Zacks Small-Cap Research

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First Business Financial Services, Inc. (FBIZ-NASDAQ)

FBIZ: First Quarter Beats Our Estimate

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	11/01/2011
Current Price (05/04/12)	$22.73
Twelve- Month Target Price	**$26.00**

OUTLOOK

FBIZ posted first quarter diluted EPS of $0.84, up 62% from the $0.52 EPS reported last year, and $0.08 above our $0.76 estimate. Relative to our estimate, this largely reflected better-than-expected growth in both net interest income and noninterest income, aided by a larger decline in the loan loss provision than we had anticipated. Compared to the year-ago quarter, first quarter results were boosted by a gain in net interest income from 5% growth in interest-earning assets, sharp increases in service charges on deposits and loan fees, a significantly reduced loan loss provision, and strong control over operating costs, partly offset by a higher effective rate. The Company continued to reduce problem assets, and it appears that FBIZ has turned the corner regarding asset quality. Nonaccrual loans fell $1.2 million, or 7%, sequentially to $20.2 million, while foreclosed assets rose $0.4 million, or 16%, to $2.6 million. As a percentage of total loans and OREO, nonperforming assets fell 8 basis points sequentially to 2.73% from 2.81% at the end of the fourth quarter and 204 basis points year over year from the 4.77% cycle peak at the end of 2011's March quarter. We are raising our 2012 diluted EPS estimate to $3.35 from $3.25, principally to reflect the Company's better-than-expected performance in the first quarter. Our $3.35 estimate in 2012 represents a 14% gain over 2011's $2.94, which excludes a $0.7 million, or $0.29 per diluted share, one-time tax benefit. Our initial diluted EPS estimate for 2013 is $3.70, a 10% gain over our 2012 estimate.

SUMMARY DATA

52-Week High	**$23.49**
52-Week Low	**$12.35**
One-Year Return (%)	**82.46**
Beta	**0.04**
Average Daily Volume (sh)	**3,347**
Shares Outstanding (mil)	**2.6**
Market Capitalization ($mil)	**$60**
Short Interest Ratio (days)	**3.97**
Institutional Ownership (%)	**13**
Insider Ownership (%)	**19**
Annual Cash Dividend	**$0.28**
Dividend Yield (%)	**1.23**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**13.4**
Earnings Per Share (%)	**14.1**
Dividend (%)	**3.1**
P/E using TTM EPS	**7.0**
P/E using 2012 Estimate	**6.8**
P/E using 2013 Estimate	**6.1**
Zacks Rank	**4**

Risk Level	**Average**
Type of Stock	**Small-Value**
Industry	**Banks-Midwest**
Zacks Rank in Industry	**35 of 35**

ZACKS ESTIMATES

Net Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	9.5 A	9.4 A	9.8 A	10.0 A	38.7 A
2011	10.2 A	10.7 A	10.8 A	10.8 A	42.5 A
2012	10.8 A	10.9 E	11.1 E	11.4 E	44.2 E
2013					46.7 E

Earnings per Share
(EPS is operating earnings before nonrecurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	0.35 A	0.46 A	0.38 A	0.24 A	1.42 A
2011	0.52 A	0.68 A	0.83 A	0.90 A	2.94 A
2012	0.84 A	0.81 E	0.82 E	0.87 E	3.35 E
2013					3.70 E

Quarterly EPS may not add to total due to changes in shares outstanding.

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FIRST QUARTER RESULTS

FBIZ posted first quarter diluted EPS of $0.84, up 62% from the $0.52 EPS reported last year, and $0.08 above our $0.76 estimate. Relative to our estimate, this largely reflected better-than-expected growth in both net interest income and noninterest income, aided by a larger decline in the loan loss provision than we had anticipated.

Compared to the year-ago quarter, first quarter results were boosted by a gain in net interest income from 5% growth in interest-earning assets, sharp increases in service charges on deposits and loan fees, a significantly reduced loan loss provision, and strong control over operating costs, partly offset by a higher effective rate.

The Company continued to reduce problem assets, and it appears that FBIZ has turned the corner regarding asset quality. Nonaccrual loans fell $1.2 million, or 7%, sequentially to $20.2 million, while foreclosed assets rose $0.4 million, or 16%, to $2.6 million. As a percentage of total loans and OREO, nonperforming assets fell 8 basis points sequentially to 2.73% from 2.81% at the end of the fourth quarter and 204 basis points year over year from the 4.77% cycle peak at the end of 2011's March quarter.

We are raising our 2012 diluted EPS estimate to $3.35 from $3.25, principally to reflect the Company's better-than-expected performance in the first quarter. Our $3.35 estimate in 2012 represents a 14% gain over 2011's $2.94, which excludes a $0.7 million, or $0.29 per diluted share, one-time tax benefit related to a change in regulation for net operating loss carryforwards by the state of Wisconsin. Our initial diluted EPS estimate for 2013 is $3.70, a 10% gain over our 2012 estimate.

Below, we discuss first quarter results in more detail.

Net Interest Income

Net interest income increased 5% year over year to $8.9 million, matching the growth in interest-earning assets. The net interest margin rose 1 basis point to 3.15% in the first quarter and benefitted from a lower level of nonaccruing loans as well as a reduction in interest expense from lower deposit costs, with the yield falling 44 basis points to 1.61%.

This was mostly offset by a 39 basis-point slide in the yield on interest-earning assets to 4.82%, as well as a shift in the asset mix to securities and short-term investments, away from higher yield loans and leases. The yield on the loan and lease receivables portfolio rose 12 basis points year over year to 6.06%, mainly the result of a 22 basis-point gain in the yield on commercial real estate loans to 5.61%, due to better pricing from reduced competition of lenders to the commercial real estate industry.This was partly offset by reduced yields on the commercial and industrial loan and direct financing lease portfolios, which have been hurt by competitive pricing pressures. In addition, the mortgage securities portfolio yield fell 96 basis points to 1.96%, as FBIZ invested cash flows from these obligations at current reduced market interest rates.

Net interest income of $8.9 was almost $0.1 million better than our estimate, mainly reflecting a 5% gain in the interest-earning asset base, which more than offset the fact that the 3.15% net interest margin was 10 basis points below our 3.25% estimate, hurt by the shift in asset mix. Average short-term investments jumped 120% year over year to $121 million, while average loans and leases dropped over 3% to $840 million. In 2012 and 2013, FBIZ intends to reverse course by reducing short-term investments and gradually redeploying these funds to other more profitable activities, such as the investment securities and lending portfolios. Furthermore, with the recent addition of an intact 5-person team to its equipment finance group, consisting of two BDOs and three support staff, FBIZ is poised to generate higher levels of loan and lease assets more rapidly than would otherwise occur.

As a result, we expect the net interest margin to gradually recover from 3.15% in the first quarter to 3.30% by the end of the 2012, and are using a 3.23% estimate for all of 2012 and a 3.30% estimate for

2013. This compares to our previous estimate of 3.29% for 2012 and the 3.29% that was actually posted in 2011.

Noninterest Income

Noninterest income rose 11% year over year to $1.9 million (and was $0.1 million better than our estimate), as all line items, except other noninterest income, were higher than those of a year ago. The main contributors were a 28% increase in services charges on deposits to $0.5 million, reflecting new business stemming from an increased focus on adding new commercial and industrial clients with the recent hires of two new business development officers (BDOs), as well as higher fee payments in lieu of compensating balances for certain clients, and a 20% gain in loan fees to $0.4 million, due to increased audit fees from the asset-based lending unit.

In addition, trust and investment services fee income rose 7% year over year to $0.7 million, benefitting from a 31% jump in assets under management to $558.6 million, reflecting the addition of new clients, and a 7% million rise in assets under administration to $140.8 million. We expect accelerating quarterly growth in this segment, as a recently hired business development officer becomes more productive over time.

Loan Loss Provision

The loan loss provision slid 64% year over year to $0.5 million, reflecting improved asset quality. Relative to our estimate, it was $0.1 million lower than the $0.6 million we had estimated

Going forward, we have lowered our estimate for the loan loss provision for 2012 by $0.2 million to $2.3 million from $2.5 million, which is down 46% from 2011's $4.3 million, primarily reflecting two factors: (1) a slowdown in the rate of growth in nonaccrual loans and (2) an increase in nonaccrual loans exiting the bank. This will be partly offset by expected 3% year-over-year growth in the loan portfolio. For 2013, we are estimating 11% growth in the loan loss provision, largely due to growth in the loan portfolio.

Noninterest Expense

Noninterest expense rose 1% year over year to $6.8 million and compares to our $6.9 million estimate, with the difference attributable to other noninterest expense, which was $0.1 million lower than our estimate.

Compensation expense climbed 7% to $4.0 million, which was partly offset by a 6% drop in other noninterest expense to $2.8 million, reflecting reduced FDIC insurance premiums stemming from a change in how these premiums are calculated pursuant to the Dodd-Frank Act.

Generally, the Company maintained tight control over operating expenses. Because net revenues rose 6% while noninterest expense increased only 1%, the Company's efficiency ratio improved, falling 320 basis points to 63.4% compared to 66.6% in 2011's first quarter.

We expect operating efficiency to deteriorate for the remainder of 2012 before improving in 2013, reflecting the addition of five new BDOs and three support staff in the first and second quarters. It takes about 12 months for a BDO to become fully productive, which will hurt 2012 results, but benefit 2013 as new staff becomes fully functional.

Income Taxes

The Company's effective tax rate was 35.8%, compared to 32.3% in the year-ago quarter and our 35.0% estimate. We have increased our estimated effective tax rate to 35.5% from 35.0% as we expect a higher level of total net income, which means a reduced percentage of income will benefit from the lower tax rates associated with the private purpose tax-exempt loans. This compares to a full-year effective tax rate of 35.1% in 2011, excluding a $0.7 million one-time tax benefit related to a change in regulation for net operating loss carryforwards by the state of Wisconsin.

Net Income

FBIZ posted net earnings of $2.2 million ($0.84 diluted EPS), up 64% from $1.3 million ($0.52 diluted EPS) reported in the year-ago quarter. This compares to our $2.0 million net income estimate ($0.76 diluted EPS).

Profitability

FBIZ posted a 13.4% ROE and 0.74% ROA for the first quarter of 2012, compared to a 9.6% ROE and 0.48% ROA for the first quarter of 2011, as the Company reported significantly higher net earnings.

Loans and Asset Quality

Loans fell $19 million, or 2%, sequentially to $832 million during the first quarter. Sequentially, total mortgage loans decreased $7 million, or 3%, to $563 million, while total commercial loans fell $3 million, or 1%, to $251 million, and consumer and other loans inched up almost $1 million, or 5%, to $17 million.

The Company is not witnessing improved loan demand, and increased rate competition from larger banks, such as JP Morgan Chase and Associated Bank, for the more creditworthy customers means that FBIZ is not winning as much business as they would like. At some point in the future, FBIZ may have to meet competitors' pricing to achieve satisfactory loan growth, but this has not occurred yet. Importantly, the Company has stated that it will not loosen credit standards to win new business, as some competitors are now doing.

Because of competition and the continuing lackluster economy, we are maintaining our estimate of 3% loan growth in 2012, but showing higher loan growth of 5% in 2013. This compares to a year-over-year decline of 3% in 2011.

The NPA ratio fell 8 basis points sequentially to 2.73% from 2.81% at the end of the fourth quarter and 204 basis points year over year from the 4.77% cycle peak at the end 2011's first quarter. In total, nonaccrual loans fell $1.6 million, or 7%, sequentially to $20.2 million. Foreclosed assets rose $0.4 million, or 16%, to $2.6 million.

This improvement was broadly based and affected all major loan categories, with one major exception—commercial and industrial, which saw a $4.1 million, or 261%, increase in nonaccrual loans to $5.6 million. Generally, C&I nonaccrual loans are worked down more quickly than CRE nonaccrual loans, given the more liquid nature of the collateral backing C&I loans, typically receivables, inventories, and equipment. Therefore, we have estimated that nonaccrual loans will drop by $4 million in 2012 and an additional $1 million in 2013.

On a more detailed basis, quarterly improvement in nonaccrual loans reflected the paydown of $3.9 million in nonaccruing loans that were either refinanced by other financial institutions or paid off by customers, $0.3 million in loans that were charged off, $1.2 million of loans that were transferred to foreclosed properties, and $0.3 million of loans that were returned to accrual status, partly offset by the transfer of $4.1 million of loans to nonaccrual status.

The loan loss allowance as a percent of nonperforming assets rose to 63% at the end of the quarter from 59% at the end of 2011's fourth quarter. This was the result of a lower level of nonaccrual loans and foreclosed assets, aided by a modestly higher loan loss allowance that increased to $14.5 million, or 1.74% of gross loans, from $14.2 million, or 1.66% of gross loans.

In a development related to a recent standard issued by the Financial Accounting Standards Board, the Company has improved disclosure regarding the performance of its loan portfolio. There are now four loan categories: Category I – loans performing satisfactorily; Category II – loans beginning to show signs of deterioration; Category III – loans requiring special attention; and Category IV – loans are impaired. At March 31, 2012 (figures for December 31, 2011 are in parentheses), FBIZ 's loan portfolio divided 77.0% (77.6%) Category I, 12.3% (12.4%) Category II, 7.7% (8.7%) Category III, and 2.4% (2.6%) Category IV. Importantly, both Category I, which represents the highest credit quality loan category, increased 64

basis points during the year to 76.61%, while Category IV, the weakest loan category giving rise to the majority of loan losses, improved by 14 basis points and fell to 2.43%.

Liquidity and Funding

FBIZ increased cash and short-investments by $5.2 million during the first quarter as the Company had a surfeit of in-market core deposits, which could only be deployed to the liquidity portfolio, given the dearth of creditworthy lending opportunities. In order to reduce excess liquidity going forward, FBIZ will not replace maturing brokered certificates of deposit, though this may take some time to work through. Positively, this should improve the Company's funding profile as the proportion of in-market core deposits to total deposits is increased and the proportion of brokered deposits is reduced.

The available-for-sale securities portfolio was flat during the quarter at $170 million as mortgage securities fell by about $2 million to $166 million, replaced with a like amount of of municipal securities, reflecting FBIZ's new investment strategy. FBIZ will gradually be increasing its exposure to municipal and FNMA and FHLMC securities, with these obligations growing to about 10% and 5-10%, respectively, of the investment securities portfolio. This compares to FBIZ's former strategy, under which the entire investment securities portfolio was invested exclusively in GNMA securities. We note that this new strategy should have a positive impact on net interest margins, but a negative effect on risk-adjusted capital ratios since municipal and FNMA and FHLMC securities have higher risk ratings than GNMA securities, which have a 0% risk weighting.

The Company remains heavily reliant on brokered deposits to fund its fixed-rate loan portfolio. Brokered deposits were $415 million and represented 40% of total deposits at March quarterend (down from 42% at the end of December 2011). This is well below FBIZ's goal, which is to maintain brokered deposits at 50% or less of total eposits.

FBIZ's funding profile continues strong, and 30 months of brokered CD maturities (up from 26 months at the end of September) could be financed with borrowing from the FHLB or Fed, in the event of a market meltdown.

Capital Adequacy and Dividends

The Company's capital adequacy ratios improved during the quarter. The Tier 1 capital ratio rose 30 basis points to 8.21% at the end of 2012's first quarter from 7.91% at December 31, 2011, and the Total capital ratio gained 45 basis points to 13.56% from 13.11%, largely due to growth in retained earnings, though there was a modest decline is risk-weighted assets as well.

Tangible common equity to tangible assets rose 26 basis point to 5.72% at March 31, 2012 from the December quarterend, due to a combination of growth in retained earnings and a decrease in total tangible assets.

Total shareholders' equity increased $2.2 million during the first quarter, due to a combination of $2.0 million growth in retained earnings, a $0.1 million increase from capital changes, and a $0.1 million gain in accumulated comprehensive income. Reflecting these factors, tangible book value per share also increased during the first quarter, by $0.85 per share to $25.31 from $24.46.

On March 13, 2012, FBIZ declared its regular quarterly $0.07 cash dividend, paid on April 15, 2012 to shareholders of record at the close of business on April 1, 2012. We do not expect any increase in the common dividend for the foreseeable future as the Company expects to retain earnings to meet future capital requirements under Basel III.

Basel III

The Company estimates that it will need an additional $12-14 million of common equity to satisfy the regulatory capital requirements under Basel III. FBIZ expects that a long period of implementation combined with growth in retained earnings may be sufficient to meet this goal, and does not intend to

shrink its balance sheet or issue dilutive common stock. However, FBIZ would consider a common share offering under the right circumstances.

OVERVIEW

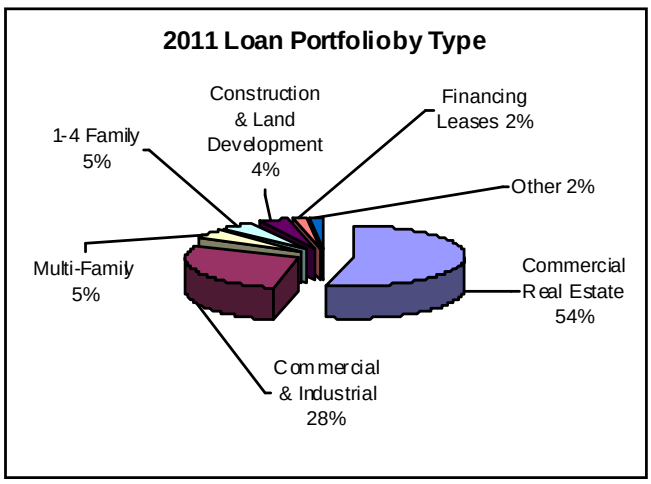
First Business Financial Services, Inc. (FBIZ or the Company) is a bank holding company headquartered in Madison, Wisconsin, with $1.2 billion in total assets at March 31, 2012. FBIZ specializes in business lending for small-medium-sized companies with sales ranging from $2-50 million. As an adjunct to these services, FBIZ also offers banking services to business owners, executives, professionals, and high net worth individuals, though this is a less significant part of its business.

Banking operations are carried on through two banks, First Business Bank (FBB) located in Madison and First Business Bank-Milwaukee (FBB-Milwaukee), as well as First Business Trust & Investments (FBTI), a division of FBB that offers trust and investment services. FBB also has three loan production offices located in northeast Wisconsin in Appleton, Oshkosh, and Green Bay.

FBB owns two non-bank subsidiaries that engage in lending that is different than that typical for banks through six single-person business development offices, which are located in Minneapolis, Minnesota; Chicago, Illinois; St. Louis, Missouri; Detroit, Michigan; Cleveland, Ohio; and Denver, Colorado. These subsidiaries include: First Business Capital Corp. (FBCC, with net income of $3.3 million in 2011), which is an asset-based commercial lender that provides secured lines of credit and term loans on equipment and real estate assets, primarily to manufacturers and wholesale distribution companies located throughout the United States; and First Business Equipment Finance, LLC (FBEF, with net income of $569,000 in 2011), which is a commercial finance company that finances equipment for small and middle market companies.

In addition, the Company has three non-bank subsidiaries that help manage other aspects of its business. These include: First Business Real Estate LLC (FBBRE, owned by FBB and having a $94,000 net loss in 2011), and First Business Bank-Milwaukee Real Estate LCC (FBBMRE, owned by FBB-Milwaukee and posting a net loss of $297,000 in 2011), which are limited liability companies that dispose of real estate and other assets acquired through foreclosure; and First Madison Investment Corp. (FMIC, owned by FBB, earning net income of $4.1 million in 2011), which is located in the state of Nevada and manages a portion of the Bank's investment portfolio, though it no longer invests in commercial real estate loans as of October 1, 2011. First Madison Capital Corp Nevada Corp was dissolved on October 1, 2011 and its assets were transferred to FBCC.

Unlike other banks, FBIZ does not have a retail branch network. Instead, the Company typically provides custom-tailored banking services to its approximately 2,000 clients at client offices. This has a couple of important implications. First, FBIZ does not have the overhead and expense connected with owning a branch network. Second, FBIZ lacks the in-market deposit base typically associated with a retail bank and must fund a significant part of its operations through the wholesale-brokered deposit market.



The loan portfolio has a concentration in commercial real estate (about one-third of which is owner occupied), accounting for 54% of total loans at December 31, 2011. The rest of the lending book consists of commercial and industrial (accounting for 28% of total gross loans), 1-4 family (5%), multi-family (5%), construction and land development (4%), direct financing leases (2%), and consumer and other (2%). Almost all loans are secured, usually

by real estate, inventory, accounts receivable, equipment, machinery, or corporate assets.

The liquidity portfolio, consisting of cash, short-term investments, and US agency mortgage obligations, represents 25% of total assets, while gross loans and leases accounts for 72%. Transaction and money market accounts accounted for 50% of total deposits at December 31, 2011, with certificates of deposit (CDs) at 8%, and brokered CDs at 42%.

In 2011, net interest income contributed 83% of net revenue. Other significant revenue sources include trust and investment services fee income (6% of net revenues), services charges on deposits (4%), loan fees (3 ½%), and increase in cash surrender value of bank-owned life insurance (1 ½%).

FBIZ's 2012 business plan includes: (1) improving asset quality of its loan portfolio, (2) generating organic growth in the loan portfolio, (3) increasing its market share of in-market core deposits, and (4) increasing fee income.

VALUATION

FBIZ stock has outperformed the industry in 2012, with a year-to-date price increase of 40.6% versus 27.0% for banks in the Zacks Small-Cap Index, as well as the S&P 500's gain of 10.7%. This follows a good year in 2011 when FBIZ's stock price rose 23.6%, compared to advances of 0.0% for the S&P 500 and of 0.0% for banks in the Zacks Small-Cap Index.

At its current price, FBIZ is trading at a discount to the industry median P/E of 43% in 2013, based upon our 2013 EPS estimate.This is far in excess of the average 26% P/E discount for FBIZ, based upon 5-year historical P/E averages.

Turning to Price/Tangible Book Value, FBIZ is valued at 0.92X versus the industry median of 0.92X. This represents a 0% discount, or about 25 points better than the FBIZ's average historical discount of 25% since the end of 2005.

We believe a higher valuation is justified for a few reasons: (1) the Company's earnings and profitability prospects are much improved, with its ROE significantly higher than the median for other banks in the Zacks small-cap index; (2) FBIZ has a superior dividend yield relative to the median for its small-cap peers; and (3) liquidity in the shares has increased following the addition of FBIZ shares to the Russell Microcap Index on June 24, 2011.

Applying the 0.92X ratio to our estimated book value for FBIZ one year out results in a price target of approximately $26.00. This compares to FBIZ's current stock price of $22.73. When combined with the Company's current dividend yield, our new target price for FBIZ represents a total return of almost 16%, above our expectations for broader U.S. equity market gains during this period. Therefore, we are maintaining our recommendation on FBIZ shares at Outperform.

Industry Comparables- Small-cap Banks

		Price / Earnings Ratios					Return on Equity		Return on Assets		
	Pr Chg YTD	TTM* EPS	2012E	2013E	5-Yr Avg	Price/ Tang Book	TTM*	5-Yr Avg	TTM*	5-Yr Avg	Div Yld
FIRST BUS FINL	**40.6**	**7.0**	**6.8**	**6.1**	**11.5**	**0.92**	**15.0**	**6.5**	**0.82**	**0.34**	**1.2**
S&P 500	10.7	14.4	13.5	12.5	17.1	-----	32.4	-----	10.5	-----	2.0
Median	**27.0**	**11.7**	**11.3**	**10.7**	**15.6**	**0.92**	**8.4**	**4.2**	**0.78**	**0.30**	**0.3**
Average	27.6	16.8	12.2	10.9	20.1	0.9	(0.8)	1.8	0.5	0.3	1.4
High	124.3	61.7	22.0	17.3	41.6	1.7	18.5	11.4	1.8	2.3	7.1
Low	(66.9)	6.5	7.1	6.5	11.5	0.0	(268.3)	(37.6)	(3.6)	(2.2)	-----

*Trailing twelve months

First Business Financial Services, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

Summary Financial Data	12/07	12/08	12/09	12/10	12/11	12/12 E	12/13 E
Net interest income	23.2	26.3	28.1	32.0	35.5	36.6	38.8
Non-interest income	4.4	5.1	6.4	6.7	7.1	7.6	7.9
Total net revenue	27.6	31.4	34.5	38.7	42.6	44.2	46.7
Loan loss provision	2.9	4.3	8.2	7.0	4.3	2.3	2.6
Non-interest expense	19.7	21.9	24.5	25.7	26.4	28.1	28.9
Income taxes & other	1.7	2.1	0.8	2.4	4.2	5.0	5.4
Zacks adjusted income before NRI	3.3	3.1	1.0	3.6	7.7	8.8	9.8
GAAP net income	3.3	3.1	1.0	0.9	8.4	8.8	9.8
Diluted EPS before NRI	1.32	1.28	0.41	1.42	2.94	3.35	3.70
Reported EPS	1.32	1.28	0.41	0.37	3.23	3.35	3.70
Dividends per share	0.26	0.28	0.28	0.28	0.28	0.28	0.28
Liquid assets	114.9	132.8	235.0	204.2	297.6	272.4	275.1
Loans & leases, gross	781.6	852.8	854.5	878.0	851.5	876.9	922.5
Total assets	918.4	1,010.8	1,117.4	1,107.1	1,177.2	1,177.9	1,235.0
Core deposits	703.6	746.4	942.2	949.1	997.3	994.9	1,045.6
Purchased funds	105.0	129.5	58.2	41.2	54.8	50.0	50.0
Long-term debt	49.5	67.8	51.8	49.8	49.8	49.0	49.0
Shareholders' equity	48.6	53.0	54.4	55.3	64.2	72.3	81.4
Profitability							
Return on avg assets	0.39%	0.32%	0.10%	0.33%	0.68%	0.76%	0.82%
Return on avg equity	6.86%	6.11%	1.90%	6.46%	12.83%	12.93%	12.81%
Net interest margin	2.87%	2.81%	2.77%	3.04%	3.29%	3.23%	3.30%
Loan loss provision % avg assets	0.35%	0.44%	0.78%	0.64%	0.38%	0.20%	0.21%
Noninterest income % avg assets	0.53%	0.53%	0.61%	0.61%	0.63%	0.65%	0.66%
Noninterest expense % avg assets	2.34%	2.26%	2.33%	2.33%	2.34%	2.41%	2.40%
Preprovision pretax income % avg assets	0.95%	0.98%	0.95%	1.18%	1.43%	1.37%	1.48%
Tangible efficiency ratio	71%	70%	72%	66%	62%	64%	62%
Payout ratio	20%	22%	66%	75%	9%	8%	8%
Asset Quality							
Net charge-offs % avg loans	0.19%	0.28%	0.69%	0.57%	0.74%	0.38%	0.32%
Allowance % loans	1.26%	1.39%	1.65%	1.85%	1.66%	1.51%	1.40%
NPAs % loans & related assets	1.22%	2.25%	3.45%	4.56%	2.81%	2.07%	1.84%
Allowance % NPAs	103%	61%	48%	41%	59%	73%	76%
Liquidity & Funding							
Liquid assets % purchased funds	109%	103%	404%	496%	543%	545%	550%
Core deposits % loans	90%	88%	110%	108%	117%	113%	113%
Liquid assets % assets	13%	13%	21%	18%	25%	23%	22%
Loans % assets	85%	84%	76%	79%	72%	74%	75%
Capital Adequacy							
Total equity % assets	5.29%	5.24%	4.87%	5.00%	5.45%	6.14%	6.59%
Tangible equity % assets	5.00%	4.98%	4.63%	5.00%	5.45%	6.14%	6.59%
Tier 1 capital ratio	5.42%	6.48%	6.61%	6.65%	7.91%		
Total capital ratio	10.22%	12.00%	12.15%	11.23%	13.11%		
Parent Company Statistics							
Interest coverage	(1.1)X	(0.9)X	0.3X	0.2X	(0.0)X	0.3X	0.3X
Interest & dividend coverage	(0.9)X	(0.7)X	0.2X	0.2X	(0.0)X	0.3X	0.3X
Short-term debt coverage	16.9X	Lge	Lge	Lge	N/A	N/A	N/A
Total debt coverage	1.1X	0.9X	1.0X	1.0X	N/A	N/A	N/A
Double leverage	169.1%	185.6%	187.0%	189.5%	179.7%	171.8%	164.6%

First Business Financial Services, Inc.

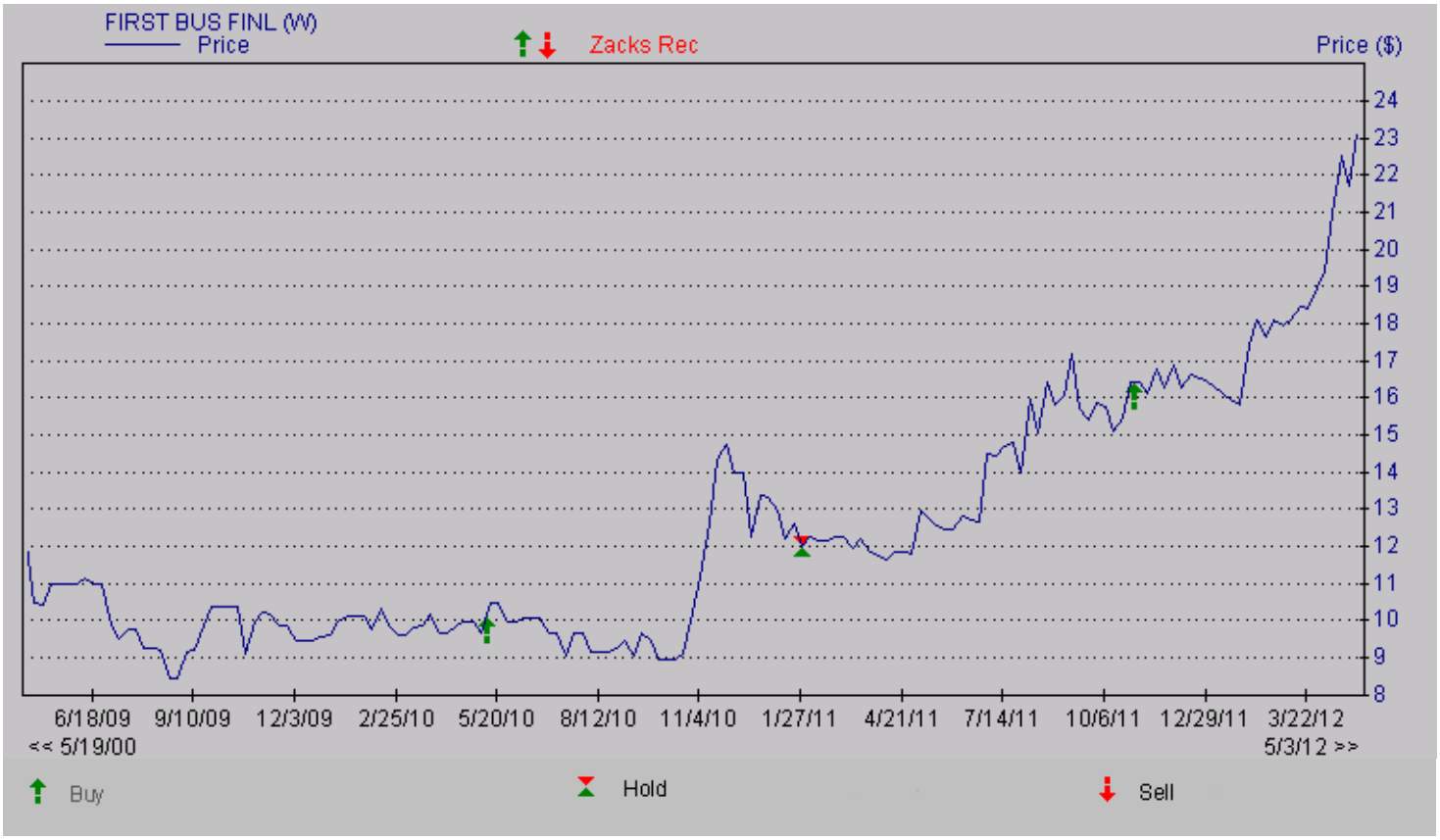
Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2011				2012			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 A**	**Q2 E**	**Q3 E**	**Q4 E**
Net interest income	8.5	9.0	9.1	8.9	8.9	9.0	9.2	9.4
Non-interest income	1.7	1.7	1.7	1.9	1.9	1.9	1.9	2.0
Total net revenue	10.2	10.7	10.8	10.8	10.8	10.9	11.1	11.4
Loan loss provision	1.4	1.5	0.4	0.9	0.5	0.6	0.6	0.6
Non-interest expense	6.8	6.6	6.8	6.2	6.8	7.0	7.1	7.2
Income taxes & other	0.7	0.8	1.4	1.3	1.3	1.2	1.2	1.3
Zacks adjusted income before NRI	1.3	1.8	2.2	2.4	2.2	2.1	2.2	2.3
GAAP net income	1.3	2.5	2.2	2.4	2.2	2.1	2.2	2.3
Diluted EPS before NRI	0.52	0.68	0.83	0.90	0.84	0.81	0.82	0.87
Reported EPS	0.52	0.97	0.83	0.90	0.84	0.81	0.82	0.87
Dividends per share	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07
Liquid assets	220.1	211.2	248.8	297.6	301.4	286.3	272.0	272.4
Loans & leases, gross	868.7	861.4	861.5	851.5	832.5	842.9	855.5	876.9
Total assets	1,112.9	1,096.4	1,135.6	1,177.2	1,162.0	1,158.4	1,154.8	1,177.9
Core deposits	956.9	938.3	973.9	997.3	979.8	981.3	975.4	994.9
Purchased funds	39.2	39.2	39.2	54.8	56.5	50.0	50.0	50.0
Long-term debt	49.8	49.8	49.8	49.8	49.3	49.0	49.0	49.0
Shareholders' equity	56.3	59.8	61.8	64.2	66.4	68.2	70.2	72.3
Profitability								
Return on avg assets*	0.48%	0.65%	0.78%	0.82%	0.74%	0.74%	0.75%	0.79%
Return on avg equity *	9.62%	12.27%	14.02%	15.00%	13.43%	12.71%	12.59%	13.00%
Net interest margin	3.14%	3.39%	3.40%	3.23%	3.15%	3.20%	3.25%	3.30%
Loan loss provision % avg assets*	0.50%	0.53%	0.16%	0.32%	0.17%	0.21%	0.21%	0.21%
Noninterest income % avg assets*	0.59%	0.63%	0.62%	0.66%	0.62%	0.65%	0.66%	0.67%
Noninterest expense % avg assets*	2.39%	2.40%	2.41%	2.16%	2.30%	2.42%	2.46%	2.46%
Preprovision pretax inc.% avg assets*	1.20%	1.48%	1.46%	1.58%	1.33%	1.35%	1.37%	1.44%
Tangible efficiency ratio	67%	62%	62%	58%	63%	64%	64%	63%
Payout ratio	13%	7%	8%	8%	8%	9%	9%	8%
Asset Quality								
Net charge-offs % avg loans*	0.40%	1.09%	1.04%	0.43%	0.10%	0.48%	0.47%	0.46%
Allowance % loans	1.93%	1.85%	1.64%	1.66%	1.74%	1.67%	1.60%	1.51%
NPAs % loans & related assets	4.77%	4.18%	3.37%	2.81%	2.73%	2.30%	2.18%	2.07%
Allowance % NPAs	40%	44%	49%	59%	63%	72%	73%	73%
Liquidity & Funding								
Liquid assets % purchased funds	561%	539%	634%	543%	533%	573%	544%	545%
Core deposits % loans	110%	109%	113%	117%	118%	116%	114%	113%
Liquid assets % assets	20%	19%	22%	25%	26%	25%	24%	23%
Loans % assets	78%	79%	76%	72%	72%	73%	74%	74%
Capital Adequacy								
Total equity % assets	5.06%	5.46%	5.44%	5.45%	5.72%	5.89%	6.08%	6.14%
Tangible equity % assets	5.06%	5.46%	5.44%	5.45%	5.72%	5.89%	6.08%	6.14%
Tier 1 capital ratio	6.92%	7.29%	7.60%	7.91%	8.21%			
Total capital ratio	11.64%	12.20%	12.66%	13.11%	13.56%			

*Annualized.

HISTORICAL ZACKS RECOMMENDATIONS



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