officers and employees. In addition, for the six months ended June 30, 2023, the Company recognized approximately \$0.6 million of director expense (included in other expense on the consolidated statements of income) for restricted stock grants totaling 11,674 shares with immediate vesting to directors, while for the six months ended June 30, 2022, the Company recognized approximately \$0.6 million of director expense for restricted stock grants totaling 8,424 shares with immediate vesting to directors, in each case representing the annual stock retainer fee paid to external board members for that year. As of June 30, 2023, there was approximately \$15.6 million of unrecognized compensation cost related to equity award grants, which is expected to be recognized over the remaining vesting period of approximately three years. The Company recognized a tax benefit of approximately \$0.2 million and \$0.4 million for the six months ended June 30, 2023 and 2022, respectively, for the tax impact of stock option exercises and vesting of restricted stock.

Note 5 – Securities and Other Investments

Securities

Securities are classified as AFS or HTM on the consolidated balance sheets at the time of purchase. AFS securities include those securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity, and are carried at fair value on the consolidated balance sheets. HTM securities include those securities which the Company has both the positive intent and ability to hold to maturity, and are carried at amortized cost on the consolidated balance sheets. Premiums and discounts on investment securities are amortized or accreted into interest income over the estimated life of the related securities using the effective interest method.

The amortized cost and fair value of securities AFS and HTM are summarized as follows.

June 30, 2023				
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities AFS:				
U.S. Treasury securities	\$ 142,197	\$ —	\$ 4,999	\$ 137,198
U.S. government agency securities	8,807	29	44	8,792
State, county and municipals	401,293	263	32,718	368,838
Mortgage-backed securities	342,945	—	41,161	301,784
Corporate debt securities	115,277	—	10,781	104,496
Total securities AFS	<u>\$ 1,010,519</u>	<u>\$ 292</u>	<u>\$ 89,703</u>	<u>\$ 921,108</u>
December 31, 2022				
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities AFS:				
U.S. Treasury securities	\$ 192,116	\$ —	\$ 8,286	\$ 183,830
U.S. government agency securities	2,133	—	33	2,100
State, county and municipals	433,733	123	35,668	398,188
Mortgage-backed securities	227,650	10	26,728	200,932
Corporate debt securities	140,712	3	8,147	132,568
Total securities AFS	<u>\$ 996,344</u>	<u>\$ 136</u>	<u>\$ 78,862</u>	<u>\$ 917,618</u>
Securities HTM:				
U.S. Treasury securities	\$ 497,648	\$ —	\$ 35,722	\$ 461,926
U.S. government agency securities	8,744	46	—	8,790
State, county and municipals	34,874	—	3,349	31,525
Mortgage-backed securities	137,862	—	16,751	121,111
Total securities HTM	<u>\$ 679,128</u>	<u>\$ 46</u>	<u>\$ 55,822</u>	<u>\$ 623,352</u>

On March 7, 2023, Nicolet executed the sale of \$500 million (par value) U.S. Treasury held to maturity securities for a pre-tax loss of \$38 million or an after-tax loss of \$28 million. Proceeds from the sale were used to reduce existing FHLB borrowings with the remainder held in investable cash. As a result of the sale of securities previously classified as held to maturity, the remaining unsold portfolio of held to maturity securities, with a book value of \$177 million, was reclassified to available for sale with a carrying value of approximately \$157 million. The unrealized loss on this portfolio of \$20 million (at the time of reclassification) increased the balance of accumulated other comprehensive loss \$15 million, net of the deferred tax effect, and is subject to future market changes.

Proceeds and realized gains or losses from the sale of AFS and HTM securities were as follows.

(in thousands)	Six Months Ended June 30,	
	2023	2022
Securities AFS:		
Gross gains	\$ 148	\$ 20
Gross losses	(496)	(5)
Gains (losses) on sales of securities AFS, net	<u>\$ (348)</u>	<u>\$ 15</u>
Proceeds from sales of securities AFS	<u>\$ 26,798</u>	<u>\$ 3,400</u>
Securities HTM:		
Gross gains	\$ —	\$ —
Gross losses	(37,723)	—
Gains (losses) on sales of securities HTM, net	<u>\$ (37,723)</u>	<u>\$ —</u>
Proceeds from sales of securities HTM	<u>\$ 460,051</u>	<u>\$ —</u>

All mortgage-backed securities included in the securities portfolio were issued by U.S. government agencies and corporations. Investment securities with a carrying value of \$396 million and \$883 million, as of June 30, 2023 and December 31, 2022, respectively, were pledged as collateral to secure public deposits and borrowings, as applicable, and for liquidity or other purposes as required by regulation. Accrued interest on investment securities totaled \$5 million and \$6 million at June 30, 2023 and December 31, 2022, respectively, and is included in accrued interest receivable and other assets on the consolidated balance sheets.

The following table presents gross unrealized losses and the related estimated fair value of investment securities for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position.

(\$ in thousands)	June 30, 2023						
	Less than 12 months		12 months or more		Total		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Number of Securities
Securities AFS:							
U.S. Treasury securities	\$ 453	\$ 14	\$ 136,733	\$ 4,985	\$ 137,186	\$ 4,999	7
U.S. government agency securities	1,771	38	106	6	1,877	44	8
State, county and municipals	89,871	2,286	244,861	30,432	334,732	32,718	661
Mortgage-backed securities	10,915	616	290,862	40,545	301,777	41,161	445
Corporate debt securities	33,133	1,231	66,984	9,550	100,117	10,781	70
Total	<u>\$ 136,143</u>	<u>\$ 4,185</u>	<u>\$ 739,546</u>	<u>\$ 85,518</u>	<u>\$ 875,689</u>	<u>\$ 89,703</u>	<u>1,191</u>

(\$ in thousands)	December 31, 2022						
	Less than 12 months		12 months or more		Total		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Number of Securities
Securities AFS:							
U.S. Treasury securities	\$ 448	\$ 14	\$ 183,382	\$ 8,272	\$ 183,830	\$ 8,286	9
U.S. government agency securities	2,083	32	17	1	2,100	33	9
State, county and municipals	277,546	18,041	86,569	17,627	364,115	35,668	812
Mortgage-backed securities	102,108	11,320	95,614	15,408	197,722	26,728	376
Corporate debt securities	114,887	6,186	12,938	1,961	127,825	8,147	90
Total	<u>\$ 497,072</u>	<u>\$ 35,593</u>	<u>\$ 378,520</u>	<u>\$ 43,269</u>	<u>\$ 875,592</u>	<u>\$ 78,862</u>	<u>1,296</u>
Securities HTM:							
U.S. Treasury securities	\$ —	\$ —	\$ 461,926	\$ 35,722	\$ 461,926	\$ 35,722	6
State, county and municipals	17,591	1,594	11,654	1,755	29,245	3,349	58
Mortgage-backed securities	68,108	8,029	53,003	8,722	121,111	16,751	106
Total	<u>\$ 85,699</u>	<u>\$ 9,623</u>	<u>\$ 526,583</u>	<u>\$ 46,199</u>	<u>\$ 612,282</u>	<u>\$ 55,822</u>	<u>170</u>

During first quarter 2023, the Company recognized provision expense of \$2.3 million related to the expected credit loss on its Signature Bank sub debt investment (acquired in an acquisition), and immediately charged-off the full investment. The Company does not consider its remaining securities AFS with unrealized losses to be attributable to credit-related factors, as the unrealized losses in each category have occurred as a result of changes in noncredit-related factors such as changes in interest rates, market spreads and market conditions subsequent to purchase, not credit deterioration. Furthermore, the Company does not have the intent to sell any of these AFS securities and believes that it is more likely than not that we will not have to sell any such securities before a recovery of cost. As of June 30, 2023 and December 31, 2022, no allowance for credit losses on AFS securities was recognized.

The Company evaluated the HTM securities and determined no allowance for credit losses was necessary at December 31, 2022. The U.S. Treasury and U.S. government agency securities are guaranteed by the U.S. government. For the state, county and municipal securities, management considered issuer bond ratings, historical loss rates by bond ratings, whether issuers continue to make timely principal and interest payments per the contractual terms of the investment securities, internal forecasts, and whether or not such investment securities provide insurance, other credit enhancement, or are pre-refunded by the issuers. For the mortgage-backed securities, all such securities were issued by U.S. government agencies and corporations, which are currently explicitly or implicitly guaranteed by the U.S. government and have a long history of no credit losses.

The amortized cost and fair value of investment securities by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties; as this is particularly inherent in mortgage-backed securities, these securities are not included in the maturity categories below.

As of June 30, 2023 (in thousands)	Securities AFS	
	Amortized Cost	Fair Value
Due in less than one year	\$ 172,412	\$ 170,901
Due in one year through five years	163,610	151,145
Due after five years through ten years	209,473	185,108
Due after ten years	122,079	112,170
	<u>667,574</u>	<u>619,324</u>
Mortgage-backed securities	342,945	301,784
Total investment securities	<u>\$ 1,010,519</u>	<u>\$ 921,108</u>

Other Investments

Other investments include “restricted” equity securities, equity securities with readily determinable fair values, and private company securities. As a member of the Federal Reserve Bank System and the Federal Home Loan Bank (“FHLB”) System, Nicolet is required to maintain an investment in the capital stock of these entities. These equity securities are “restricted” in that they can only be sold back to the respective institutions or another member institution at par. Therefore, they are less liquid than other exchange traded equity securities. As no ready market exists for these stocks, and they have no quoted market value, these investments are carried at cost. Also included are investments in other private companies that do not have quoted market prices, which are carried at cost less impairment charges, if any. The carrying value of other investments are summarized as follows.

(in thousands)	June 30, 2023	December 31, 2022
	Amount	Amount
Federal Reserve Bank stock	\$ 32,411	\$ 32,219
Federal Home Loan Bank (“FHLB”) stock	9,674	18,625
Equity securities with readily determinable fair values	3,748	4,376
Other investments	11,745	10,066
Total other investments	<u>\$ 57,578</u>	<u>\$ 65,286</u>

Note 6 – Loans, Allowance for Credit Losses - Loans, and Credit Quality

The loan composition is summarized as follows.

(in thousands)	June 30, 2023		December 31, 2022	
	Amount	% of Total	Amount	% of Total
Commercial & industrial	\$ 1,318,567	21 %	\$ 1,304,819	21 %
Owner-occupied commercial real estate (“CRE”)	969,202	16	954,599	15
Agricultural	1,068,999	17	1,088,607	18
CRE investment	1,108,692	18	1,149,949	19
Construction & land development	337,389	5	318,600	5
Residential construction	108,095	2	114,392	2
Residential first mortgage	1,072,609	17	1,016,935	16
Residential junior mortgage	184,873	3	177,332	3
Retail & other	54,350	1	55,266	1
Loans	6,222,776	100 %	6,180,499	100 %
Less allowance for credit losses - Loans (“ACL-Loans”)	62,811		61,829	
Loans, net	<u>\$ 6,159,965</u>		<u>\$ 6,118,670</u>	
Allowance for credit losses - Loans to loans	<u>1.01 %</u>		<u>1.00 %</u>	

Accrued interest on loans totaled \$16 million and \$15 million at June 30, 2023 and December 31, 2022, respectively, and is included in accrued interest receivable and other assets on the consolidated balance sheets.

Allowance for Credit Losses - Loans:

The majority of the Company’s loans, commitments, and letters of credit have been granted to customers in the Company’s market area. Although the Company has a diversified loan portfolio, the credit risk in the loan portfolio is largely influenced by general economic conditions and trends of the counties and markets in which the debtors operate, and the resulting impact on the operations of borrowers or on the value of underlying collateral, if any.

A roll forward of the allowance for credit losses - loans is summarized as follows.

(in thousands)	Three Months Ended		Six Months Ended		Year Ended
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022	December 31, 2022
Beginning balance	\$ 62,412	\$ 49,906	\$ 61,829	\$ 49,672	\$ 49,672
ACL on PCD loans acquired	—	—	—	—	1,937
Provision for credit losses	450	600	1,200	900	10,950
Charge-offs	(561)	(42)	(745)	(142)	(1,033)
Recoveries	510	191	527	225	303
Net (charge-offs) recoveries	(51)	149	(218)	83	(730)
Ending balance	\$ 62,811	\$ 50,655	\$ 62,811	\$ 50,655	\$ 61,829

The following tables present the balance and activity in the ACL-Loans by portfolio segment.

Six Months Ended June 30, 2023										
(in thousands)	Commercial & industrial	Owner-occupied CRE	Agricultural	CRE investment	Construction & land development	Residential construction	Residential first mortgage	Residential junior mortgage	Retail & other	Total
ACL-Loans										
Beginning balance	\$ 16,350	\$ 9,138	\$ 9,762	\$ 12,744	\$ 2,572	\$ 1,412	\$ 6,976	\$ 1,846	\$ 1,029	\$ 61,829
Provision	(387)	(307)	1,865	(301)	127	(69)	(46)	136	182	1,200
Charge-offs	(403)	—	(66)	—	—	—	—	(96)	(180)	(745)
Recoveries	518	—	3	—	—	—	2	—	4	527
Net (charge-offs) recoveries	115	—	(63)	—	—	—	2	(96)	(176)	(218)
Ending balance	\$ 16,078	\$ 8,831	\$ 11,564	\$ 12,443	\$ 2,699	\$ 1,343	\$ 6,932	\$ 1,886	\$ 1,035	\$ 62,811
As % of ACL-Loans	26 %	14 %	18 %	20 %	4 %	2 %	11 %	3 %	2 %	100 %

Year Ended December 31, 2022										
(in thousands)	Commercial & industrial	Owner-occupied CRE	Agricultural	CRE investment	Construction & land development	Residential construction	Residential first mortgage	Residential junior mortgage	Retail & other	Total
ACL-Loans										
Beginning balance	\$ 12,613	\$ 7,222	\$ 9,547	\$ 8,462	\$ 1,812	\$ 900	\$ 6,844	\$ 1,340	\$ 932	\$ 49,672
ACL on PCD loans	1,408	384	—	38	2	—	93	12	—	1,937
Provision	2,415	2,087	215	4,075	758	512	96	493	299	10,950
Charge-offs	(190)	(555)	—	—	—	—	(65)	—	(223)	(1,033)
Recoveries	104	—	—	169	—	—	8	1	21	303
Net (charge-offs) recoveries	(86)	(555)	—	169	—	—	(57)	1	(202)	(730)
Ending balance	\$ 16,350	\$ 9,138	\$ 9,762	\$ 12,744	\$ 2,572	\$ 1,412	\$ 6,976	\$ 1,846	\$ 1,029	\$ 61,829
As % of ACL-Loans	26 %	15 %	16 %	21 %	4 %	2 %	11 %	3 %	2 %	100 %

The ACL-Loans represents management's estimate of expected credit losses in the Company's loan portfolio at the balance sheet date. To assess the appropriateness of the ACL-Loans, management applies an allocation methodology which focuses on evaluation of qualitative and environmental factors, including but not limited to: (i) evaluation of facts and issues related to specific loans; (ii) management's ongoing review and grading of the loan portfolio; (iii) consideration of historical loan loss and delinquency experience on each portfolio segment; (iv) trends in past due and nonperforming loans; (v) the risk characteristics of the various loan segments; (vi) changes in the size and character of the loan portfolio; (vii) concentrations of loans to specific borrowers or industries; (viii) existing economic conditions; (ix) the fair value of underlying collateral; and (x) other qualitative and quantitative factors which could affect expected credit losses. Assessing these numerous factors involves significant judgment.

Management allocates the ACL-Loans by pools of risk within each loan portfolio segment. The allocation methodology consists of the following components. First, a specific reserve is established for individually evaluated credit-deteriorated loans, which management defines as nonaccrual credit relationships over \$250,000, collateral dependent loans, purchased credit deteriorated loans, and other loans with evidence of credit deterioration. The specific reserve in the ACL-Loans for these credit deteriorated loans is equal to the aggregate collateral or discounted cash flow shortfall. Management allocates the ACL-Loans with historical loss rates by loan segment. The loss factors are measured on a quarterly basis and applied to each loan segment based on current loan balances and projected for their expected remaining life. Next, management allocates the ACL-Loans using the qualitative factors mentioned above. Consideration is given to those current qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the historical loss experience of each loan segment. Lastly, management considers reasonable and supportable forecasts to assess the collectability of future cash flows.

Allowance for Credit Losses-Unfunded Commitments:

In addition to the ACL-Loans, the Company has established an ACL-Unfunded commitments, classified in accrued interest payable and other liabilities on the consolidated balance sheets. This reserve is maintained at a level that management believes is sufficient to absorb losses arising from unfunded loan commitments, and is determined quarterly based on methodology similar to the methodology for determining the ACL-Loans. The reserve for unfunded commitments was \$3.0 million at both June 30, 2023 and December 31, 2022.

Provision for Credit Losses:

The provision for credit losses is determined by the Company as the amount to be added to the ACL loss accounts for various types of financial instruments including loans, investment securities, and off-balance sheet credit exposures after net charge-offs have been deducted to bring the ACL to a level that, in management's judgment, is necessary to absorb expected credit losses over the lives of the respective financial instruments. See Note 5 for additional information regarding the ACL related to investment securities. The following table presents the components of the provision for credit losses.

(in thousands)	Three Months Ended		Six Months Ended		Year Ended
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022	December 31, 2022
Provision for credit losses on:					
Loans	\$ 450	\$ 600	\$ 1,200	\$ 900	\$ 10,950
Unfunded commitments	—	150	—	150	550
Investment securities	—	—	2,340	—	—
Total	<u>\$ 450</u>	<u>\$ 750</u>	<u>\$ 3,540</u>	<u>\$ 1,050</u>	<u>\$ 11,500</u>

Collateral Dependent Loans:

A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. For collateral dependent loans, expected credit losses are based on the estimated fair value of the collateral at the balance sheet date, with consideration for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. The following tables present collateral dependent loans by portfolio segment and collateral type, including those loans with and without a related allowance allocation.

June 30, 2023		Collateral Type					
(in thousands)		Real Estate	Other Business Assets	Total	Without an Allowance	With an Allowance	Allowance Allocation
Commercial & industrial	\$	—	\$ 1,989	\$ 1,989	\$ 561	\$ 1,428	\$ 461
Owner-occupied CRE		5,236	—	5,236	5,236	—	—
Agricultural		5,805	3,069	8,874	3,871	5,003	91
CRE investment		2,434	—	2,434	1,911	523	7
Construction & land development		—	—	—	—	—	—
Residential first mortgage		693	—	693	693	—	—
Residential junior mortgage		—	—	—	—	—	—
Total loans	\$	14,168	\$ 5,058	\$ 19,226	\$ 12,272	\$ 6,954	\$ 559

December 31, 2022		Collateral Type					
(in thousands)		Real Estate	Other Business Assets	Total	Without an Allowance	With an Allowance	Allowance Allocation
Commercial & industrial	\$	—	\$ 3,475	\$ 3,475	\$ 1,927	\$ 1,548	\$ 595
Owner-occupied CRE		4,907	—	4,907	4,699	208	53
Agricultural		13,758	6,458	20,216	14,358	5,858	261
CRE investment		2,713	—	2,713	979	1,734	212
Construction & land development		670	—	670	670	—	—
Residential first mortgage		91	—	91	91	—	—
Total loans	\$	22,139	\$ 9,933	\$ 32,072	\$ 22,724	\$ 9,348	\$ 1,121

Past Due and Nonaccrual Loans:

The following tables present past due loans by portfolio segment.

June 30, 2023				
(in thousands)	30-89 Days Past Due (accruing)	90 Days & Over or nonaccrual	Current	Total
Commercial & industrial	\$ 260	\$ 3,157	\$ 1,315,150	\$ 1,318,567
Owner-occupied CRE	28	6,573	962,601	969,202
Agricultural	151	9,092	1,059,756	1,068,999
CRE investment	56	2,535	1,106,101	1,108,692
Construction & land development	121	95	337,173	337,389
Residential construction	—	—	108,095	108,095
Residential first mortgage	868	3,638	1,068,103	1,072,609
Residential junior mortgage	118	87	184,668	184,873
Retail & other	215	101	54,034	54,350
Total loans	\$ 1,817	\$ 25,278	\$ 6,195,681	\$ 6,222,776
Percent of total loans	— %	0.4 %	99.6 %	100.0 %

December 31, 2022				
(in thousands)	30-89 Days Past Due (accruing)	90 Days & Over or nonaccrual	Current	Total
Commercial & industrial	\$ 210	\$ 3,328	\$ 1,301,281	\$ 1,304,819
Owner-occupied CRE	833	5,647	948,119	954,599
Agricultural	20	20,416	1,068,171	1,088,607
CRE investment	—	3,832	1,146,117	1,149,949
Construction & land development	—	771	317,829	318,600
Residential construction	—	—	114,392	114,392
Residential first mortgage	3,628	3,780	1,009,527	1,016,935
Residential junior mortgage	236	224	176,872	177,332
Retail & other	261	82	54,923	55,266
Total loans	\$ 5,188	\$ 38,080	\$ 6,137,231	\$ 6,180,499
Percent of total loans	0.1 %	0.6 %	99.3 %	100.0 %

The following table presents nonaccrual loans by portfolio segment.

June 30, 2023				December 31, 2022			
(in thousands)	Nonaccrual Loans	% of Total		Nonaccrual Loans	% of Total		
Commercial & industrial	\$ 3,157	12 %	\$	3,328	9 %	\$	
Owner-occupied CRE	6,573	26		5,647	15		
Agricultural	9,092	36		20,416	53		
CRE investment	2,535	10		3,832	10		
Construction & land development	95	1		771	2		
Residential construction	—	—		—	—		
Residential first mortgage	3,638	14		3,780	10		
Residential junior mortgage	87	—		224	1		
Retail & other	101	1		82	—		
Nonaccrual loans	\$ 25,278	100 %	\$	38,080	100 %	\$	
Percent of total loans	0.4 %			0.6 %			

Credit Quality Information:

The following tables present total loans by risk categories and gross charge-offs by year of origination. Acquired loans have been included based upon the actual origination date.

June 30, 2023	Amortized Cost Basis by Origination Year								
(in thousands)	2023	2022	2021	2020	2019	Prior	Revolving	Revolving to Term	TOTAL
Commercial & industrial									
Grades 1-4	\$ 97,859	\$ 292,993	\$ 198,515	\$ 85,707	\$ 59,568	\$ 102,696	\$ 383,527	\$ —	\$ 1,220,865
Grade 5	5,318	6,973	6,397	1,929	1,156	7,678	27,520	—	56,971
Grade 6	—	1,688	1,361	837	5	1,127	4,907	—	9,925
Grade 7	605	3,578	2,590	2,319	2,189	13,912	5,613	—	30,806
Total	\$ 103,782	\$ 305,232	\$ 208,863	\$ 90,792	\$ 62,918	\$ 125,413	\$ 421,567	\$ —	\$ 1,318,567
Current period gross charge-offs	\$ —	\$ (77)	\$ (114)	\$ —	\$ —	\$ (197)	\$ (15)	\$ —	\$ (403)
Owner-occupied CRE									
Grades 1-4	\$ 60,120	\$ 160,217	\$ 189,378	\$ 100,814	\$ 92,047	\$ 302,445	\$ 3,210	\$ —	\$ 908,231
Grade 5	1,398	4,237	9,020	5,009	1,139	16,269	509	—	37,581
Grade 6	—	261	352	546	1,561	954	150	—	3,824
Grade 7	—	221	2,069	6,806	577	9,893	—	—	19,566
Total	\$ 61,518	\$ 164,936	\$ 200,819	\$ 113,175	\$ 95,324	\$ 329,561	\$ 3,869	\$ —	\$ 969,202
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Agricultural									
Grades 1-4	\$ 34,882	\$ 281,777	\$ 139,350	\$ 82,481	\$ 24,247	\$ 152,130	\$ 230,863	\$ —	\$ 945,730
Grade 5	2,335	12,391	6,359	741	373	39,105	14,380	—	75,684
Grade 6	—	109	1,144	—	52	2,320	129	—	3,754
Grade 7	2,570	7,057	6,827	589	1,890	15,082	9,816	—	43,831
Total	\$ 39,787	\$ 301,334	\$ 153,680	\$ 83,811	\$ 26,562	\$ 208,637	\$ 255,188	\$ —	\$ 1,068,999
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (66)	\$ —	\$ —	\$ (66)
CRE investment									
Grades 1-4	\$ 17,613	\$ 196,825	\$ 217,555	\$ 181,239	\$ 123,758	\$ 305,218	\$ 13,699	\$ —	\$ 1,055,907
Grade 5	2,814	559	13,092	3,908	3,812	19,960	49	—	44,194
Grade 6	—	—	—	—	497	3,693	73	—	4,263
Grade 7	—	—	21	523	2,403	1,381	—	—	4,328
Total	\$ 20,427	\$ 197,384	\$ 230,668	\$ 185,670	\$ 130,470	\$ 330,252	\$ 13,821	\$ —	\$ 1,108,692
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Construction & land development									
Grades 1-4	\$ 19,928	\$ 132,395	\$ 129,347	\$ 9,924	\$ 8,498	\$ 31,872	\$ 3,237	\$ —	\$ 335,201
Grade 5	—	30	128	1,285	511	91	—	—	2,045
Grade 6	—	—	—	—	—	—	—	—	—
Grade 7	48	—	—	—	—	95	—	—	143
Total	\$ 19,976	\$ 132,425	\$ 129,475	\$ 11,209	\$ 9,009	\$ 32,058	\$ 3,237	\$ —	\$ 337,389
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Residential construction									
Grades 1-4	\$ 15,583	\$ 80,786	\$ 8,244	\$ 1,064	\$ 127	\$ 1,513	\$ —	\$ —	\$ 107,317
Grade 5	162	—	616	—	—	—	—	—	778
Grade 6	—	—	—	—	—	—	—	—	—
Grade 7	—	—	—	—	—	—	—	—	—
Total	\$ 15,745	\$ 80,786	\$ 8,860	\$ 1,064	\$ 127	\$ 1,513	\$ —	\$ —	\$ 108,095
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Residential first mortgage									
Grades 1-4	\$ 76,867	\$ 338,815	\$ 264,697	\$ 137,536	\$ 62,134	\$ 176,793	\$ 805	\$ 3	\$ 1,057,650
Grade 5	—	1,305	1,055	1,272	2,874	2,858	—	—	9,364
Grade 6	—	—	—	—	562	—	—	—	562
Grade 7	—	151	471	276	424	3,711	—	—	5,033
Total	\$ 76,867	\$ 340,271	\$ 266,223	\$ 139,084	\$ 65,994	\$ 183,362	\$ 805	\$ 3	\$ 1,072,609
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Residential junior mortgage									
Grades 1-4	\$ 7,841	\$ 9,094	\$ 4,026	\$ 4,821	\$ 2,955	\$ 4,387	\$ 144,869	\$ 6,590	\$ 184,583
Grade 5	—	—	—	—	—	—	—	—	—
Grade 6	—	—	—	—	—	—	—	—	—
Grade 7	—	32	204	—	—	15	39	—	290
Total	\$ 7,841	\$ 9,126	\$ 4,230	\$ 4,821	\$ 2,955	\$ 4,402	\$ 144,908	\$ 6,590	\$ 184,873
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (96)	\$ —	\$ —	\$ (96)
Retail & other									
Grades 1-4	\$ 4,078	\$ 9,654	\$ 7,001	\$ 3,212	\$ 2,378	\$ 4,282	\$ 23,638	\$ —	\$ 54,243
Grade 5	—	—	19	—	—	—	—	—	19
Grade 6	—	—	—	—	—	—	—	—	—
Grade 7	30	—	21	11	1	25	—	—	88
Total	\$ 4,108	\$ 9,654	\$ 7,041	\$ 3,223	\$ 2,379	\$ 4,307	\$ 23,638	\$ —	\$ 54,350

Current period gross charge-offs	\$	(6)	\$	(1)	\$	—	\$	(1)	\$	—	\$	(52)	\$	(120)	\$	—	\$	(180)
Total loans	\$	350,051	\$	1,541,148	\$	1,209,859	\$	632,849	\$	395,738	\$	1,219,505	\$	867,033	\$	6,593	\$	6,222,776

December 31, 2022

(in thousands)	Amortized Cost Basis by Origination Year								
	2022	2021	2020	2019	2018	Prior	Revolving	Revolving to Term	TOTAL
Commercial & industrial									
Grades 1-4	\$ 317,394	\$ 226,065	\$ 101,374	\$ 68,884	\$ 50,189	\$ 77,589	\$ 360,978	\$ —	\$ 1,202,473
Grade 5	9,938	5,902	10,811	1,530	3,986	4,562	20,617	—	57,346
Grade 6	1,459	2,283	629	511	402	11,653	14,047	—	30,984
Grade 7	556	293	3,211	2,990	775	1,070	5,121	—	14,016
Total	\$ 329,347	\$ 234,543	\$ 116,025	\$ 73,915	\$ 55,352	\$ 94,874	\$ 400,763	\$ —	\$ 1,304,819
Current period gross charge-offs	\$ (38)	\$ (41)	\$ (2)	\$ —	\$ (109)	\$ —	\$ —	\$ —	\$ (190)
Owner-occupied CRE									
Grades 1-4	\$ 151,391	\$ 190,313	\$ 105,156	\$ 100,606	\$ 91,479	\$ 252,574	\$ 6,734	\$ —	\$ 898,253
Grade 5	5,241	3,192	4,287	2,163	4,791	14,632	348	—	34,654
Grade 6	—	—	763	2,361	—	877	—	—	4,001
Grade 7	227	706	6,344	616	—	9,798	—	—	17,691
Total	\$ 156,859	\$ 194,211	\$ 116,550	\$ 105,746	\$ 96,270	\$ 277,881	\$ 7,082	\$ —	\$ 954,599
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (555)	\$ —	\$ —	\$ (555)
Agricultural									
Grades 1-4	\$ 275,208	\$ 145,272	\$ 85,413	\$ 25,463	\$ 19,687	\$ 130,849	\$ 249,033	\$ —	\$ 930,925
Grade 5	13,295	18,178	2,694	1,992	517	43,927	21,199	—	101,802
Grade 6	115	1,457	28	33	—	5,258	429	—	7,320
Grade 7	7,165	2,632	720	1,977	4,611	19,948	11,507	—	48,560
Total	\$ 295,783	\$ 167,539	\$ 88,855	\$ 29,465	\$ 24,815	\$ 199,982	\$ 282,168	\$ —	\$ 1,088,607
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
CRE investment									
Grades 1-4	\$ 205,930	\$ 229,252	\$ 192,527	\$ 134,301	\$ 79,649	\$ 248,595	\$ 11,383	\$ —	\$ 1,101,637
Grade 5	567	1,649	3,578	4,266	3,086	24,897	—	—	38,043
Grade 6	—	—	—	1,170	2,396	2,483	206	—	6,255
Grade 7	—	—	121	299	245	3,140	209	—	4,014
Total	\$ 206,497	\$ 230,901	\$ 196,226	\$ 140,036	\$ 85,376	\$ 279,115	\$ 11,798	\$ —	\$ 1,149,949
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Construction & land development									
Grades 1-4	\$ 104,804	\$ 140,727	\$ 12,188	\$ 9,747	\$ 23,811	\$ 13,138	\$ 13,235	\$ —	\$ 317,650
Grade 5	37	—	—	14	—	95	—	—	146
Grade 6	—	—	—	—	—	—	—	—	—
Grade 7	33	—	—	—	—	771	—	—	804
Total	\$ 104,874	\$ 140,727	\$ 12,188	\$ 9,761	\$ 23,811	\$ 14,004	\$ 13,235	\$ —	\$ 318,600
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Residential construction									
Grades 1-4	\$ 92,417	\$ 16,774	\$ 966	\$ 123	\$ 336	\$ 229	\$ 3,547	\$ —	\$ 114,392
Grade 5	—	—	—	—	—	—	—	—	—
Grade 6	—	—	—	—	—	—	—	—	—
Grade 7	—	—	—	—	—	—	—	—	—
Total	\$ 92,417	\$ 16,774	\$ 966	\$ 123	\$ 336	\$ 229	\$ 3,547	\$ —	\$ 114,392
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Residential first mortgage									
Grades 1-4	\$ 318,628	\$ 272,011	\$ 147,857	\$ 68,975	\$ 31,208	\$ 162,153	\$ 2,080	\$ 3	\$ 1,002,915
Grade 5	1,494	758	997	1,803	2,272	465	—	—	7,789
Grade 6	—	—	—	711	—	—	—	—	711
Grade 7	154	329	188	349	197	4,303	—	—	5,520
Total	\$ 320,276	\$ 273,098	\$ 149,042	\$ 71,838	\$ 33,677	\$ 166,921	\$ 2,080	\$ 3	\$ 1,016,935
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (65)	\$ —	\$ —	\$ (65)
Residential junior mortgage									
Grades 1-4	\$ 10,119	\$ 4,580	\$ 5,207	\$ 3,151	\$ 1,573	\$ 3,409	\$ 142,784	\$ 5,762	\$ 176,585
Grade 5	—	—	—	—	—	143	165	—	308
Grade 6	—	—	—	—	—	—	—	—	—
Grade 7	—	206	—	—	—	24	209	—	439
Total	\$ 10,119	\$ 4,786	\$ 5,207	\$ 3,151	\$ 1,573	\$ 3,576	\$ 143,158	\$ 5,762	\$ 177,332
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Retail & other									
Grades 1-4	\$ 12,318	\$ 8,957	\$ 4,221	\$ 3,188	\$ 1,035	\$ 24,950	\$ 492	\$ —	\$ 55,161
Grade 5	—	23	—	—	—	—	—	—	23
Grade 6	—	—	—	—	—	—	—	—	—
Grade 7	—	23	22	2	30	5	—	—	82
Total	\$ 12,318	\$ 9,003	\$ 4,243	\$ 3,190	\$ 1,065	\$ 24,955	\$ 492	\$ —	\$ 55,266
Current period gross charge-offs	\$ —	\$ (1)	\$ (6)	\$ (1)	\$ —	\$ —	\$ (215)	\$ —	\$ (223)
Total loans	\$ 1,528,490	\$ 1,271,582	\$ 689,302	\$ 437,225	\$ 322,275	\$ 1,061,537	\$ 864,323	\$ 5,765	\$ 6,180,499

An internal loan review function rates loans using a grading system based on different risk categories. Loans with a Substandard grade are considered to have a greater risk of loss and may be assigned allocations for loss based on specific review of the weaknesses observed in the individual credits. Such loans are monitored by the loan review function to help ensure early identification of any deterioration. A description of the loan risk categories used by the Company follows.

Grades 1-4, Pass: Credits exhibit adequate cash flows, appropriate management and financial ratios within industry norms and/or are supported by sufficient collateral. Some credits in these rating categories may require a need for monitoring but elements of concern are not severe enough to warrant an elevated rating.

Grade 5, Watch: Credits with this rating are adequately secured and performing but are being monitored due to the presence of various short-term weaknesses which may include unexpected, short-term adverse financial performance, managerial problems, potential impact of a decline in the entire industry or local economy and delinquency issues. Loans to individuals or loans supported by guarantors with marginal net worth or collateral may be included in this rating category.

Grade 6, Special Mention: Credits with this rating have potential weaknesses that, without the Company's attention and correction may result in deterioration of repayment prospects. These assets are considered Criticized Assets. Potential weaknesses may include adverse financial trends for the borrower or industry, repeated lack of compliance with Company requests, increasing debt to net worth, serious management conditions and decreasing cash flow.

Grade 7, Substandard: Assets with this rating are characterized by the distinct possibility the Company will sustain some loss if deficiencies are not corrected. All foreclosures, liquidations, and nonaccrual loans are considered to be categorized in this rating, regardless of collateral sufficiency.

Modifications to Borrowers Experiencing Financial Difficulty:

On January 1, 2023, the Company adopted ASU 2022-02, which eliminated the accounting guidance for TDRs by creditors and enhanced the disclosure requirements for certain loan modifications to borrowers experiencing financial difficulty. The following table presents the amortized cost of loans that were both experiencing financial difficulty and were modified during the six months ended June 30, 2023, aggregated by portfolio segment and type of modification.

(in thousands)	Payment Delay	Term Extension	Interest Rate Reduction	Term Extension & Interest Rate Reduction	Total	% of Total Loans
Commercial & industrial	\$ 454	\$ —	\$ 88	\$ —	\$ 542	0.04 %
Owner-occupied CRE	—	—	—	—	—	— %
Agricultural	109	—	—	—	109	0.01 %
CRE investment	—	—	—	—	—	— %
Construction & land development	—	—	—	—	—	— %
Residential first mortgage	—	—	—	—	—	— %
Total	\$ 563	\$ —	\$ 88	\$ —	\$ 651	0.01 %

The loans presented in the table above have had more than insignificant payment delays (which the Company has defined as payment delays in excess of six months). These modified loans are closely monitored by the Company to understand the effectiveness of its modification efforts, and such loans generally remain in nonaccrual status pending a sustained period of performance in accordance with the modified terms.

As of June 30, 2023, there were no loans made to borrowers experiencing financial difficulty that were modified during the current period and subsequently defaulted, and there were no commitments to lend additional funds to such debtors.

Troubled Debt Restructuring Disclosures Prior to Adoption of ASU 2022-02:

As of December 31, 2022, the Company had restructured loans totaling \$18 million, with a pre-modification balance of \$24 million, all of which were also reflected as nonaccrual loans. There were no restructured loans modified during 2022 that subsequently defaulted, and there were no commitments to lend additional funds to such debtors.

Note 7 – Goodwill and Other Intangibles and Servicing Rights

Management periodically reviews the carrying value of its intangible assets to determine if any impairment has occurred, in which case an impairment charge would be recorded as an expense in the period of impairment, or whether changes in circumstances have occurred that would require a revision to the remaining useful life that would affect expense prospectively. In making such determination, management evaluates whether there are any adverse qualitative factors indicating that an impairment may exist, as well as the performance of the underlying operations or assets which give rise to the intangible. Management also regularly monitors economic factors for potential impairment indications on the value of our franchise, stability of deposits, and the wealth client base, underlying our goodwill and other intangibles. Management concluded no impairment was indicated for the six months ended June 30, 2023 and the year ended December 31, 2022. A summary of goodwill and other intangibles was as follows.

(in thousands)	June 30, 2023	December 31, 2022
Goodwill	\$ 367,387	\$ 367,387
Core deposit intangibles	28,710	32,701
Customer list intangibles	2,097	2,350
Other intangibles	30,807	35,051
Goodwill and other intangibles, net	<u>\$ 398,194</u>	<u>\$ 402,438</u>

Goodwill: A summary of goodwill was as follows. During 2022, goodwill increased due to the Charter acquisition.

(in thousands)	Six Months Ended June 30, 2023	Year Ended December 31, 2022
Goodwill:		
Goodwill at beginning of year	\$ 367,387	\$ 317,189
Acquisitions	—	49,970
Purchase accounting adjustment	—	228
Goodwill at end of period	<u>\$ 367,387</u>	<u>\$ 367,387</u>

Other intangible assets: Other intangible assets, consisting of core deposit intangibles and customer list intangibles, are amortized over their estimated finite lives. A summary of other intangible assets was as follows. During 2022, core deposit intangibles increased due to the Charter acquisition.

(in thousands)	Six Months Ended June 30, 2023	Year Ended December 31, 2022
Core deposit intangibles:		
Gross carrying amount	\$ 60,724	\$ 60,724
Accumulated amortization	(32,014)	(28,023)
Net book value	<u>\$ 28,710</u>	<u>\$ 32,701</u>
Additions during the period	\$ —	\$ 19,364
Amortization during the period	\$ 3,991	\$ 6,108
Customer list intangibles:		
Gross carrying amount	\$ 5,523	\$ 5,523
Accumulated amortization	(3,426)	(3,173)
Net book value	<u>\$ 2,097</u>	<u>\$ 2,350</u>
Amortization during the period	\$ 253	\$ 508

Mortgage servicing rights (“MSR”): Mortgage servicing rights are amortized in proportion to and over the period of estimated net servicing income, and assessed for impairment at each reporting date, with the amortization recorded in mortgage income, net, in the consolidated statements of income. Mortgage servicing rights are carried at the lower of the initial capitalized amount, net of accumulated amortization, or estimated fair value, and are included in other assets in the consolidated balance sheets. The Company periodically evaluates its mortgage servicing rights asset for impairment. At each reporting date, impairment is assessed based on estimated fair value using estimated prepayment speeds of the underlying mortgage loans serviced and stratification based on the risk characteristics of the underlying loans (predominantly loan type and note interest rate). A summary of the changes in the mortgage servicing rights asset was as follows.

(in thousands)	Six Months Ended June 30, 2023	Year Ended December 31, 2022
Mortgage servicing rights asset:		
MSR asset at beginning of year	\$ 13,080	\$ 13,636
Capitalized MSR	620	2,327
Amortization during the period	(1,489)	(2,883)
MSR asset at end of period	\$ 12,211	\$ 13,080
Valuation allowance at beginning of year	\$ (500)	\$ (1,200)
Reversals	500	700
Valuation allowance at end of period	\$ —	\$ (500)
MSR asset, net	\$ 12,211	\$ 12,580
Fair value of MSR asset at end of period	\$ 16,200	\$ 17,215
Residential mortgage loans serviced for others	\$ 1,615,985	\$ 1,637,109
Net book value of MSR asset to loans serviced for others	0.76 %	0.77 %

Loan servicing rights (“LSR”): The Company acquired an LSR asset in December 2021 which will be amortized over the estimated remaining loan service period. The Company does not expect to add new loans to this servicing portfolio. A summary of the changes in the LSR asset were as follows.

(in thousands)	Six Months Ended June 30, 2023	Year Ended December 31, 2022
Loan servicing rights asset:		
LSR asset at beginning of year	\$ 11,039	\$ 20,055
Amortization during the period	(1,104)	(9,016)
LSR asset at end of period	\$ 9,935	\$ 11,039
Agricultural loans serviced for others	\$ 512,766	\$ 538,392

The following table shows the estimated future amortization expense for amortizing intangible assets and the servicing assets. The projections are based on existing asset balances, the current interest rate environment and estimated prepayment speeds as of June 30, 2023. The actual amortization expense the Company recognizes in any given period may be significantly different depending upon acquisition or sale activities, changes in interest rates, prepayment speeds, market conditions, regulatory requirements and events or circumstances that indicate the carrying amount of an asset may not be recoverable.

(in thousands)	Core deposit intangibles	Customer list intangibles	MSR asset	LSR asset
Year ending December 31,				
2023 (remaining six months)	\$ 3,598	\$ 230	\$ 945	\$ 1,104
2024	6,298	449	2,725	1,962
2025	5,161	449	1,998	1,717
2026	3,983	249	1,474	1,472
2027	3,218	166	1,473	1,227
2028	2,622	166	1,472	981
Thereafter	3,830	388	2,124	1,472
Total	\$ 28,710	\$ 2,097	\$ 12,211	\$ 9,935

Note 8 – Short and Long-Term Borrowings

Short-Term Borrowings:

Short-term borrowings include any borrowing with an original maturity of one year or less. At June 30, 2023, short-term borrowings included \$50 million of short-term FHLB advances due in September 2023 with a weighted average rate of 4.26%. At December 31, 2022, short-term borrowings included \$317 million of short-term FHLB advances, comprised of \$117 million due in January 2023 at a weighted average rate of 4.29% and \$200 million due in September 2023 at a weighted average rate of 4.30%.

Long-Term Borrowings:

Long-term borrowings include any borrowing with an original maturity greater than one year. The components of long-term borrowings were as follows.

(in thousands)	June 30, 2023	December 31, 2022
FHLB advances	\$ 5,000	\$ 33,000
Junior subordinated debentures	40,136	39,720
Subordinated notes	152,441	152,622
Total long-term borrowings	\$ 197,577	\$ 225,342

FHLB Advances: The Federal Home Loan Bank (“FHLB”) advances bear fixed rates, require interest-only monthly payments, and have maturity dates through March 2025. The weighted average rate of the FHLB advances was 1.55% at June 30, 2023 and 1.09% at December 31, 2022.

Junior Subordinated Debentures: Each of the junior subordinated debentures was issued to an underlying statutory trust (the “statutory trusts”), which issued trust preferred securities and common securities and used the proceeds from the issuance of the common and the trust preferred securities to purchase the junior subordinated debentures of the Company. The debentures represent the sole asset of the statutory trusts. All of the common securities of the statutory trusts are owned by the Company. The statutory trusts are not included in the consolidated financial statements. The net effect of all the documents entered into with respect to the trust preferred securities is that the Company, through payments on its debentures, is liable for the distributions and other payments required on the trust preferred securities. Interest on all debentures is current. Any applicable discounts (initially recorded to carry an acquired debenture at its then estimated fair value) are being accreted to interest expense over the remaining life of the debenture. All the junior subordinated debentures are currently callable and may be redeemed in part or in full, at par, plus any accrued but unpaid interest. At both June 30, 2023 and December 31, 2022, approximately \$38 million of trust preferred securities qualify as Tier 1 capital.

Subordinated Notes (the “Notes”): In July 2021, the Company completed the private placement of \$100 million in fixed-to-floating rate subordinated notes due in 2031, with a fixed annual rate of 3.125% for the first five years, and will reset quarterly thereafter to the then current three-month Secured Overnight Financing Rate (“SOFR”) plus 237.5 basis points. The Notes due in 2031 are redeemable beginning July 15, 2026 and quarterly thereafter on any interest payment date.

In December 2021, Nicolet assumed two subordinated note issuances at a premium as the result of an acquisition. One issuance was \$30 million in fixed-to-floating rate subordinated notes due in 2028, with a fixed annual interest rate of 5.875% for the first five years, and will reset quarterly thereafter to the then current three-month LIBOR plus 2.88%. The second issuance was \$22 million in fixed-to-floating rate subordinated notes due in 2030, with a fixed annual interest rate of 7.00% for the first five years, and will reset quarterly thereafter to the then current SOFR plus 687.5 basis points. The Notes due in 2028 are redeemable beginning June 1, 2023, and quarterly thereafter on any interest payment date, while the Notes due in 2030 are redeemable beginning June 30, 2025, and quarterly thereafter on any interest payment date. All Notes qualify as Tier 2 capital for regulatory purposes, and are discounted in accordance with regulations when the debt has five years or less remaining to maturity.

The following table shows the breakdown of junior subordinated debentures and subordinated notes.

	As of June 30, 2023					As of December 31, 2022	
(in thousands)	Maturity Date	Interest Rate	Par	Unamortized Premium /(Discount) / Debt Issue Costs ⁽¹⁾	Carrying Value	Interest Rate	Carrying Value
<u>Junior Subordinated Debentures:</u>							
Mid-Wisconsin Statutory Trust I ⁽²⁾	12/15/2035	6.98 %	\$ 10,310	\$ (2,478)	\$ 7,832	6.20 %	\$ 7,734
Baylake Capital Trust II ⁽³⁾	9/30/2036	6.89 %	16,598	(3,056)	13,542	6.08 %	13,424
First Menasha Statutory Trust ⁽⁴⁾	3/17/2034	8.30 %	5,155	(465)	4,690	7.53 %	4,668
County Bancorp Statutory Trust II ⁽⁵⁾	9/15/2035	7.08 %	6,186	(831)	5,355	6.30 %	5,277
County Bancorp Statutory Trust III ⁽⁶⁾	6/15/2036	7.24 %	6,186	(889)	5,297	6.46 %	5,219
Fox River Valley Capital Trust ⁽⁷⁾	5/30/2033	6.40 %	3,610	(190)	3,420	6.40 %	3,398
Total			\$ 48,045	\$ (7,909)	\$ 40,136		\$ 39,720
<u>Subordinated Notes:</u>							
Subordinated Notes due 2031	7/15/2031	3.13 %	\$ 100,000	\$ (628)	\$ 99,372	3.13 %	\$ 99,267
County Subordinated Notes due 2028	6/1/2028	8.38 %	30,000	—	30,000	5.88 %	30,119
County Subordinated Notes due 2030	6/30/2030	7.00 %	22,400	669	23,069	7.00 %	23,236
Total			\$ 152,400	\$ 41	\$ 152,441		\$ 152,622

(1) Represents the remaining unamortized premium or discount on debt issuances assumed in acquisitions, and represents the unamortized debt issue costs for the debt issued directly by Nicolet.

(2) The debentures, assumed in April 2013 as the result of an acquisition, have a floating rate of three-month LIBOR plus 1.43%, adjusted quarterly.

(3) The debentures, assumed in April 2016 as a result of an acquisition, have a floating rate of three-month LIBOR plus 1.35%, adjusted quarterly.

(4) The debentures, assumed in April 2017 as the result of an acquisition, have a floating rate of three-month LIBOR plus 2.79%, adjusted quarterly.

(5) The debentures, assumed in December 2021 as the result of an acquisition, have a floating rate of three-month LIBOR plus 1.53%, adjusted quarterly.

(6) The debentures, assumed in December 2021 as the result of an acquisition, have a floating rate of three-month LIBOR plus 1.69%, adjusted quarterly.

(7) The debentures, assumed in December 2021 as the result of an acquisition, have a floating rate of 5-year swap rate plus 3.40%, which resets every five years.

Note 9 – Commitments and Contingencies

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, financial guarantees, and standby letters of credit. Such commitments may involve, to varying degrees, elements of credit risk in excess of amounts recognized on the consolidated balance sheets. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and issuing letters of credit as they do for on-balance sheet financial instruments. See Note 6 for information on the allowance for credit losses-unfunded commitments.

A summary of the contract or notional amount of the Company's exposure to off-balance sheet risk was as follows.

(in thousands)	June 30, 2023	December 31, 2022
Commitments to extend credit	\$ 1,826,995	\$ 1,850,601
Financial standby letters of credit	22,777	26,530
Performance standby letters of credit	12,824	9,375

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract, and predominantly included commercial lines of credit with a term of one year or less. The commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Financial and performance standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Financial standby letters of credit are issued specifically to facilitate commerce and typically result in the commitment being drawn on when the underlying transaction is consummated between the customer and the third party, while performance standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party. Both of these guarantees are primarily issued to support public and private

borrowing arrangements and, generally, have terms of one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral, which may include accounts receivable, inventory, property, equipment, and income-producing properties, supporting those commitments if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third-party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount. If the commitment is funded, the Company would be entitled to seek recovery from the customer.

Interest rate lock commitments to originate residential mortgage loans held for sale and forward commitments to sell residential mortgage loans held for sale are considered derivative instruments ("mortgage derivatives") and the contractual amounts were \$24 million and \$18 million, respectively, at June 30, 2023. In comparison, interest rate lock commitments to originate residential mortgage loans held for sale and forward commitments to sell residential mortgage loans held for sale totaled \$9 million and \$9 million, respectively, at December 31, 2022. The net fair value of these mortgage derivatives combined was a net gain of \$0.2 million and \$0.1 million at June 30, 2023 and December 31, 2022, respectively.

Nicolet is party to various pending and threatened claims and legal proceedings arising in the normal course of business activities, some of which may involve claims for substantial amounts. Although Nicolet has developed policies and procedures to minimize legal noncompliance and the impact of claims and other proceedings and endeavored to procure reasonable amounts of insurance coverage, litigation and regulatory actions present an ongoing risk. With respect to all such claims, Nicolet continuously assesses its potential liability based on the allegations and evidence available. If the facts indicate that it is probable that Nicolet will incur a loss and the amount of such loss can be reasonably estimated, Nicolet will establish an accrual for the probable loss. For matters where a loss is not probable, or the amount of the loss cannot be reasonably estimated, Nicolet does not establish an accrual.

Future developments could result in an unfavorable outcome for or resolution of any one or more of the legal proceedings in which Nicolet is a defendant, which may be material to Nicolet's business or consolidated results of operations or financial condition for a particular fiscal period or periods. Although it is not possible to predict the outcome of any of these legal proceedings or the range of possible loss, if any, based on the most recent information available, advice of counsel and available insurance coverage, if applicable, management believes that any liability resulting from such proceedings would not have a material adverse effect on our financial position or results of operations.

Note 10 – Fair Value Measurements

Fair value represents the estimated price at which an orderly transaction to sell an asset or transfer a liability would take place between market participants at the measurement date under current market conditions (i.e., an exit price concept), and is a market-based measurement versus an entity-specific measurement. The Company records and/or discloses certain financial instruments on a fair value basis. These financial assets and financial liabilities are measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the observability of the assumptions used to determine fair value. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs are inputs that reflect assumptions of the reporting entity about how market participants would price the asset or liability based on the best information available under the circumstances. The three fair value levels are:

- Level 1 – quoted market prices in active markets for identical assets or liabilities that a company has the ability to access at the measurement date
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – significant unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity

In instances where the fair value measurement is based on inputs from different levels, the level within which the entire fair value measurement will be categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. This assessment of the significance of an input requires management judgment.

Recurring basis fair value measurements:

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis for the periods presented.

(in thousands)		Fair Value Measurements Using			
Measured at Fair Value on a Recurring Basis:	Total	Level 1	Level 2	Level 3	
June 30, 2023					
U.S. Treasury securities	\$ 137,198	\$ —	\$ 137,198	\$ —	
U.S. government agency securities	8,792	—	8,792	—	
State, county and municipals	368,838	—	367,417	1,421	
Mortgage-backed securities	301,784	—	300,805	979	
Corporate debt securities	104,496	—	99,241	5,255	
Securities AFS	\$ 921,108	\$ —	\$ 913,453	\$ 7,655	
Other investments (equity securities)	\$ 3,748	\$ 3,748	\$ —	\$ —	
December 31, 2022					
U.S. Treasury securities	\$ 183,830	\$ —	\$ 183,830	\$ —	
U.S. government agency securities	2,100	—	2,100	—	
State, county and municipals	398,188	—	396,315	1,873	
Mortgage-backed securities	200,932	—	199,951	981	
Corporate debt securities	132,568	—	127,269	5,299	
Securities AFS	\$ 917,618	\$ —	\$ 909,465	\$ 8,153	
Other investments (equity securities)	\$ 4,376	\$ 4,376	\$ —	\$ —	

The following is a description of the valuation methodologies used by the Company for the assets and liabilities measured at fair value on a recurring basis, noted in the tables above. Where quoted market prices on securities exchanges are available, the investments are classified as Level 1. Level 1 investments primarily include exchange-traded equity securities. If quoted market prices are not available, fair value is generally determined using prices obtained from independent pricing vendors who use pricing models (with typical inputs including benchmark yields, reported trades for similar securities, issuer spreads or relationship to other benchmark quoted securities), or discounted cash flows, and are classified as Level 2. Examples of these investments include U.S. Treasury securities, U.S. government agency securities, mortgage-backed securities, obligations of state, county and municipals, and certain corporate debt securities. Finally, in certain cases where there is limited activity or less transparency around inputs to the estimated fair value, investments are classified within Level 3 of the hierarchy. Examples of these include private corporate debt securities, which are primarily trust preferred security investments, as well as certain municipal bonds and mortgage-backed securities. At June 30, 2023 and December 31, 2022, it was determined that carrying value was the best approximation of fair value for these Level 3 securities, based primarily on the internal analysis on these securities.

The following table presents the changes in Level 3 securities AFS measured at fair value on a recurring basis.

(in thousands)		Six Months Ended	Year Ended
Level 3 Fair Value Measurements:		June 30, 2023	December 31, 2022
Balance at beginning of year	\$	8,153	\$ 8,065
Acquired balance		—	750
Maturities / Paydowns		(451)	(451)
Unrealized gain / (loss)		(47)	(211)
Balance at end of period	\$	7,655	\$ 8,153

Nonrecurring basis fair value measurements:

The following table presents the Company's assets measured at fair value on a nonrecurring basis, aggregated by level in the fair value hierarchy within which those measurements fall.

(in thousands)		Fair Value Measurements Using			
Measured at Fair Value on a Nonrecurring Basis:	Total	Level 1		Level 2	Level 3
June 30, 2023					
Collateral dependent loans	\$ 18,667	\$ —	\$ —	\$ —	18,667
Other real estate owned (“OREO”)	1,478	—	—	—	1,478
MSR asset	12,211	—	—	—	12,211
December 31, 2022					
Collateral dependent loans	\$ 30,951	\$ —	\$ —	\$ —	30,951
OREO	1,975	—	—	—	1,975
MSR asset	12,580	—	—	—	12,580

The following is a description of the valuation methodologies used by the Company for the items noted in the table above. For collateral dependent loans, the estimated fair value is based upon the present value of expected future cash flows discounted at the loan's effective interest rate, the estimated fair value of the underlying collateral with consideration for estimated selling costs if satisfaction of the loan depends on the sale of the collateral, or the estimated liquidity of the note. For OREO, the fair value is based upon the estimated fair value of the underlying collateral adjusted for the expected costs to sell. To estimate the fair value of the MSR asset, the underlying serviced loan pools are stratified by interest rate tranche and term of the loan, and a valuation model is used to calculate the present value of the expected future cash flows for each stratum. The servicing valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as costs to service, a discount rate, ancillary income, default rates and losses, and prepayment speeds. Although some of these assumptions are based on observable market data, other assumptions are based on unobservable estimates of what market participants would use to measure fair value.

Financial instruments:

The carrying amounts and estimated fair values of the Company's financial instruments are shown below.

June 30, 2023					
(in thousands)	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	\$ 505,206	\$ 505,206	\$ 505,206	\$ —	\$ —
Certificates of deposit in other banks	9,808	9,710	—	9,710	—
Securities AFS	921,108	921,108	—	913,453	7,655
Other investments, including equity securities	57,578	57,578	3,748	43,334	10,496
Loans held for sale	3,849	3,944	—	3,944	—
Loans, net	6,159,965	5,854,647	—	—	5,854,647
MSR asset	12,211	16,200	—	—	16,200
Accrued interest receivable	21,511	21,511	21,511	—	—
Financial liabilities:					
Deposits	\$ 7,198,604	\$ 7,167,820	\$ —	\$ —	\$ 7,167,820
Short-term borrowings	50,000	50,000	—	50,000	—
Long-term borrowings	197,577	188,603	—	4,701	183,902
Accrued interest payable	6,335	6,335	6,335	—	—

December 31, 2022

(in thousands)	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	\$ 154,723	\$ 154,723	\$ 154,723	\$ —	\$ —
Certificates of deposit in other banks	12,518	12,407	—	12,407	—
Securities AFS	917,618	917,618	—	909,465	8,153
Securities HTM	679,128	623,352	—	623,352	—
Other investments, including equity securities	65,286	65,286	4,376	52,093	8,817
Loans held for sale	1,482	1,529	—	1,529	—
Loans, net	6,118,670	5,863,570	—	—	5,863,570
MSR asset	12,580	17,215	—	—	17,215
Accrued interest receivable	21,275	21,275	21,275	—	—
Financial liabilities:					
Deposits	\$ 7,178,921	\$ 7,172,779	\$ —	\$ —	\$ 7,172,779
Short-term borrowings	317,000	317,000	317,000	—	—
Long-term borrowings	225,342	220,513	—	33,001	187,512
Accrued interest payable	4,265	4,265	4,265	—	—

The valuation methodologies for the financial instruments disclosed in the above table are described in Note 18, Fair Value Measurements, in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

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

Nicolet Bankshares, Inc. (the "Company" or "Nicolet") is a bank holding company headquartered in Green Bay, Wisconsin. Nicolet provides a diversified range of traditional banking and wealth management services to individuals and businesses in its market area and through the branch offices of its banking subsidiary, Nicolet National Bank (the "Bank"), in Wisconsin, Michigan, and Minnesota. In this Quarterly Report on Form 10-Q, unless the context indicates otherwise, all references to "we," "us" and "our" refer to the Company.

Forward-Looking Statements

Statements made in this document and in any documents that are incorporated by reference which are not purely historical are forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995, including any statements regarding descriptions of management's plans, objectives, or goals for future operations, products or services, and forecasts of its revenues, earnings, or other measures of performance. Forward-looking statements are based on current management expectations and, by their nature, are subject to risks and uncertainties. These statements are neither statements of historical fact nor assurance of future performance and generally may be identified by the use of words such as "believe," "expect," "anticipate," "plan," "estimate," "should," "will," "intend," or similar expressions. Forward-looking statements include discussions of strategy, financial projections, guidance and estimates (including their underlying assumptions), statements regarding plans, objectives, expectations or consequences of various transactions or events, and statements about our future performance, operations, products and services, and should be viewed with caution. Shareholders should note that many factors, some of which are discussed elsewhere in this document, could affect the future financial results of Nicolet and could cause those results to differ materially from those implied or anticipated by the statements. Except as required by law, we expressly disclaim any obligations to publicly update any forward-looking statements whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise. Important factors, many of which are beyond Nicolet's control, that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements, in addition to those described in detail under Item 1A, "Risk Factors" of Nicolet's 2022 Annual Report on Form 10-K include, but are not necessarily limited to the following:

- operating, legal and regulatory risks, including the effects of legislative or regulatory developments affecting the financial industry generally or Nicolet specifically;
- our ability to maintain liquidity, primarily through deposits, in light of recent events in the banking industry;
- economic, market, political and competitive forces affecting Nicolet's banking and wealth management businesses;
- changes in interest rates, monetary policy and general economic conditions, which may impact Nicolet's net interest income;
- potential difficulties in identifying and integrating the operations of future acquisition targets with those of Nicolet;
- the impact of purchase accounting with respect to our merger activities, or any change in the assumptions used regarding the assets purchased and liabilities assumed to determine their fair value;
- cybersecurity risks and the vulnerability of our network and online banking portals, and the systems or parties with whom we contract, to unauthorized access, computer viruses, phishing schemes, spam attacks, human error, natural disasters, power loss and other security breaches that could adversely affect our business and financial performance or reputation;
- changes in accounting standards, rules and interpretations and the related impact on Nicolet's financial statements;
- compliance or operational risks related to new products, services, ventures, or lines of business, if any, that Nicolet may pursue or implement;
- changes in monetary and tax policies;
- changes occurring in business conditions and inflation and the possibility of a recession;
- our ability to attract and retain key personnel;
- examinations by our regulatory authorities, including the possibility that the regulatory authorities may, among other things, require us to increase our allowance for credit losses, write-down assets, or take other actions;
- risks associated with actual or potential information gatherings, investigations or legal proceedings by customers, regulatory agencies or others;
- the potential effects of events beyond our control that may have a destabilizing effect on financial markets and the economy, such as weather events, natural disasters, epidemics and pandemics (including COVID-19), war or terrorist activities, disruptions in our customers' supply chains, disruptions in transportation, essential utility outages or trade disputes and related tariffs;
- each of the factors and risks under Item 1A, "Risk Factors" of Nicolet's 2022 Annual Report on Form 10-K and in subsequent filings we make with the SEC; and
- the risk that Nicolet's analysis of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful.

These factors should be considered in evaluating the forward-looking statements, and you should not place undue reliance on such statements.

Overview

The following discussion is management's analysis of the consolidated financial condition as of June 30, 2023 and December 31, 2022 and results of operations for the three and six-month periods ended June 30, 2023 and 2022. It should be read in conjunction with Nicolet's audited consolidated financial statements included in Nicolet's 2022 Annual Report on Form 10-K.

Our financial performance and certain balance sheet line items were impacted by the timing and size of our acquisition of Charter Bankshares, Inc. ("Charter") on August 26, 2022. Certain income statement results, average balances and related ratios include partial contributions from Charter from the acquisition date. Additional information on our acquisition activity is included in Note 2, "Acquisition" in the Notes to Unaudited Consolidated Financial Statements, under Part I, Item 1.

Economic Outlook and Recent Industry Developments

For year-to-date 2023, economic growth remains stronger than expected, driven by spending within the consumer sector. The labor market remains tighter than expected, which is fueling additional consumer spending through continued demand for goods and services. Inflation has started to come down; however, the progress has been slower than anticipated despite the significant increase in interest rates by the Federal Reserve. In an effort to combat inflation, the Federal Reserve has tightened monetary policy by raising interest rates from a target range of 0.00%-0.25% in early March 2022 to 5.00%-5.25% at the end of June 2023, followed by another 0.25% increase (to a target rate of 5.25%-5.50%) at the end of July 2023. All these factors are indicating a slowing in economic activity is the most likely scenario for the U.S. economy in late 2023.

These macroeconomic challenges are fueling additional concerns within the banking sector. During first quarter 2023, the banking industry experienced significant volatility with high-profile bank failures and industry wide concerns related to liquidity, deposit outflows, unrealized securities losses, and eroding consumer confidence in the banking system. This banking crisis has the potential for tighter lending standards and higher capital requirements, which further complicates the current economic outlook. In addition, the ongoing geopolitical issues also have the potential for further economic disruptions.

Table 1: Earnings Summary and Selected Financial Data

(In thousands, except per share data)	At or for the Three Months Ended					At or for the Six Months Ended	
	6/30/2023	3/31/2023	12/31/2022	9/30/2022	6/30/2022	6/30/2023	6/30/2022
Results of operations:							
Net interest income	\$ 59,039	\$ 56,721	\$ 68,092	\$ 62,990	\$ 55,084	\$ 115,760	\$ 108,879
Provision for credit losses	450	3,090	1,850	8,600	750	3,540	1,050
Noninterest income	16,841	(21,844)	14,846	13,000	14,131	(5,003)	30,074
Noninterest expense	44,957	44,875	43,989	42,567	36,538	89,832	74,088
Income (loss) before income tax expense	30,473	(13,088)	37,099	24,823	31,927	17,385	63,815
Income tax expense (benefit)	7,878	(4,190)	9,498	6,313	7,942	3,688	15,666
Net income (loss)	\$ 22,595	\$ (8,898)	\$ 27,601	\$ 18,510	\$ 23,985	\$ 13,697	\$ 48,149
Earnings (loss) per common share ("EPS"):							
Basic	\$ 1.54	\$ (0.61)	\$ 1.88	\$ 1.33	\$ 1.79	\$ 0.93	\$ 3.56
Diluted	\$ 1.51	\$ (0.61)	\$ 1.83	\$ 1.29	\$ 1.73	\$ 0.91	\$ 3.43
Common Shares:							
Basic weighted average	14,711	14,694	14,685	13,890	13,402	14,703	13,525
Diluted weighted average	14,960	14,694	15,110	14,310	13,852	15,011	14,035
Outstanding (period end)	14,718	14,698	14,691	14,673	13,407	14,718	13,407
Period-End Balances:							
Loans	\$ 6,222,776	\$ 6,223,732	\$ 6,180,499	\$ 5,984,437	\$ 4,978,654	\$ 6,222,776	\$ 4,978,654
Allowance for credit losses - loans	62,811	62,412	61,829	60,348	50,655	62,811	50,655
Total assets	8,482,628	8,192,354	8,763,969	8,895,916	7,370,252	8,482,628	7,370,252
Deposits	7,198,604	6,928,579	7,178,921	7,395,902	6,286,266	7,198,604	6,286,266
Stockholders' equity (common)	977,638	961,792	972,529	938,463	839,387	977,638	839,387
Book value per common share	66.42	65.44	66.20	63.96	62.61	66.42	62.61
Tangible book value per common share ⁽²⁾	39.37	38.20	38.81	36.21	37.49	39.37	37.49
Financial Ratios: ⁽¹⁾							
Return on average assets	1.10 %	(0.42)%	1.26 %	0.93 %	1.32 %	0.33 %	1.31 %
Return on average common equity	9.37	(3.72)	11.47	8.25	11.48	2.85	11.43
Return on average tangible common equity ⁽²⁾	15.95	(6.34)	19.85	13.93	19.21	4.86	18.98
Stockholders' equity to assets	11.53	11.74	11.10	10.55	11.39	11.53	11.39
Tangible common equity to tangible assets ⁽²⁾	7.17	7.21	6.82	6.26	7.15	7.17	7.15
Reconciliation of Non-GAAP Financial Measures:							
Adjusted net income (loss) reconciliation ⁽³⁾							
Net income (loss) (GAAP)	\$ 22,595	\$ (8,898)	\$ 27,601	\$ 18,510	\$ 23,985	\$ 13,697	\$ 48,149
<i>Adjustments:</i>							
Provision expense ⁽⁴⁾	—	2,340	—	8,000	—	2,340	—
Assets (gains) losses, net	318	38,468	(260)	46	(1,603)	38,786	(2,916)
Merger-related expense	26	163	492	519	555	189	653
Adjustments subtotal	344	40,971	232	8,565	(1,048)	41,315	(2,263)
Tax on Adjustments (25% effective tax rate)	86	10,243	58	2,141	(262)	10,329	(566)
Adjustments, net of tax	258	30,728	174	6,424	(786)	30,986	(1,697)
Adjusted net income (Non-GAAP)	\$ 22,853	\$ 21,830	\$ 27,775	\$ 24,934	\$ 23,199	\$ 44,683	\$ 46,452
Adjusted diluted EPS (Non-GAAP)	\$ 1.53	\$ 1.45	\$ 1.84	\$ 1.74	\$ 1.67	\$ 2.98	\$ 3.31
Tangible Assets:							
Total assets	\$ 8,482,628	\$ 8,192,354	\$ 8,763,969	\$ 8,895,916	\$ 7,370,252		
Goodwill and other intangibles, net	398,194	400,277	402,438	407,117	336,721		
Tangible assets	\$ 8,084,434	\$ 7,792,077	\$ 8,361,531	\$ 8,488,799	\$ 7,033,531		
Tangible Common Equity:							
Stockholders' equity (common)	\$ 977,638	\$ 961,792	\$ 972,529	\$ 938,463	\$ 839,387		
Goodwill and other intangibles, net	398,194	400,277	402,438	407,117	336,721		
Tangible common equity	\$ 579,444	\$ 561,515	\$ 570,091	\$ 531,346	\$ 502,666		
Average Tangible Common Equity:							
Stockholders' equity (common)	\$ 967,142	\$ 970,108	\$ 954,970	\$ 890,205	\$ 837,975	\$ 968,617	\$ 849,582
Goodwill and other intangibles, net	399,080	401,212	403,243	363,211	337,289	400,140	337,988
Average tangible common equity	\$ 568,062	\$ 568,896	\$ 551,727	\$ 526,994	\$ 500,686	\$ 568,477	\$ 511,594

Note: Numbers may not sum due to rounding.

(1) Income statement-related ratios for partial-year periods are annualized.

(2) The ratios of tangible book value per common share, return on average tangible common equity, and tangible common equity to tangible assets are non-GAAP financial measures that exclude goodwill and other intangibles, net. These financial ratios have been included as management considers them to be useful metrics with which to analyze and evaluate financial condition and capital strength. See section "Non-GAAP Financial Measures" below.

(3) The adjusted net income measure is a non-GAAP financial measure that provides information that management believes is useful to investors in understanding our operating performance and trends and also aids investors in the comparison of our financial performance to the financial performance of peer banks. See section "Non-GAAP Financial Measures" below.

(4) Provision expense for 2023 is attributable to the expected loss on our investment in Signature Bank sub debt, and the provision expense for 2022 is attributable to the Day 2 allowance from the acquisition of Charter.

Non-GAAP Financial Measures

We identify “tangible book value per common share,” “return on average tangible common equity,” “tangible common equity to tangible assets” “adjusted net income,” and “adjusted diluted earnings per common share” as “non-GAAP financial measures.” In accordance with the SEC’s rules, we identify certain financial measures as non-GAAP financial measures if such financial measures exclude or include amounts in the most directly comparable measures calculated and presented in accordance with generally accepted accounting principles (“GAAP”) in effect in the United States in our statements of income, balance sheets or statements of cash flows. Non-GAAP financial measures do not include operating and other statistical measures, ratios or statistical measures calculated using exclusively financial measures calculated in accordance with GAAP.

Management believes that the presentation of these non-GAAP financial measures (a) are important metrics used to analyze and evaluate our financial condition and capital strength and provide important supplemental information that contributes to a proper understanding of our operating performance and trends, (b) enables a more complete understanding of factors and trends affecting our business, and (c) allows investors to compare our financial performance to the financial performance of our peers and to evaluate our performance in a manner similar to management, the financial services industry, bank stock analysts, and bank regulators. Management uses non-GAAP measures as follows: in the preparation of our operating budgets, monthly financial performance reporting, and in our presentation to investors of our performance. However, we acknowledge that these non-GAAP financial measures have a number of limitations. Limitations associated with non-GAAP financial measures include the risk that persons might disagree as to the appropriateness of items comprising these measures and that different companies might calculate these measures differently. These disclosures should not be considered an alternative to our GAAP results. A reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measures is presented in the table above.

Performance Summary

Net income was \$14 million (or earnings per diluted common share of \$0.91) for the six months ended June 30, 2023, compared to net income of \$48 million (or earnings per diluted common share of \$3.43) for the six months ended June 30, 2022, with 2023 significantly impacted by the first quarter balance sheet repositioning actions (detailed below).

Net income reflected non-core items and the related tax effect of each, including U.S. Treasury securities sale loss, expected loss (provision expense) on the Signature Bank sub debt investment (acquired in an acquisition), merger-related expenses, Day 2 credit provision expense required under the CECL model, as well as gains / (losses) on other assets and investments. These non-core items negatively impacted earnings per diluted common share \$2.07 for the six months ended June 30, 2023 and positively impacted earnings per diluted common share \$0.12 for the six months ended June 30, 2022.

On March 7, 2023, Nicolet executed the sale of \$500 million (par value) U.S. Treasury held to maturity securities for a pre-tax loss of \$38 million or an after-tax loss of \$28 million to reposition the balance sheet for future growth. The \$500 million portfolio yielded approximately 88 bps with scheduled maturities in 2024 and 2025 (or average duration of 2 years). Proceeds from the sale were used to reduce existing FHLB borrowings with the remainder held in investable cash. The following table summarizes the estimated annual impact of this balance sheet repositioning.

Sale Metrics	\$ in Thousands	Assumptions
Loss on sale of U.S. Treasury securities	\$ (37,723)	Sale of \$500 million U.S. Treasury securities yielding 88 bps
Lost interest from U.S. Treasury securities	\$ (4,380)	Assumes \$500 million at 88 bps
Lower interest expense on FHLB borrowings	17,128	Assumes \$377 million at 456 bps (at time of sale)
Interest income from investable cash	3,905	Assumes \$83 million at 465 bps (at time of sale)
Projected net impact from repositioning	\$ 16,653	
Estimated earn back (in years)	2.26	

As a result of the sale of securities previously classified as held to maturity, the remaining unsold portfolio of held to maturity securities, with a book value of \$177 million, was reclassified to available for sale with a carrying value of approximately \$157 million. The unrealized loss on this portfolio of \$20 million (at the time of reclassification) increased the balance of accumulated other comprehensive loss \$15 million, net of the deferred tax effect, and is subject to future market changes.

- Net interest income was \$116 million for the first six months of 2023, up \$7 million (6%) over the first six months of 2022. Interest income grew \$62 million attributable to favorable rates from new and renewed loans in a rising interest rate environment, as well as favorable loan volumes (partly from the Charter acquisition). Interest expense increased \$55 million between the comparable six-month periods mostly from higher average funding costs. Net interest margin was 3.02% for the six months ended June 30, 2023, compared to 3.29% for the six months ended June 30, 2022. For additional information regarding net interest income, see “Income Statement Analysis — Net Interest Income.”

- Noninterest income was a negative \$5 million for the first six months of 2023, a \$35 million unfavorable change from the comparable 2022 period, primarily due to the balance sheet repositioning (noted above). Excluding net asset gains (losses), noninterest income for the first six months of 2023 was \$34 million, a \$7 million increase over the first six months of 2022. For additional information regarding noninterest income, see “Income Statement Analysis — Noninterest Income.”
- Noninterest expense was \$90 million, \$16 million (21%) higher than the first six months of 2022. Personnel costs increased \$7 million, and non-personnel expenses combined increased \$8 million (25%) over the comparable 2022 period. For additional information regarding noninterest expense, see “Income Statement Analysis — Noninterest Expense.”
- Nonperforming assets were \$27 million, representing 0.32% of total assets at June 30, 2023, compared to \$40 million or 0.46% of total assets at December 31, 2022. The reduction in nonperforming assets was due to the sale of select nonaccrual loans (net book value of approximately \$13 million). For additional information regarding nonperforming assets, see “Balance Sheet Analysis – Nonperforming Assets.”
- At June 30, 2023, assets were \$8.5 billion, down \$281 million (3%) from December 31, 2022, mostly due to the sale of investment securities as part of our balance sheet repositioning, partly offset by higher cash balances. For additional balance sheet discussion see “Balance Sheet Analysis.”
- At June 30, 2023, loans were \$6.2 billion, up \$42 million from December 31, 2022, with growth in residential mortgage loans partly offset by lower commercial-based loans from the sale of specific nonaccrual loans (noted above) as well as the payoff of two larger loan relationships. On average, loans grew \$1.5 billion (31%) over the first six months of 2022. For additional information regarding loans, see “Balance Sheet Analysis — Loans.”
- Total deposits of \$7.2 billion at June 30, 2023, were minimally changed from December 31, 2022, with growth in customer and brokered time deposits partly offset by lower transaction account balances. Year-to-date average deposits were \$711 million (11%) higher than the first six months of 2022. For additional information regarding deposits, see “Balance Sheet Analysis – Deposits.”

INCOME STATEMENT ANALYSIS

Net Interest Income

Tax-equivalent net interest income is a non-GAAP measure, but is a preferred industry measurement of net interest income (and its use in calculating a net interest margin) as it enhances the comparability of net interest income arising from taxable and tax-exempt sources. The tax-equivalent adjustments bring tax-exempt interest to a level that would yield the same after-tax income by applying the effective Federal corporate tax rates to the underlying assets. Tables 2 and 3 present information to facilitate the review and discussion of selected average balance sheet items, tax-equivalent net interest income, interest rate spread and net interest margin.

Table 2: Average Balance Sheet and Net Interest Income Analysis - Tax-Equivalent Basis

(in thousands)	For the Six Months Ended June 30,					
	2023			2022		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
ASSETS						
Interest-earning assets						
Total loans, including loan fees ⁽¹⁾⁽²⁾	\$ 6,219,868	\$ 163,318	5.23 %	\$ 4,764,073	\$ 104,318	4.36 %
Investment securities:						
Taxable	1,022,188	9,094	1.78 %	1,388,630	10,262	1.48 %
Tax-exempt ⁽²⁾	264,935	4,246	3.21 %	185,689	2,022	2.18 %
Total investment securities	1,287,123	13,340	2.07 %	1,574,319	12,284	1.56 %
Other interest-earning assets	156,353	3,893	4.96 %	306,662	1,607	1.05 %
Total non-loan earning assets	1,443,476	17,233	2.39 %	1,880,981	13,891	1.48 %
Total interest-earning assets	7,663,344	\$ 180,551	4.69 %	6,645,054	\$ 118,209	3.54 %
Other assets, net	735,323			750,693		
Total assets	<u>\$ 8,398,667</u>			<u>\$ 7,395,747</u>		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities						
Savings	\$ 865,588	\$ 4,867	1.13 %	\$ 831,335	\$ 339	0.08 %
Interest-bearing demand	929,728	6,449	1.40 %	1,020,273	1,499	0.30 %
Money market accounts ("MMA")	1,836,405	23,191	2.55 %	1,482,431	823	0.11 %
Core time deposits	670,071	7,808	2.35 %	563,846	833	0.30 %
Total interest-bearing core deposits	4,301,792	42,315	1.98 %	3,897,885	3,494	0.18 %
Brokered deposits	603,668	11,962	4.00 %	441,316	1,108	0.51 %
Total interest-bearing deposits	4,905,460	54,277	2.23 %	4,339,201	4,602	0.21 %
Wholesale funding	395,742	9,396	4.72 %	214,767	3,963	3.69 %
Total interest-bearing liabilities	5,301,202	63,673	2.42 %	4,553,968	8,565	0.38 %
Noninterest-bearing demand deposits	2,094,860			1,950,528		
Other liabilities	33,988			41,669		
Stockholders' equity	968,617			849,582		
Total liabilities and stockholders' equity	<u>\$ 8,398,667</u>			<u>\$ 7,395,747</u>		
Interest rate spread			2.27 %			3.16 %
Net free funds			0.75 %			0.13 %
Tax-equivalent net interest income and net interest margin		\$ 116,878	3.02 %		\$ 109,644	3.29 %
Tax-equivalent adjustment		\$ 1,118			\$ 765	
Net interest income		<u>\$ 115,760</u>			<u>\$ 108,879</u>	

Nonaccrual loans and loans held for sale are included in the daily average loan balances outstanding.

The yield on tax-exempt loans and tax-exempt investment securities is computed on a tax-equivalent basis using a federal tax rate of 21% and adjusted for the disallowance of interest expense.

Table 2: Average Balance Sheet and Net Interest Income Analysis - Tax-Equivalent Basis (Continued)

(in thousands)	For the Three Months Ended June 30,					
	2023			2022		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
ASSETS						
Interest-earning assets						
Total loans, including loan fees ⁽¹⁾⁽²⁾	\$ 6,237,757	\$ 84,132	5.35 %	\$ 4,838,535	\$ 52,984	4.34 %
Investment securities:						
Taxable	822,204	4,133	2.01 %	1,390,642	5,135	1.48 %
Tax-exempt ⁽²⁾	245,940	1,961	3.19 %	182,385	991	2.17 %
Total investment securities	1,068,144	6,094	2.28 %	1,573,027	6,126	1.56 %
Other interest-earning assets	192,034	2,357	4.87 %	168,082	790	1.87 %
Total non-loan earning assets	1,260,178	8,451	2.68 %	1,741,109	6,916	1.59 %
Total interest-earning assets	7,497,935	\$ 92,583	4.90 %	6,579,644	\$ 59,900	3.61 %
Other assets, net	730,665			693,575		
Total assets	<u>\$ 8,228,600</u>			<u>\$ 7,273,219</u>		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing liabilities						
Savings	\$ 842,454	\$ 2,502	1.19 %	\$ 841,109	\$ 234	0.11 %
Interest-bearing demand	874,294	3,110	1.43 %	988,820	798	0.32 %
MMA	1,825,233	12,001	2.64 %	1,424,995	500	0.14 %
Core time deposits	736,521	5,115	2.79 %	532,179	325	0.24 %
Total interest-bearing core deposits	4,278,502	22,728	2.13 %	3,787,103	1,857	0.20 %
Brokered deposits	640,643	6,612	4.14 %	423,372	553	0.52 %
Total interest-bearing deposits	4,919,145	29,340	2.39 %	4,210,475	2,410	0.23 %
Wholesale funding	293,140	3,678	4.96 %	214,975	2,032	3.77 %
Total interest-bearing liabilities	5,212,285	33,018	2.54 %	4,425,450	4,442	0.40 %
Noninterest-bearing demand deposits	2,021,892			1,977,569		
Other liabilities	27,281			32,225		
Stockholders' equity	967,142			837,975		
Total liabilities and stockholders' equity	<u>\$ 8,228,600</u>			<u>\$ 7,273,219</u>		
Interest rate spread			2.36 %			3.21 %
Net free funds			0.78 %			0.13 %
Tax-equivalent net interest income and net interest margin		\$ 59,565	3.14 %		\$ 55,458	3.34 %
Tax-equivalent adjustment		\$ 526			\$ 374	
Net interest income		<u>\$ 59,039</u>			<u>\$ 55,084</u>	

Nonaccrual loans and loans held for sale are included in the daily average loan balances outstanding.

The yield on tax-exempt loans and tax-exempt investment securities is computed on a tax-equivalent basis using a federal tax rate of 21% and adjusted for the disallowance of interest expense.

Table 3: Volume/Rate Variance - Tax-Equivalent Basis

(in thousands)	For the Three Months Ended June 30, 2023 Compared to June 30, 2022:			For the Six Months Ended June 30, 2023 Compared to June 30, 2022:		
	Increase (Decrease) Due to Changes in			Increase (Decrease) Due to Changes in		
	Volume	Rate	Net ⁽¹⁾	Volume	Rate	Net ⁽¹⁾
Interest-earning assets						
Total loans ⁽²⁾	\$ 24,153	\$ 6,995	\$ 31,148	\$ 35,730	\$ 23,270	\$ 59,000
Investment securities:						
Taxable	(1,054)	52	(1,002)	(1,598)	430	(1,168)
Tax-exempt ⁽²⁾	414	556	970	1,056	1,168	2,224
Total investment securities	(640)	608	(32)	(542)	1,598	1,056
Other interest-earning assets	(57)	1,624	1,567	171	2,115	2,286
Total non-loan earning assets	(697)	2,232	1,535	(371)	3,713	3,342
Total interest-earning assets	\$ 23,456	\$ 9,227	\$ 32,683	\$ 35,359	\$ 26,983	\$ 62,342
Interest-bearing liabilities						
Savings	\$ 2	\$ 2,266	\$ 2,268	\$ 14	\$ 4,514	\$ 4,528
Interest-bearing demand	(103)	2,415	2,312	(145)	5,095	4,950
MMA	179	11,322	11,501	241	22,127	22,368
Core time deposits	171	4,619	4,790	184	6,791	6,975
Total interest-bearing core deposits	249	20,622	20,871	294	38,527	38,821
Brokered deposits	420	5,639	6,059	546	10,308	10,854
Total interest-bearing deposits	669	26,261	26,930	840	48,835	49,675
Wholesale funding	674	972	1,646	3,790	1,643	5,433
Total interest-bearing liabilities	1,343	27,233	28,576	4,630	50,478	55,108
Net interest income	\$ 22,113	\$ (18,006)	\$ 4,107	\$ 30,729	\$ (23,495)	\$ 7,234

The change in interest due to both rate and volume has been allocated in proportion to the relationship of dollar amount of change in each.

The yield on tax-exempt loans and tax-exempt investment securities is computed on a tax-equivalent basis using a federal tax rate of 21% and adjusted for the disallowance of interest expense.

The Federal Reserve raised short-term interest rates a total of 425 bps during 2022, increasing the Federal Funds rate to a range of 4.25% to 4.50% as of December 31, 2022. Additional increases totaling 75 bps were made in the first half of 2023, resulting in a Federal Funds range of 5.00% to 5.25% as of June 30, 2023.

Tax-equivalent net interest income was \$117 million for the six months June 30, 2023, an increase of \$7 million (7%) over the six months ended June 30, 2022. The \$7 million increase in tax-equivalent net interest income was attributable to net favorable volumes (which added \$31 million to net interest income, mostly from the Charter acquisition and solid loan growth) and net unfavorable rates (which decreased net interest income \$23 million from higher deposit costs and the lag in repricing the loan portfolio to current market interest rates).

Average interest-earning assets increased to \$7.7 billion, up \$1.0 billion (15%) over the comparable 2022 period, primarily due to the timing of the acquisition of Charter. Between the comparable six-month periods, average loans increased \$1.5 billion (31%), mostly due to timing of the Charter acquisition (which added loans of \$827 million at acquisition) and strong organic loan growth throughout 2022. Average investment securities decreased \$287 million between the comparable six-month periods, while other interest-earning assets declined \$150 million, mostly due to lower cash. As a result, the mix of average interest-earning assets shifted to 81% loans, 17% investments and 2% other interest-earning assets (mostly cash) for the first half of 2023, compared to 72%, 24% and 4%, respectively, for the first half of 2022.

Average interest-bearing liabilities were \$5.3 billion for the first half of 2023, an increase of \$747 million (16%) over the first half of 2022, primarily due to the timing of the acquisition of Charter. Average interest-bearing core deposits increased \$404 million and average brokered deposits increased \$162 million between the comparable six-month periods, reflecting the impact of the Charter acquisition and brokered funding to support the strong loan growth in 2022. Other interest-bearing liabilities increased \$181 million between the comparable six-month periods, partly due to wholesale funding acquired with Charter and partly due to FHLB borrowings to support the strong loan growth in 2022. The mix of average interest-bearing liabilities was 81% core deposits, 11% brokered deposits and 8% wholesale funding for the first half of 2023, compared to 86%, 10%, and 4%, respectively, for the first half of 2022.

The interest rate spread decreased 89 bps between the comparable six-month periods, as our liabilities have repriced faster than our assets in the rapidly rising interest rate environment. The interest-earning asset yield increased 115 bps to 4.69% for the first six months of 2023, due to the changing mix of interest-earning assets (mostly the reduction in cash noted above), as well as the higher interest rate environment. The loan yield improved 87 bps to 5.23% between the comparable six-month periods, largely due to the repricing of new and renewed loans in a rising interest rate environment, while the yield on investment securities increased 51 bps to 2.07%. The cost of funds increased 204 bps to 2.42% for the first half of 2023, also reflecting the rising interest rate environment, a migration of customer deposits into higher rate deposit products, and a shift in the mix of interest-bearing liabilities (mostly the increase in wholesale funding noted above). The contribution from net free funds increased 62 bps, mostly due to the higher value in the rising interest rate environment. As a result, the tax-equivalent net interest margin was 3.02% for the first half of 2023, down 27 bps compared to 3.29% for the first half of 2022.

Tax-equivalent interest income was \$181 million for the first half of 2023, up \$62 million from comparable period of 2022, comprised of \$35 million higher volumes and \$27 million higher average rates (mostly in the loan portfolio). Interest income on loans increased \$59 million over the first half of 2022, mostly due to higher average balances from the Charter acquisition and strong organic loan growth. Interest expense increased to \$64 million for the first half of 2023, up \$55 million compared to the first half of 2022, mostly due to a much higher cost of funds. Interest expense on deposits increased \$50 million between the comparable six-month periods mostly due to the rapidly rising interest rate environment.

Provision for Credit Losses

The provision for credit losses was \$3.5 million for the six months ended June 30, 2023 (comprised of \$1.2 million related to the ACL-Loans and \$2.3 million for the ACL on securities AFS), compared to \$1.1 million for the six months ended June 30, 2022 (comprised of \$0.9 million related to the ACL-Loans and the remainder for the ACL on unfunded commitments). The 2023 provision for credit losses on loans was attributable to growth and changes in the underlying loan portfolio, while the provision for credit losses on securities AFS was due to the expected loss on our Signature Bank subordinated debt investment which was fully charged-off during first quarter 2023.

The provision for credit losses is predominantly a function of Nicolet's methodology and judgment as to qualitative and quantitative factors used to determine the appropriateness of the ACL. The appropriateness of the ACL-Loans is affected by changes in the size and character of the loan portfolio, changes in levels of collateral dependent and other nonperforming loans, historical losses and delinquencies in each portfolio segment, the risk inherent in specific loans, concentrations of loans to specific borrowers or industries, existing and future economic conditions, the fair value of underlying collateral, and other factors which could affect expected credit losses. The ACL for securities is affected by risk of the underlying issuer, while the ACL for unfunded commitments is affected by many of the same factors as the ACL-Loans, as well as funding assumptions relative to lines of credit. See also Note 6, "Loans, Allowance for Credit Losses - Loans, and Credit Quality" of the Notes to Unaudited Consolidated Financial Statements under Part I, Item 1, for additional disclosures. For additional information regarding asset quality and the ACL-Loans, see "BALANCE SHEET ANALYSIS — Loans," "— Allowance for Credit Losses - Loans," and "— Nonperforming Assets."

Noninterest Income

Table 4: Noninterest Income

(in thousands)	Three Months Ended June 30,				Six Months Ended June 30,			
	2023	2022	\$ Change	% Change	2023	2022	\$ Change	% Change
Trust services fee income	\$ 2,148	\$ 2,004	\$ 144	7 %	\$ 4,181	\$ 4,015	\$ 166	4 %
Brokerage fee income	3,722	2,988	734	25	7,201	6,676	525	8
Wealth management fee income	5,870	4,992	878	18	11,382	10,691	691	6
Mortgage income, net	1,822	2,205	(383)	(17)	3,288	5,458	(2,170)	(40)
Service charges on deposit accounts	1,529	1,536	(7)	—	3,009	3,013	(4)	—
Card interchange income	3,331	2,950	381	13	6,364	5,531	833	15
BOLI income	1,073	768	305	40	2,273	1,701	572	34
Deferred compensation plan asset market valuations	499	(1,316)	1,815	N/M	1,445	(1,783)	3,228	N/M
LSR income, net	1,135	(143)	1,278	N/M	2,290	(525)	2,815	N/M
Other income	1,900	1,536	364	24	3,732	3,072	660	21
Noninterest income without net gains (losses)	17,159	12,528	4,631	37	33,783	27,158	6,625	24
Asset gains (losses), net	(318)	1,603	(1,921)	N/M	(38,786)	2,916	(41,702)	N/M
Total noninterest income	\$ 16,841	\$ 14,131	\$ 2,710	19 %	\$ (5,003)	\$ 30,074	\$ (35,077)	(117)%

N/M means not meaningful.

Noninterest income was a negative \$5.0 million for the first six months of 2023, an unfavorable change of \$35.1 million compared to the first six months of 2022, primarily due to the balance sheet repositioning. Excluding net asset gains (losses), noninterest income for first half 2023 was \$33.8 million, a \$6.6 million (24%) increase over first half 2022.

Wealth management fee income was \$11.4 million, up \$0.7 million (6%) from the first six months of 2022, including favorable market-related changes, as well as growth in accounts and assets under management.

Mortgage income represents net gains received from the sale of residential real estate loans into the secondary market, capitalized mortgage servicing rights (“MSR”), servicing fees net of MSR amortization, fair value marks on the mortgage interest rate lock commitments and forward commitments (“mortgage derivatives”), and MSR valuation changes, if any. Net mortgage income of \$3.3 million, decreased \$2.2 million (40%) between the comparable six-month periods, mostly due to the rising interest rate environment reducing secondary market volumes and the related gains on sales. See also Note 7, “Goodwill and Other Intangibles and Servicing Rights” of the Notes to Unaudited Consolidated Financial Statements under Part I, Item 1, for additional disclosures on the MSR asset.

Card interchange income grew \$0.8 million (15%) between the comparable six-month periods due to higher volume and activity.

BOLI income was up \$0.6 million between the comparable six-month periods, attributable to higher average balances from BOLI acquired with the Charter acquisition.

Loan servicing rights (“LSR”) income increased \$2.8 million between the comparable first half periods mostly due to lower LSR amortization from the much slower prepayments speeds in the higher interest rate environment. See also Note 7, “Goodwill and Other Intangibles and Servicing Rights” of the Notes to Unaudited Consolidated Financial Statements under Part I, Item 1, for additional information on the LSR asset.

Other income of \$3.7 million for the six months ended June 30, 2023 was up \$0.7 million from the comparable 2022 period, largely due to broker fees and card incentive income.

Net asset losses of \$38.8 million for the first six months of 2023 were primarily attributable to losses on the sale of approximately \$500 million (par value) U.S. Treasury held to maturity securities executed in early March as part of a balance sheet repositioning, while net asset gains of \$2.9 million for the first six months of 2022 were primarily attributable to gains on sales of other real estate owned (mostly closed bank branch locations).

Noninterest Expense

Table 5: Noninterest Expense

(\$ in thousands)	Three Months Ended June 30,				Six Months Ended June 30,			
	2023	2022	Change	% Change	2023	2022	Change	% Change
Personnel	\$ 23,900	\$ 19,681	\$ 4,219	21 %	\$ 48,228	\$ 40,872	\$ 7,356	18 %
Occupancy, equipment and office	8,845	6,891	1,954	28	17,628	13,835	3,793	27
Business development and marketing	1,946	2,057	(111)	(5)	4,067	3,888	179	5
Data processing	4,218	3,596	622	17	8,206	6,983	1,223	18
Intangibles amortization	2,083	1,347	736	55	4,244	2,771	1,473	53
FDIC assessments	1,009	480	529	110	1,549	960	589	61
Merger-related expense	26	555	(529)	(95)	189	653	(464)	(71)
Other expense	2,930	1,931	999	52	5,721	4,126	1,595	39
Total noninterest expense	\$ 44,957	\$ 36,538	\$ 8,419	23 %	\$ 89,832	\$ 74,088	\$ 15,744	21 %
Non-personnel expenses	\$ 21,057	\$ 16,857	\$ 4,200	25 %	\$ 41,604	\$ 33,216	\$ 8,388	25 %
Average full-time equivalent (“FTE”) employees	943	850	93	11 %	943	842	101	12 %

Noninterest expense was \$89.8 million, an increase of \$15.7 million (21%) over the first six months of 2022. Personnel costs increased \$7.4 million (18%), while non-personnel expenses combined increased \$8.4 million (25%) compared to the first six months of 2022.

Personnel expense was \$48.2 million for the six months ended June 30, 2023, an increase of \$7.4 million from the comparable period in 2022. Salary expense increased \$6.1 million (18%) over the first six months of 2022, reflecting higher salaries from the larger employee base (with average full-time equivalent employees up 12%, mostly due to the Charter acquisition), investments in our wealth team, and merit increases between the years, partly offset by lower incentive compensation commensurate with the lower current period earnings. Fringe benefits increased \$1.3 million (20%) over the first six months of 2022, reflecting higher overall health care expenses as well as the larger employee base. Salary expense was also impacted by the change in the fair value of nonqualified deferred compensation plan liabilities from the recent market improvements. See also “Noninterest Income” for the offsetting fair value change to the nonqualified deferred compensation plan assets.

Occupancy, equipment and office expense was \$17.6 million for the first six months of 2023, up \$3.8 million (27%) compared to the first six months of 2022, largely due to the expanded branch network with the Charter acquisition, as well as additional expense for software and technology solutions.

Business development and marketing expense was \$4.1 million, up \$0.2 million (5%) between the comparable first half periods, largely attributable to the timing and extent of marketing donations, promotions, and media to support our expanded branch network and community base.

Data processing expense was \$8.2 million, up \$1.2 million (18%) between the comparable six-month periods, mostly due to volume-based increases in core and card processing charges, partly from the Charter acquisition.

Intangibles amortization increased \$1.5 million between the comparable first half periods due to higher amortization from the intangibles added with the recent acquisitions.

Other expense was \$5.7 million, up \$1.6 million (39%) between the comparable six-month periods, mostly due to higher professional fees.

Income Taxes

Income tax expense was \$3.7 million (effective tax rate of 21.2%) for the first six months of 2023, compared to expense of \$15.7 million (effective tax rate of 24.5%) for the comparable period of 2022. The change in income tax expense was largely due to the lower pretax earnings between the years.

Income Statement Analysis – Three Months Ended June 30, 2023 versus Three Months Ended June 30, 2022

Net income was \$22.6 million for the three months ended June 30, 2023, compared to \$24.0 million for the three months ended June 30, 2022. Earnings per diluted common share was \$1.51 for second quarter 2023, compared to \$1.73 for second quarter 2022.

Tax-equivalent net interest income was \$59.6 million for second quarter 2023, an increase of \$4.1 million over second quarter 2022. Interest income increased \$32.7 million over second quarter 2022, with \$23.5 million from stronger volumes (led by average loans which grew \$1.4 billion or 29% over second quarter 2022, mostly due to the Charter acquisition) and \$9.2 million from higher yields. Average investment securities decreased \$505 million between the comparable second quarter periods, mostly due to the balance sheet repositioning actions in first quarter 2023. Interest expense increased \$28.6 million from second quarter 2022, mostly due to \$27.2 million higher overall funding costs. For additional information regarding average balances, net interest income and net interest margin, see “INCOME STATEMENT ANALYSIS — Net Interest Income.”

The net interest margin for second quarter 2023 was 3.14%, compared to 3.34% for second quarter 2022, influenced by the rising interest rate environment and the changing balance sheet mix. The mix of average interest-earning assets shifted from 74% loans, 24% investments and 2% other interest-earning assets (mostly cash) for second quarter 2022, to 83%, 14% and 3%, respectively, for second quarter 2023. The yield on interest-earning assets of 4.90% increased 129 bps from second quarter 2022. The yield on loans was 5.35%, 101 bps higher than second quarter 2022, largely due to the impact of the rising interest rate environment. The cost of funds of 2.54% increased 214 bps between the comparable quarters, also due to the rising interest rates.

Provision for credit losses was \$0.5 million for second quarter 2023 (all related to the ACL-Loans), compared to \$0.8 million provision for credit losses for second quarter 2022 (comprised of \$0.6 million related to the ACL-Loans, and \$0.2 million for the ACL on unfunded commitments). For additional information regarding the allowance for credit losses-loans and asset quality, see “BALANCE SHEET ANALYSIS — Allowance for Credit Losses - Loans” and “BALANCE SHEET ANALYSIS — Nonperforming Assets.”

Noninterest income was \$16.8 million for second quarter 2023, an increase of \$2.7 million (19%) from second quarter 2022. Wealth management fee income grew \$0.9 million (18%), including favorable market-related changes, as well as growth in accounts and assets under management. Market valuations improved \$1.8 million between the comparable second quarter periods from favorable fair value changes on the deferred compensation plan assets. LSR income increased \$1.3 million between the comparable second quarter periods mostly due to lower LSR amortization from the much slower prepayments speeds in the higher interest rate environment. Net asset losses of \$0.3 million in second quarter 2023 were primarily attributable to unfavorable fair value marks on equity securities, while net asset gains of \$1.6 million in second quarter 2022 were primarily attributable to gains on sales of other real estate owned (mostly closed bank branch locations). For additional information regarding noninterest income, see “INCOME STATEMENT ANALYSIS — Noninterest Income.”

Noninterest expense was \$45.0 million for second quarter 2023, an increase of \$8.4 million (23%) from second quarter 2022, including a \$4.2 million increase in personnel expense and a \$4.2 million increase in non-personnel expenses. The increase in personnel was due to higher salaries and fringe benefits from the larger employee base (with average full-time equivalent employees up 11%), investments in our wealth team, and merit increases between the years. Occupancy, equipment, and office of \$8.8 million was up \$2.0 million (28%), largely due to the expanded branch network with the Charter acquisitions as well as additional expense for software and technology solutions. Data processing expense was \$4.2 million, up \$0.6 million (17%) between the comparable second quarter periods, mostly due to volume-based increases in core and card processing charges, including the larger operating base following the Charter acquisition. Other expense was \$2.9 million, an increase of \$1.0 million between the comparable second quarter periods, primarily due to higher professional fees and overall higher expenses related to our larger operating base. For additional information regarding noninterest expense, see “INCOME STATEMENT ANALYSIS — Noninterest Expense.”

BALANCE SHEET ANALYSIS

At June 30, 2023, period end assets were \$8.5 billion, a decrease of \$281 million (3%) from December 31, 2022, mostly due to the sale of investment securities as part of our balance sheet repositioning, partly offset by higher cash balances. Total loans increased \$42 million from December 31, 2022, with growth in residential mortgage loans partly offset by lower commercial-based loans from the sale of specific nonaccrual loans as well as the payoff of two larger loan relationships. Total deposits of \$7.2 billion at June 30, 2023, were minimally changed from December 31, 2022, with growth in customer and brokered time deposits partly offset by lower transaction account balances. Total borrowings decreased \$295 million from December 31, 2022 in FHLB advances (as part of the balance sheet repositioning). Total stockholders' equity was \$978 million at June 30, 2023, an increase of \$5 million since December 31, 2022.

Compared to June 30, 2022, assets increased \$1.1 billion (15%), largely due to the acquisition of Charter and strong loan growth, partly offset by lower investment securities related to the balance sheet repositioning. Total loans increased \$1.2 billion and total deposits increased \$912 million from June 30, 2022, also largely due to the acquisition of Charter. Stockholders' equity increased \$138 million from June 30, 2022, primarily due to common stock issued in the Charter acquisition and net income, partially offset by negative net fair value investment changes.

Loans

Nicolet services a diverse customer base throughout Wisconsin, Michigan and Minnesota. We concentrate on originating loans in our local markets and assisting current loan customers. Nicolet actively utilizes government loan programs such as those provided by the U.S. Small Business Administration ("SBA") and the U.S. Department of Agriculture's Farm Service Agency ("FSA").

An active credit risk management process is used to ensure that sound and consistent credit decisions are made. The credit management process is regularly reviewed and has been modified over the past several years to further strengthen the controls. Factors that are important to managing overall credit quality are sound loan underwriting and administration, systematic monitoring of existing loans and commitments, effective loan review on an ongoing basis, early problem loan identification and remedial action to minimize losses, an appropriate ACL-Loans, and sound nonaccrual and charge-off policies.

For additional disclosures on loans, see also Note 6, "Loans, Allowance for Credit Losses - Loans, and Credit Quality," in the Notes to Unaudited Consolidated Financial Statements under Part I, Item 1. For information regarding the allowance for credit losses and nonperforming assets see "BALANCE SHEET ANALYSIS – Allowance for Credit Losses - Loans" and "BALANCE SHEET ANALYSIS – Nonperforming Assets." A detailed discussion of the loan portfolio accounting policies, general loan portfolio characteristics, and credit risk are described in Note 1, "Nature of Business and Significant Accounting Policies," of the Notes to Consolidated Financial Statements, included in Part II, Item 8 of the Company's 2022 Annual Report on Form 10-K.

Table 6: Period End Loan Composition

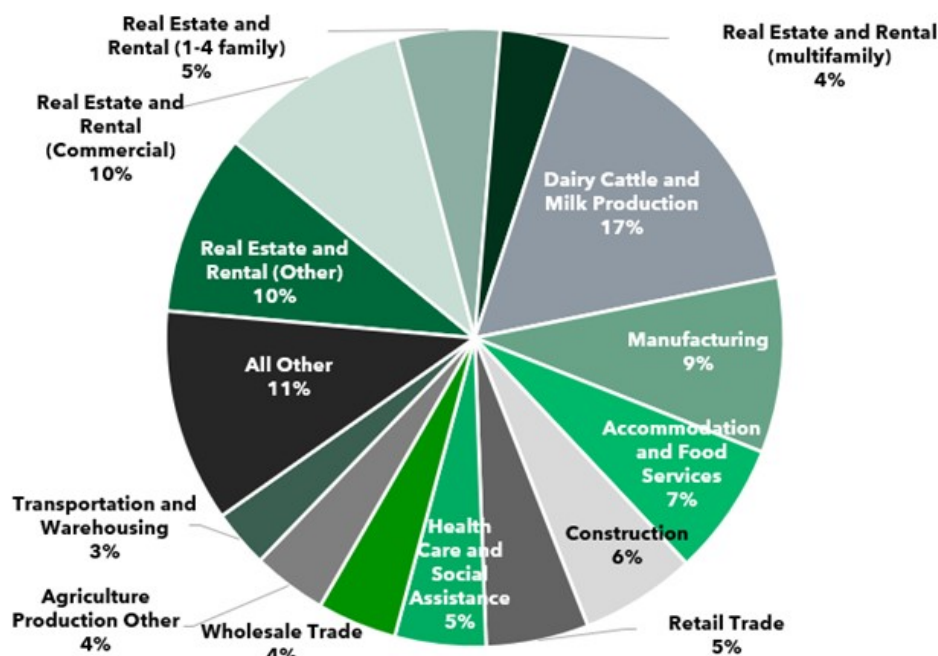
(in thousands)	June 30, 2023		December 31, 2022		June 30, 2022	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial & industrial	\$ 1,318,567	21 %	\$ 1,304,819	21 %	\$ 1,118,360	23 %
Owner-occupied CRE	969,202	16	954,599	15	790,680	16
Agricultural	1,068,999	17	1,088,607	18	967,192	19
Commercial	3,356,768	54	3,348,025	54	2,876,232	58
CRE investment	1,108,692	18	1,149,949	19	818,562	16
Construction & land development	337,389	5	318,600	5	228,575	5
Commercial real estate	1,446,081	23	1,468,549	24	1,047,137	21
Commercial-based loans	4,802,849	77	4,816,574	78	3,923,369	79
Residential construction	108,095	2	114,392	2	69,423	1
Residential first mortgage	1,072,609	17	1,016,935	16	785,591	16
Residential junior mortgage	184,873	3	177,332	3	148,732	3
Residential real estate	1,365,577	22	1,308,659	21	1,003,746	20
Retail & other	54,350	1	55,266	1	51,539	1
Retail-based loans	1,419,927	23	1,363,925	22	1,055,285	21
Total loans	\$ 6,222,776	100 %	\$ 6,180,499	100 %	\$ 4,978,654	100 %

As noted in Table 6 above, the loan portfolio at June 30, 2023, was 77% commercial-based and 23% retail-based. Commercial-based loans are considered to have more inherent risk of default than retail-based loans, in part because of the broader list of factors that could impact a commercial borrower negatively. In addition, the commercial balance per borrower is typically

larger than that for retail-based loans, implying higher potential losses on an individual customer basis. Credit risk on commercial-based loans is largely influenced by general economic conditions and the resulting impact on a borrower's operations or on the value of underlying collateral, if any.

Total loans of \$6.2 billion at June 30, 2023, increased \$42 million from December 31, 2022, with growth in residential mortgage loans partly offset by lower commercial-based loans from the sale of specific nonaccrual loans (net book value of approximately \$13 million) as well as the payoff of two larger loan relationships. At June 30, 2023, commercial and industrial loans represented the largest segment of Nicolet's loan portfolio at 21% of the total portfolio, followed by CRE investment at 18% of the total portfolio. The loan portfolio is widely diversified and included the following industries: manufacturing, wholesaling, paper, packaging, food production and processing, agriculture, forest products, hospitality, retail, service, and businesses supporting the general building industry. The following chart provides the industry distribution of our commercial loan portfolio at June 30, 2023.

Commercial Loan Portfolio by Industry Type (based on NAICS codes)



The following table presents the maturity distribution of the loan portfolio.

Table 7: Loan Maturity Distribution

As of June 30, 2023

(in thousands)	Loan Maturity				
	One Year or Less	After One Year to Five Years	After Five Years to Fifteen Years	After Fifteen Years	Total
Commercial & industrial	\$ 464,614	\$ 652,126	\$ 190,494	\$ 11,333	\$ 1,318,567
Owner-occupied CRE	74,675	657,889	203,445	33,193	969,202
Agricultural	330,163	336,515	361,578	40,743	1,068,999
CRE investment	131,458	724,139	226,416	26,679	1,108,692
Construction & land development	32,270	187,928	91,499	25,692	337,389
Residential construction *	28,627	8,088	4,014	67,366	108,095
Residential first mortgage	20,151	260,733	193,751	597,974	1,072,609
Residential junior mortgage	9,681	20,068	33,646	121,478	184,873
Retail & other	28,946	13,454	7,699	4,251	54,350
Total loans	\$ 1,120,585	\$ 2,860,940	\$ 1,312,542	\$ 928,709	\$ 6,222,776
Percent by maturity distribution	18 %	46 %	21 %	15 %	100 %
Total fixed rate loans	\$ 452,373	\$ 2,692,047	\$ 929,155	\$ 322,487	\$ 4,396,062
Total floating rate loans	\$ 668,212	\$ 168,893	\$ 383,387	\$ 606,222	\$ 1,826,714

As of December 31, 2022

(in thousands)	Loan Maturity				
	One Year or Less	After One Year to Five Years	After Five Years to Fifteen Years	After Fifteen Years	Total
Commercial & industrial	\$ 433,319	\$ 660,560	\$ 197,352	\$ 13,588	\$ 1,304,819
Owner-occupied CRE	78,759	639,093	208,719	28,028	954,599
Agricultural	350,752	328,495	367,913	41,447	1,088,607
CRE investment	129,770	737,869	250,256	32,054	1,149,949
Construction & land development	64,169	131,889	92,379	30,163	318,600
Residential construction *	41,049	6,922	2,091	64,330	114,392
Residential first mortgage	22,985	263,810	202,514	527,626	1,016,935
Residential junior mortgage	6,814	19,941	33,201	117,376	177,332
Retail & other	27,814	15,002	8,021	4,429	55,266
Total loans	\$ 1,155,431	\$ 2,803,581	\$ 1,362,446	\$ 859,041	\$ 6,180,499
Percent by maturity distribution	19 %	45 %	22 %	14 %	100 %
Total fixed rate loans	\$ 520,535	\$ 2,631,295	\$ 987,225	\$ 315,982	\$ 4,455,037
Total floating rate loans	\$ 634,896	\$ 172,286	\$ 375,221	\$ 543,059	\$ 1,725,462

* The residential construction loans with a loan maturity after five years represent a construction to permanent loan product.

Allowance for Credit Losses - Loans

For additional disclosures on the allowance for credit losses, see Note 6, “Loans, Allowance for Credit Losses - Loans, and Credit Quality,” in the Notes to Unaudited Consolidated Financial Statements under Part I, Item 1. A detailed discussion of the loan portfolio accounting policies, general loan portfolio characteristics, and credit risk are described in Note 1, “Nature of Business and Significant Accounting Policies,” of the Notes to Consolidated Financial Statements, included in Part II, Item 8 of the Company’s 2022 Annual Report on Form 10-K.

Credit risks within the loan portfolio are inherently different for each loan type. Credit risk is controlled and monitored through the use of lending standards, a thorough review of potential borrowers, and ongoing review of loan payment performance. Active asset quality administration, including early problem loan identification and timely resolution of problems, aids in the management of credit risk and minimization of loan losses. Loans charged off are subject to continuous review, and specific efforts are taken to achieve maximum recovery of principal, interest, and related expenses. For additional information regarding nonperforming assets see also “BALANCE SHEET ANALYSIS – Nonperforming Assets.”

The ACL-Loans represents management’s estimate of expected credit losses in the Company’s loan portfolio at the balance sheet date. To assess the overall appropriateness of the ACL-Loans, management applies an allocation methodology which focuses on evaluation of qualitative and environmental factors, including but not limited to: (i) evaluation of facts and issues related to specific loans; (ii) management’s ongoing review and grading of the loan portfolio; (iii) consideration of historical loan loss and delinquency experience on each portfolio segment; (iv) trends in past due and nonaccrual loans; (v) the risk characteristics of the various loan segments; (vi) changes in the size and character of the loan portfolio; (vii) concentrations of loans to specific borrowers or industries; (viii) existing economic conditions; (ix) the fair value of underlying collateral; and (x) other qualitative and quantitative factors which could affect expected credit losses. Assessing these numerous factors involves significant judgment; therefore, management considers the ACL-Loans a critical accounting estimate.

Management allocates the ACL-Loans by pools of risk within each loan portfolio segment. The allocation methodology consists of the following components. First, a specific reserve is established for individually evaluated credit deteriorated loans, which management defines as nonaccrual credit relationships over \$250,000, collateral dependent loans, purchased credit deteriorated loans, and other loans with evidence of credit deterioration. The specific reserve in the ACL-Loans for these credit deteriorated loans is equal to the aggregate collateral or discounted cash flow shortfall. Second, management allocates the ACL-Loans with historical loss rates by loan segment. The loss factors are measured on a quarterly basis and applied to each loan segment based on current loan balances and projected for their expected remaining life. Next, management allocates the ACL-Loans using the qualitative and environmental factors mentioned above. Consideration is given to those current qualitative or environmental factors that are likely to cause estimated credit losses at the evaluation date to differ from the historical loss experience of each loan segment. Lastly, management considers reasonable and supportable forecasts to assess the collectability of future cash flows.

At June 30, 2023, the ACL-Loans was \$63 million (representing 1.01% of period end loans), minimally changed from \$62 million (or 1.00% of period end loans) at December 31, 2022 and up from \$51 million (or 1.02% of period end loans) at June 30, 2022. The increase in the ACL-Loans from June 30, 2022 was mostly due to the Charter acquisition, which added \$8 million of provision for the Day 2 allowance and \$2 million related to purchased credit deteriorated loans. The components of the ACL-Loans are detailed further in Table 8 below.

Table 8: Allowance for Credit Losses - Loans

(in thousands)	Six Months Ended		Year Ended
	June 30, 2023	June 30, 2022	December 31, 2022
ACL-Loans:			
Balance at beginning of period	\$ 61,829	\$ 49,672	\$ 49,672
ACL on PCD loans acquired	—	—	1,937
Provision for credit losses	1,200	900	10,950
Charge-offs	(745)	(142)	(1,033)
Recoveries	527	225	303
Net (charge-offs) recoveries	(218)	83	(730)
Balance at end of period	<u>\$ 62,811</u>	<u>\$ 50,655</u>	<u>\$ 61,829</u>
Net loan (charge-offs) recoveries:			
Commercial & industrial	\$ 115	\$ 30	\$ (86)
Owner-occupied CRE	—	(36)	(555)
Agricultural	(63)	—	—
CRE investment	—	169	169
Construction & land development	—	—	—
Residential construction	—	—	—
Residential first mortgage	2	5	(57)
Residential junior mortgage	(96)	1	1
Retail & other	(176)	(86)	(202)
Total net (charge-offs) recoveries	<u>\$ (218)</u>	<u>\$ 83</u>	<u>\$ (730)</u>
Ratios:			
ACL-Loans to total loans	1.01 %	1.02 %	1.00 %
Net charge-offs to average loans, annualized	0.01 %	— %	0.01 %

Nonperforming Assets

As part of its overall credit risk management process, management is committed to an aggressive problem loan identification philosophy. This philosophy has been implemented through the ongoing monitoring and review of all pools of risk in the loan portfolio to identify problem loans early and minimize the risk of loss. Management continues to actively work with customers and monitor credit risk from the ongoing macroeconomic challenges. For additional disclosures on credit quality, see Note 6, “Loans, Allowance for Credit Losses - Loans, and Credit Quality” of the Notes to Unaudited Consolidated Financial Statements under Part I, Item 1. For additional information on loans see “BALANCE SHEET ANALYSIS – Loans” and for additional information on the ACL-Loans see “BALANCE SHEET ANALYSIS – Allowance for Credit Losses-Loans.”

Nonperforming loans are considered one indicator of potential future loan losses. Nonperforming loans are defined as nonaccrual loans and loans 90 days or more past due but still accruing interest. Loans are generally placed on nonaccrual status when contractually past due 90 days or more as to interest or principal payments. Additionally, whenever management becomes aware of facts or circumstances that may adversely impact the collectability of principal or interest on loans, it is management’s practice to place such loans on nonaccrual status immediately. Nonperforming assets include nonperforming loans and other real estate owned (“OREO”). At June 30, 2023, nonperforming assets were \$27 million and represented 0.32% of total assets, compared to \$40 million or 0.46% of total assets at December 31, 2022. The reduction in nonperforming assets was mostly due to the nonaccrual loan sale (as noted under “BALANCE SHEET ANALYSIS – Loans” above).

The level of potential problem loans is another predominant factor in determining the relative level of risk in the loan portfolio and in determining the appropriate level of the ACL-Loans. Potential problem loans are generally defined by management to include loans rated as Substandard by management but that are in performing status; however, there are circumstances present which might adversely affect the ability of the borrower to comply with present repayment terms. The decision of management to include performing loans in potential problem loans does not necessarily mean that Nicolet expects losses to occur, but that management recognizes a higher degree of risk associated with these loans. The loans that have been reported as potential problem loans are predominantly commercial-based loans covering a diverse range of businesses and real estate property types. Potential problem loans were \$79 million (1% of loans) and \$53 million (1% of loans) at June 30, 2023 and December 31, 2022, respectively, with the increase primarily due to the downgrade of one commercial credit relationship. Potential problem loans require heightened management review given the pace at which a credit may deteriorate, the potential duration of asset quality stress, and uncertainty around the magnitude and scope of economic stress that may be felt by Nicolet’s customers and on underlying real estate values.

Table 9: Nonperforming Assets

(in thousands)	June 30, 2023	December 31, 2022	June 30, 2022
Nonperforming loans:			
Commercial & industrial	\$ 3,157	\$ 3,328	\$ 1,784
Owner-occupied CRE	6,573	5,647	5,183
Agricultural	9,092	20,416	21,054
Commercial	18,822	29,391	28,021
CRE investment	2,535	3,832	3,617
Construction & land development	95	771	1,044
Commercial real estate	2,630	4,603	4,661
Commercial-based loans	21,452	33,994	32,682
Residential construction	—	—	—
Residential first mortgage	3,638	3,780	3,580
Residential junior mortgage	87	224	221
Residential real estate	3,725	4,004	3,801
Retail & other	101	82	97
Retail-based loans	3,826	4,086	3,898
Total nonaccrual loans	25,278	38,080	36,580
Accruing loans past due 90 days or more	—	—	—
Total nonperforming loans	\$ 25,278	\$ 38,080	\$ 36,580
Nonaccrual loans (included above) covered by guarantees	\$ 3,110	\$ 5,459	\$ 4,883
OREO:			
Commercial real estate owned	\$ 520	\$ 628	\$ 628
Bank property real estate owned	958	1,347	4,378
Total OREO	1,478	1,975	5,006
Total nonperforming assets	\$ 26,756	\$ 40,055	\$ 41,586
Ratios:			
Nonperforming loans to total loans	0.41 %	0.62 %	0.73 %
Nonperforming assets to total loans plus OREO	0.43 %	0.65 %	0.83 %
Nonperforming assets to total assets	0.32 %	0.46 %	0.56 %
ACL-Loans to nonperforming loans	248 %	162 %	138 %

Deposits

Deposits represent Nicolet's largest source of funds, and the strong core deposit base provides a stable funding source. Core deposit balances of \$6.5 billion at June 30, 2023 declined \$128 million (2%) from December 31, 2022, including lower commercial balances, as well as the seasonal run-off of municipal deposits. Compared to June 30, 2022, core deposits increased \$656 million (11%), largely due to the Charter acquisition. The deposit composition is presented in Table 10 below.

Table 10: Period End Deposit Composition

(in thousands)	June 30, 2023		December 31, 2022		June 30, 2022	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Noninterest-bearing demand	\$ 2,059,939	29 %	\$ 2,361,816	33 %	\$ 2,045,732	33 %
Interest-bearing demand	1,030,919	14 %	1,279,850	18 %	1,230,822	20 %
Money market	1,835,523	26 %	1,707,619	24 %	1,411,688	22 %
Savings	821,803	11 %	931,417	13 %	858,160	13 %
Time	1,450,420	20 %	898,219	12 %	739,864	12 %
Total deposits	\$ 7,198,604	100 %	\$ 7,178,921	100 %	\$ 6,286,266	100 %
Brokered transaction accounts	\$ 173,107	2 %	\$ 252,829	3 %	\$ 265,240	4 %
Brokered and listed time deposits	566,405	8 %	339,066	5 %	218,198	4 %
Total brokered deposits	\$ 739,512	10 %	\$ 591,895	8 %	\$ 483,438	8 %
Customer transaction accounts	\$ 5,575,077	78 %	\$ 6,027,873	84 %	\$ 5,281,162	84 %
Customer time deposits	884,015	12 %	559,153	8 %	521,666	8 %
Total customer deposits (core)	\$ 6,459,092	90 %	\$ 6,587,026	92 %	\$ 5,802,828	92 %

Total estimated uninsured deposits were \$2.0 billion (representing 28% of total deposits) at June 30, 2023, compared to \$2.3 billion (representing 32% of total deposits) at December 31, 2022.

Lending-Related Commitments

As of June 30, 2023 and December 31, 2022, Nicolet had the following off-balance sheet lending-related commitments.

Table 11: Commitments

(in thousands)	June 30, 2023	December 31, 2022
Commitments to extend credit	\$ 1,826,995	\$ 1,850,601
Financial standby letters of credit	22,777	26,530
Performance standby letters of credit	12,824	9,375

For additional disclosures on lending-related commitments, see Note 9, “Commitments and Contingencies” of the Notes to Unaudited Consolidated Financial Statements under Part I, Item 1.

Liquidity Management

Liquidity management refers to the ability to ensure that adequate liquid funds are available to meet the current and future cash flow obligations arising in the daily operations of the Company. These cash flow obligations include the ability to meet the commitments to borrowers for extensions of credit, accommodate deposit cycles and trends, fund capital expenditures, pay dividends to stockholders (if any), and satisfy other operating expenses. The Company’s most liquid assets are cash and due from banks and interest-earning deposits, which totaled \$505 million and \$155 million at June 30, 2023 and December 31, 2022, respectively. Balances of these liquid assets are dependent on our operating, investing, and financing activities during any given period.

The \$350 million increase in cash and cash equivalents since year-end 2022 included \$48 million net cash provided by operating activities and \$581 million net cash provided by investing activities (mostly investment sales from the balance sheet repositioning), partly offset by \$279 million net cash used in financing activities (mostly repayment of FHLB borrowings from the balance sheet repositioning). As of June 30, 2023, management believed that adequate liquidity existed to meet all projected cash flow obligations.

Nicolet’s primary sources of funds include the core deposit base, repayment and maturity of loans, investment securities calls, maturities, and sales, and procurement of brokered deposits or other wholesale funding. At June 30, 2023, approximately 43% of the investment securities portfolio was pledged as collateral to secure public deposits and borrowings, as applicable, and for liquidity or other purposes as required by regulation. Liquidity sources available to the Company at June 30, 2023, are presented in Table 12 below.

Table 12: Liquidity Sources

(in millions)	June 30, 2023
FHLB Borrowing Availability ⁽¹⁾	\$ 581
Fed Funds Lines	155
Fed Discount Window	11
Immediate Funding Availability	\$ 747
Unencumbered AFS Securities	\$ 525
Less: AFS Securities retained per policy ⁽²⁾	(443)
Brokered Capacity	1,060
Guaranteed portion of SBA loans	88
Other funding sources	75
Short-Term Funding Availability ⁽³⁾	\$ 1,305
Total Contingent Funding Availability	\$ 2,052

(1) Excludes outstanding FHLB borrowings of \$55 million at June 30, 2023.

(2) Excludes \$443 million of AFS securities retained in accordance with internal treasury liquidity policy.

(3) Short-term funding availability defined as funding that could be secured between 2 and 30 days.

Management is committed to the Parent Company being a source of strength to the Bank and its other subsidiaries, and therefore, regularly evaluates capital and liquidity positions of the Parent Company in light of current and projected needs, growth or strategies. The Parent Company uses cash for normal expenses, debt service requirements and, when opportune, for common stock repurchases, repayment of debt, or investment in other strategic actions such as mergers or acquisitions. At June 30, 2023, the Parent Company had \$56 million in cash. Additional cash sources available to the Parent Company include access to the public or private markets to issue new equity, subordinated notes or other debt. Dividends from the Bank and, to a

lesser extent, stock option exercises, represent significant sources of cash flows for the Parent Company. The Bank is required by federal law to obtain prior approval of the OCC for payments of dividends if the total of all dividends declared by the Bank in any year will exceed certain thresholds. Management does not believe that regulatory restrictions on dividends from the Bank will adversely affect its ability to meet its cash obligations.

Interest Rate Sensitivity Management and Impact of Inflation

A reasonable balance between interest rate risk, credit risk, liquidity risk and maintenance of yield, is highly important to Nicolet's business success and profitability. As an ongoing part of our financial strategy and risk management, we attempt to understand and manage the impact of fluctuations in market interest rates on our net interest income. The consolidated balance sheet consists mainly of interest-earning assets (loans, investments and cash) which are primarily funded by interest-bearing liabilities (deposits and other borrowings). Such financial instruments have varying levels of sensitivity to changes in market rates of interest. Market rates are highly sensitive to many factors beyond our control, including but not limited to general economic conditions and policies of governmental and regulatory authorities. Our operating income and net income depends, to a substantial extent, on "rate spread" (i.e., the difference between the income earned on loans, investments and other earning assets and the interest expense paid to obtain deposits and other funding liabilities).

Asset-liability management policies establish guidelines for acceptable limits on the sensitivity to changes in interest rates on earnings and market value of assets and liabilities. Such policies are set and monitored by management and the Board of Directors' Asset and Liability Committee.

To understand and manage the impact of fluctuations in market interest rates on net interest income, we measure our overall interest rate sensitivity through a net interest income analysis, which calculates the change in net interest income in the event of hypothetical changes in interest rates under different scenarios versus a baseline scenario. Such scenarios can involve static balance sheets, balance sheets with projected growth, parallel (or non-parallel) yield curve slope changes, immediate or gradual changes in market interest rates, and one-year or longer time horizons. The simulation modeling uses assumptions involving market spreads, prepayments of rate-sensitive instruments, renewal rates on maturing or new loans, deposit retention rates, and other assumptions.

Among other scenarios, we assessed the impact on net interest income in the event of a gradual +/-100 bps and +/-200 bps change in market rates (parallel to the change in prime rate) over a one-year time horizon to a static (flat) balance sheet. The results provided include the liquidity measures mentioned above and reflect the higher interest rate environment. The interest rate scenarios are used for analytical purposes only and do not necessarily represent management's view of future market interest rate movements. Based on financial data at June 30, 2023 and December 31, 2022, the projected changes in net interest income over a one-year time horizon, versus the baseline, are presented in Table 13 below. The results are within Nicolet's guidelines of not greater than -10% for +/- 100 bps and not greater than -15% for +/- 200 bps.

Table 13: Interest Rate Sensitivity

	June 30, 2023	December 31, 2022
200 bps decrease in interest rates	(2.1)%	(0.7)%
100 bps decrease in interest rates	(1.1)%	(0.4)%
100 bps increase in interest rates	1.1 %	— %
200 bps increase in interest rates	2.3 %	0.1 %

Actual results may differ from these simulated results due to timing, magnitude and frequency of interest rate changes, as well as changes in market conditions and their impact on customer behavior and management strategies.

The effect of inflation on a financial institution differs significantly from the effect on an industrial company. While a financial institution's operating expenses, particularly salary and employee benefits, are affected by general inflation, the asset and liability structure of a financial institution consists largely of monetary items. Monetary items, such as cash, investments, loans, deposits and other borrowings, are those assets and liabilities which are or will be converted into a fixed number of dollars regardless of changes in prices. As a result, changes in interest rates have a more significant impact on a financial institution's performance than does general inflation. Inflation may also have impacts on the Bank's customers, on businesses and consumers and their ability or willingness to invest, save or spend, and perhaps on their ability to repay loans. As such, there would likely be impacts on the general appetite for banking products and the credit health of the Bank's customer base.

Capital

Management regularly reviews the adequacy of its capital to ensure that sufficient capital is available for current and future needs and is in compliance with regulatory guidelines. The capital position and strategies are actively reviewed in light of perceived business risks associated with current and prospective earning levels, liquidity, asset quality, economic conditions in the markets served, and level of returns available to shareholders. Management intends to maintain an optimal capital and leverage mix for growth and shareholder return. For details on the change in capital see "BALANCE SHEET ANALYSIS."

The Company's and the Bank's regulatory capital ratios remain above minimum regulatory ratios, including the capital conservation buffer. At June 30, 2023, the Bank's regulatory capital ratios qualify the Bank as well-capitalized under the prompt-corrective action framework. This strong base of capital has allowed Nicolet to be opportunistic in strategic growth. A summary of the Company's and the Bank's regulatory capital amounts and ratios, as well as selected capital metrics are presented in the following table.

Table 14: Capital

	At or for the Six Months Ended	At or for the Year Ended
(\$ in thousands)	June 30, 2023	December 31, 2022
Company Stock Repurchases: *		
Common stock repurchased during the period (dollars)	\$ 1,519	\$ 61,483
Common stock repurchased during the period (full shares)	26,853	671,662
Company Risk-Based Capital:		
Total risk-based capital	\$ 902,726	\$ 889,763
Tier 1 risk-based capital	698,469	684,280
Common equity Tier 1 capital	660,114	646,341
Total capital ratio	12.7 %	12.3 %
Tier 1 capital ratio	9.8 %	9.5 %
Common equity tier 1 capital ratio	9.3 %	9.0 %
Tier 1 leverage ratio	8.8 %	8.2 %
Bank Risk-Based Capital:		
Total risk-based capital	\$ 841,973	\$ 816,951
Tier 1 risk-based capital	784,157	764,090
Common equity Tier 1 capital	784,157	764,090
Total capital ratio	11.8 %	11.3 %
Tier 1 capital ratio	11.0 %	10.6 %
Common equity tier 1 capital ratio	11.0 %	10.6 %
Tier 1 leverage ratio	9.9 %	9.1 %
* Reflects common stock repurchased under board of director authorizations for the common stock repurchase program.		

In managing capital for optimal return, we evaluate capital sources and uses, pricing and availability of our stock in the market, and alternative uses of capital (such as the level of organic growth or acquisition opportunities, dividends, or repayment of equity-equivalent debt) in light of strategic plans. At June 30, 2023, there remains \$46 million authorized under this repurchase program, as modified, to be utilized from time-to-time to repurchase shares in the open market, through block transactions or in private transactions.

Critical Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, assumptions or judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions are based on historical experience, current information, and other factors deemed to be relevant; accordingly, as this information changes, actual results could differ from those estimates. Nicolet considers accounting estimates to be critical to reported financial results if the accounting estimate requires management to make assumptions about matters that are highly uncertain and different estimates that management reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on the financial statements. The accounting estimates we consider to be critical include business combinations and the valuation of loans acquired, the determination of the allowance for credit losses, and income taxes. A discussion of these estimates can be found in the "Critical Accounting Estimates" section in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's 2022 Annual Report on Form 10-K. There have been no changes in the Company's determination of critical accounting policies and estimates since December 31, 2022.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk at June 30, 2023, from that presented in our 2022 Annual Report on Form 10-K. See section "Interest Rate Sensitivity Management and Impact of Inflation" within Management's Discussion and Analysis of Financial Condition and Results of Operations under Part I, Item 2, for our interest rate sensitivity position at June 30, 2023.

ITEM 4. CONTROLS AND PROCEDURES

(a) *Disclosure Controls and Procedures.* Management, under the supervision, and with the participation, of our principal executive officer and principal financial officer, evaluated our disclosure controls and procedures (as such term is defined in Exchange Act Rule 13a-15(e)). Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) *Changes in Internal Control Over Financial Reporting.* There were no changes in the Company's internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company and its subsidiaries may be involved from time to time in various routine legal proceedings incidental to our respective businesses. Neither the Company nor any of its subsidiaries are currently engaged in any legal proceedings that are expected to have a material adverse effect on our results of operations or financial position.

ITEM 1A. RISK FACTORS

There have been no material changes in the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

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

Issuer Purchases of Equity Securities

The following table contains information regarding purchases of Nicolet's common stock made during second quarter 2023 by or on behalf of the Company or any "affiliated purchaser," as defined by Rule 10b-18(a)(3) of the Exchange Act.

	Total Number of Shares Purchased ^(a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ^(b)
	(#)	(\$)	(#)	(#)
Period				
April 1 – April 30, 2023	21,031	\$ 59.63	12,116	
May 1 – May 31, 2023	18,430	\$ 57.48	14,737	
June 1 – June 30, 2023	1,672	\$ 72.36	—	
Total	41,133	\$ 59.18	26,853	677,000

a. During second quarter 2023, the Company withheld no common shares for minimum tax withholding settlements on restricted stock, and withheld 14,280 common shares to satisfy the exercise price and tax withholding requirements on stock option exercises. These are not considered "repurchases" and, therefore, do not count against the maximum number of shares that may yet be purchased under the Board of Directors' authorization.

b. The Board of Directors approved a common stock repurchase program which authorized, with subsequent modifications, the use of up to \$276 million to repurchase outstanding shares of common stock. This common stock repurchase program was last modified on April 19, 2022, and has no expiration date. At June 30, 2023, approximately \$46 million remained available under this common stock repurchase program, or approximately 677,000 shares of common stock (based upon the closing stock price of \$67.91 on June 30, 2023).

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed herewith:

Exhibit Number	Description
31.1	Certification of CEO under Section 302 of Sarbanes-Oxley Act of 2002
31.2	Certification of CFO under Section 302 of Sarbanes-Oxley Act of 2002
32.1	Certification of CEO Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002
32.2	Certification of CFO Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of Sarbanes-Oxley Act of 2002
101.INS	The XBRL Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document ⁽¹⁾
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

(1) Includes the following financial information included in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) Notes to Unaudited Consolidated Financial Statements.

SIGNATURES

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

NICOLET BANKSHARES, INC.

August 4, 2023

/s/ Michael E. Daniels

Michael E. Daniels

President and Chief Executive Officer

August 4, 2023

/s/ H. Phillip Moore, Jr.

H. Phillip Moore, Jr.

Chief Financial Officer

**Certification Pursuant to 18 U.S.C.
Section 1350, as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Michael E. Daniels, certify that:

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

August 4, 2023

/s/ Michael E. Daniels

Michael E. Daniels
President and Chief Executive Officer
(Principal Executive Officer)

**Certification Pursuant to 18 U.S.C.
Section 1350, as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, H. Phillip Moore, Jr., certify that:

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

August 4, 2023

/s/ H. Phillip Moore, Jr.

H. Phillip Moore, Jr.
Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this Quarterly Report of Nicolet Bankshares, Inc., (the “Company”) on Form 10-Q as filed with the Securities and Exchange Commission on or about the date hereof (the “Report”), I, Michael E. Daniels, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. s.1350, as adopted pursuant to s.906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

August 4, 2023

/s/ Michael E. Daniels

Michael E. Daniels

President and Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this Quarterly Report of Nicolet Bankshares, Inc., (the “Company”) on Form 10-Q as filed with the Securities and Exchange Commission on or about the date hereof (the “Report”), I, H. Phillip Moore, Jr., Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. s.1350, as adopted pursuant to s.906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

August 4, 2023

/s/ H. Phillip Moore, Jr.

H. Phillip Moore, Jr.

Chief Financial Officer