Zacks Small-Cap Research

October 31, 2012
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First Business Financial Services, Inc. (FBIZ-NASDAQ)

FBIZ: Best-Ever Margin and Strong Growth in Noninterest Income Drive Record EPS

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	11/01/2011
Current Price (10/30/12)	$24.40
Twelve- Month Target Price	**$28.00**

OUTLOOK

FBIZ posted record quarter diluted EPS in the third quarter of $0.99, up 19% from the $0.83 EPS posted last year, and $0.11 above our $0.88 estimate. Relative to our estimate, this largely reflected: (1) net interest income that was $0.4 million higher than our estimate and (2) other noninterest income that was $0.3 million higher than we had anticipated, including a $144,000 one-time gain on the sale on a credit card portfolio. These items were partly offset by: (1) a loan loss provision that was $0.1 million more than expectations and (2) a 35.5% effective tax rate that was 2 points higher the 33.5% we had projected. Compared to the year-ago quarter, third quarter results were boosted by a 9% gain in net interest income due to 6% growth in average interest-earning assets and a 10 basis-point rise in the net interest margin, as well as a 30% jump in noninterest income. This was partly offset by a 7% increase in total noninterest expense, largely the result of higher compensation costs, a 95% surge in the loan loss provision, and an effective tax rate that was almost 5 points lower than the unusually high 40.3% posted in the prior-year quarter. Nonaccrual loans fell $2.6 million, or 17%, sequentially to $12.8 million, while foreclosed assets increased by $0.3 million, or 13%, to $2.2 million. As a percentage of total loans and OREO, nonperforming assets fell 30 basis points sequentially to 1.71% from 2.01% at the end of the second quarter. We are raising our 2012 and 2013 diluted EPS estimate by $0.15 each, to $3.40 from $3.25 and to $3.75 from $3.60, respectively. These increases primarily reflect changes to our estimates for the net interest margin (NIM) and effective income tax rates in both years.

SUMMARY DATA

52-Week High	**$24.74**
52-Week Low	**$15.70**
One-Year Return (%)	**52.89**
Beta	**0.03**
Average Daily Volume (sh)	**2,113**
Shares Outstanding (mil)	**2.7**
Market Capitalization ($mil)	**$63**
Short Interest Ratio (days)	**0.86**
Institutional Ownership (%)	**13**
Insider Ownership (%)	**19**
Annual Cash Dividend	**$0.28**
Dividend Yield (%)	**1.15**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**13.4**
Earnings Per Share (%)	**14.1**
Dividend (%)	**3.1**
P/E using TTM EPS	**7.3**
P/E using 2012 Estimate	**7.2**
P/E using 2013 Estimate	**6.5**
Zacks Rank	**3**

Risk Level	**Average**
Type of Stock	**Small-Value**
Industry	**Banks-Midwest**
Zacks Rank in Industry	**25 of 39**

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	11.5 A	12.2 A	12.1 E	46.6 E
2013					48.9 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	0.60 A	0.99 A	0.97 E	3.40 E
2013					3.75 E

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

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THIRD QUARTER RESULTS

FBIZ posted record diluted EPS in the third quarter of $0.99, up 19% from the $0.83 EPS posted last year, and $0.11 above our $0.88 estimate.

Relative to our estimate, this largely reflected: (1) net interest income that was $0.4 million higher than our estimate due both to better-than expected loan growth and a record net interest margin of 3.50% and (2) other noninterest income that was $0.3 million higher than we had anticipated, including a $144,000 one-time gain on the sale on a credit card portfolio. These items were partly offset by: (1) a loan loss provision that was $0.1 million more than expectations and (2) a 35.5% effective tax rate that was 2 points higher the 33.5% we had projected.

Compared to the year-ago quarter, third quarter results were boosted by a 9% gain in net interest income due to 6% growth in average interest-earning assets and a 10 basis-point rise in the net interest margin, as well as a 30% jump in noninterest income. This was partly offset by a 7% increase in total noninterest expense, largely the result of higher compensation costs, a 95% surge in the loan loss provision, and an effective tax rate that was almost 5 points lower than the unusually high 40.3% posted in the prior-year quarter.

The Company continued to reduce problem assets. Nonaccrual loans fell $2.6 million, or 17%, sequentially to $12.8 million, while foreclosed assets increased by $0.3 million, or 13%, to $2.2 million. As a percentage of total loans and OREO, nonperforming assets fell 30 basis points sequentially to 1.71% from 2.01% at the end of the second quarter and 166 basis points year over year from the 3.37% at the end of 2011's September quarter.

We are raising our 2012 and 2013 diluted EPS estimate by $0.15 each, to $3.40 from $3.25 and to $3.75 from $3.60, respectively. These increases primarily reflect changes to our estimates for the net interest margin (NIM) and effective income tax rates in both years. We have edged up our NIM estimates to 3.41% from 3.34% for 2012 and to 3.40% from 3.30% for 2013. At the same time, we have boosted our effective tax rates by 1.3 points to 35.3% in 2013 and by an additional 50 basis points to 35.8% in 2013, due to the declining proportion of tax-favored municipal income to total income.

Our $3.40 estimate in 2012 represents a 16% 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, while our $3.75 estimate is up 10% from 2012's $3.40 estimate.

We note that the ABA Banking Journal recently ranked FBIZ 15th among all publicly traded banks with $1-10 billion in total assets (of which there are about 250 companies in the US), based upon ROE in 2011, which was 12.8% for FBIZ. It is the first time FBIZ has made this list, and speaks to the tremendous improvement in operating performance the Company has made over the last few years.

Below, we discuss third quarter results in more fully. Details of our projections are shown at the back of our report.

Net Interest Income

Net interest income increased 9% year over year to $9.9 million, reflecting 6% growth in average interest-earning assets and a 10 basis-point jump in the net interest margin to a record 3.50%. The net interest margin benefitted from a lower level of nonaccruing loans, a shift in loan mix to higher margin commercial and industrial (C&I) loans, and a reduction in interest expense from lower deposit costs, with the yield falling 51 basis points to 1.35% as the Company reduced its exposure to higher cost brokered certificates of deposit (CDs) by not replacing them as they matured or swapping them with lower rate replacement CDs.

This was partly offset by a 33 basis-point slide in the yield on interest-earning assets to 4.95%, reflecting several countervailing factors. The benefit from the shift in the loan mix to higher margin C&I loans was partly offset by a 56 basis point decline in the C&I yield to 7.41%, which limited the decrease in the total loan portfolio yield to only 10 basis points, falling to 5.96% from 6.06%. In addition, the mortgage securities portfolio yield dropped 66 basis points to 1.83%, as FBIZ invested cash flows from these obligations at current reduced market interest rates. Moreover, the shift in asset mix to securities and short-term investments has also had a negative effect on the NIM.

Net interest income of $9.9 million was almost $0.4 million better than our estimate, mainly reflecting the fact that the 3.50% net interest margin was 15 basis points above our 3.35% estimate, aided by the lower cost of funds and the shift in the mix of the loan portfolio.

As a result, we are increasing our NIM estimates by 15 basis points to 3.50% for the fourth quarter, by 7 basis points to 3.41% for 2012, and by 10 basis points to 3.40% for 2013. This compares to the 3.29% that was actually posted in 2011.

Noninterest Income

Noninterest income rose 30% year over year to $2.2 million ($0.3 million above our estimate), which includes a $144,000 gain on sale of the credit card portfolio. Excluding this item, noninterest income still would have shown a healthy 21% gain as all line items, except credit card fees, were higher than those of a year ago. The main contributors were an 18% rise in trust and investment services income to $0.7 million, a 25% increase in services charges on deposits to $0.5 million, reflecting an increase in C&I deposit accounts that tend to have higher transaction volumes, and a 32% jump in loan fees due to one-time payments received upon the exiting of certain loan relationships.

Trust and investment services fee income benefitted from a 27% year-over-year jump in assets under management to $581.8 million (though down 4% sequentially from $608.8 million at the end of the second quarter due to the loss of a significant account), reflecting the addition of new clients, and a 33% surge in assets under administration to $164.3 million. We expect accelerating quarterly growth in this segment, as two recently hired business development officers, hired in the first and third quarter, become more productive over time.

Loan Loss Provision

The loan loss provision surged 97% year over year to $0.85 million, from an exceptionally low $0.435 million in the year-ago quarter, but was down 58% sequentially from $2.045 million in the second quarter, which reflected the write-off of loans related to a single commercial and industrial client. Relative to our estimate, it was $0.1 million higher than we had projected.

Going forward, we have raised our estimate for the loan loss provision for 2012 by $0.2 million from $3.8 million to $4.0 million, which is down 5% from 2011's $4.3 million. For 2013, we are estimating a 25% reduction in the loss provision to $3.0 million due to two factors: (1) the absence of the large loss provision stemming from the $1.3 million one-time write-off as occurred in 2012's second quarter and (2) 5% year-over-year growth in the loan portfolio.

Noninterest Expense

Noninterest expense rose 7% year over year to $7.3 million, about the same as our estimate.

Compensation expense climbed 10% to $4.2 million and other noninterest expense rose 4% to $3.0 million, primarily reflecting a 26% jump in other noninterest expense to $0.9 million, partly offset by a 25% decline in FDIC insurance premiums to $0.4 million, as FBIZ has improved its risk profile (as defined by the FDIC and also has higher equity at its subsidiary banks). This lower premium should continue to benefit future results.

Generally, the Company maintained tight control over operating expenses. Because net revenues rose 12.3% while noninterest expense increased 7.4%, the Company's efficiency ratio improved, falling 270 basis points to 59.6% compared to 62.3% in 2011's third quarter.

We expect operating efficiency to deteriorate for the remainder of 2012 before improving in 2013, reflecting the addition of seven new BDOs and four support staff in the first and third 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 35.5%, compared to 40.3% in the year-ago quarter and our 33.5% estimate. We have increased our estimated effective tax rate to 35.5% for the balance of 2012 and to an average 35.8% for 2013 as we expect a lower level of tax-favored municipal income to total income. 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 $2.6 million ($0.99 diluted EPS), up 20% from $2.2 million ($0.83 diluted EPS) reported in the year-ago quarter. This compares to our $2.3 million net income estimate ($0.88 diluted EPS).

Profitability

FBIZ posted a 15.1% ROE and 0.88% ROA for the third quarter of 2012, compared to a 14.0% ROE and 0.78% ROA for the third quarter of 2011, as the Company reported higher net earnings.

Loans and Asset Quality

Loans rose $16 million, or 2%, sequentially to $879 million during the third quarter, marking the second quarterly increase in loans outstanding since 2010's third quarter. Sequentially, total mortgage loans were basically flat at $590 million, while total commercial and industrial loans rose $15 million, or 6%, to $272 million, and consumer and other loans fell 4% to $16 million.

The Company is beginning to see improved loan demand in sufficient quantity to offset amortization of the existing loan portfolio. That said, increased rate competition from larger banks, such as Wells Fargo & Co., Associated Bank, and Fifth Third Bancorporation, for the more creditworthy customers means that FBIZ is not winning as much business as it would like. Moreover, this has led to a bit of margin erosion as FBIZ has encountered increasing competitive pricing pressures. Importantly, the Company has stated that it will not loosen credit standards to win new business, as some competitors are now doing. Moreover, FBIZ will only consider loan rate reductions for customers who provide additional business for the bank, such as deposit, trust, and other services.

We are increasing our estimate of loan growth to 4.8% from 3.0% in 2012, but maintaining our 5.0% growth rate for 2013. This compares to a year-over-year decline of 3% in 2011.

Nonaccrual loans fell $2.6 million, or 17%, sequentially to $12.8 million, while foreclosed assets increased by $0.3 million, or 13%, to $2.2 million. As a percentage of total loans and OREO, nonperforming assets fell 30 basis points sequentially to 1.71% from 2.01% at the end of the second quarter and 166 basis points year over year from the 3.37% at the end of 2011's September quarter.

This improvement was broadly based and affected all major loan categories. We have estimated further, though less spectacular, improvement ahead, with nonperforming assets dropping by $1.4 million through the end of 2013.

On a more detailed basis, quarterly improvement in nonaccrual loans reflected the paydown of $0.8 million in nonaccruing loans that were either refinanced by other financial institutions or paid off by customers, $1.2 million in loans that were charged off, $0.1 million of loans that were transferred to

foreclosed properties, and $0.4 million of loans that were returned to accrual status. No loans were transferred to nonaccrual status during the quarter.

The loan loss allowance as a percent of nonperforming assets rose to 98% at the end of the quarter from 85% at the end of 2012's second quarter. This was the result of a lower level of nonaccrual loans and foreclosed assets and a modestly lower loan loss allowance that decreased to $14.7 million, or 1.67% of gross loans, from $14.8 million, or 1.72% 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 September 30, 2012 (figures for December 31, 2011 are in parentheses), FBIZ 's loan portfolio divided 81.6% (77.6%) Category I, 8.0% (12.4%) Category II, 8.8% (8.6%) Category III, and 1.6% (2.6%) Category IV. Importantly, both Category I, which represents the highest credit quality loan category, increased 400 basis points during the year to 81.6%, while Category IV, the weakest loan category giving rise to the majority of loan losses, improved by 100 basis points and fell to 1.6%.

Liquidity and Funding

FBIZ increased cash and short-investments by $9.5 million during the third quarter as the Company increased liquidity. 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 rose $7 million during the quarter to $202 million as mortgage securities increased by about $1 million to $176 million, municipal securities by $2 million to $10 million, and US Agency obligations by $4 million to $16 million, 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 though these have been reduced by $56 million year to date. Brokered deposits were $391 million and represented 37% of total deposits at September quarterend (down from 39% at the end of June 2012). This is well below FBIZ's goal, which is to maintain brokered deposits at 50% or less of total deposits.

FBIZ's funding profile continues to be strong, and 30 months of brokered CD maturities (up from 27 months at the end of June) 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 basis points sequentially to 8.12% at the end of 2012's third quarter from 8.04% at June 30, 2012, and the Total capital ratio inched up 2 basis points to 13.33% from 13.31%, largely due to growth in risk-weighted assets from expansion of the loan and securities portfolio, partly offset by growth in retained earnings.

Tangible common equity to tangible assets rose 8 basis point to 5.92% at September 30, 2012 from the June quarterend, due to a combination of growth in retained earnings, partly offset by an increase in total tangible assets.

Total shareholders' equity increased $2.8 million during the third quarter, due to a combination of $2.5 million growth in retained earnings, a $0.1 million decrease in accumulated comprehensive income, and a $0.4 million increase from other capital changes. Reflecting these factors, tangible book value per share also increased during the third quarter, by $0.79 per share to $26.56 from $25.77.

On September 2012, FBIZ declared its regular quarterly $0.07 cash dividend, paid on October 15, 2012 to shareholders of record at the close of business on October 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 is evaluating its common equity needs following the recent release of Basel III proposals. FBIZ expects that a long period of implementation combined with growth in retained earnings may be sufficient to meet proposed Basel III requirements, 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 September 30, 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.

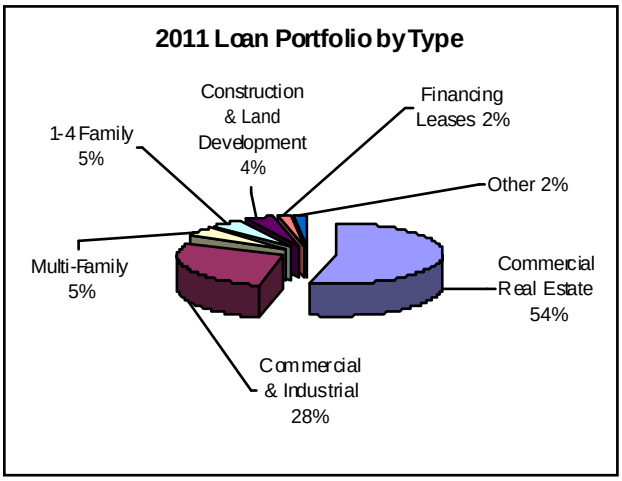
FBB owns two non-bank subsidiaries that engage in lending that is different than that typical for banks through six single-person business development offices, which are located in Minneapolis, Minnesota; Chicago, Illinois; St. Louis, Missouri; Detroit, Michigan; Cleveland, Ohio; and Denver, Colorado. 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 47.9% versus 40.9% for banks in the Zacks Small-Cap Index, as well as the S&P 500's gain of 12.4%. 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 47% in 2013, based upon our 2013 EPS estimate. This is far in excess of the average 37% P/E discount for FBIZ, based upon 5-year historical P/E averages.

Turning to Price/Tangible Book Value, FBIZ is valued at 0.94X versus the industry median of 0.97X. This represents a 3% discount, or about 20 points better than the FBIZ's average historical discount of 23% 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 0.94X ratio to our estimated book value for FBIZ one year out results in a price target of approximately $28.00. This compares to FBIZ's current stock price of $24.40. When combined with the Company's current dividend yield, our new target price for FBIZ represents a total return of 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	**47.9**	**7.3**	**7.2**	**6.5**	**10.9**	**0.94**	**13.3**	**7.2**	**0.75**	**0.38**	**1.1**
S&P 500	12.4	14.4	13.9	13.0	17.0	3.6	42.5	-----	9.7	-----	2.1
Median	**40.9**	**12.3**	**12.1**	**12.2**	**17.4**	**0.97**	**7.3**	**4.0**	**0.63**	**0.32**	**-----**
Average	42.4	15.6	14.9	12.9	26.5	0.9	4.8	1.7	0.5	0.3	1.2
High	166.9	61.0	51.9	45.1	103.5	1.7	19.0	14.2	1.6	2.2	6.1
Low	(46.6)	5.1	5.5	5.2	6.9	0.2	(55.2)	(76.5)	(5.9)	(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	38.6	40.8
Non-interest income	4.4	5.1	6.4	6.7	7.1	8.0	8.1
Total net revenue	27.6	31.4	34.5	38.7	42.6	46.6	48.9
Loan loss provision	2.9	4.3	8.2	7.0	4.3	4.0	3.0
Non-interest expense	19.7	21.9	24.5	25.7	26.4	28.7	30.2
Income taxes & other	1.7	2.1	0.8	2.4	4.2	4.9	5.6
Zacks adjusted income before NRI	3.3	3.1	1.0	3.6	7.7	9.0	10.1
GAAP net income	3.3	3.1	1.0	0.9	8.4	9.0	10.1
Diluted EPS before NRI	1.32	1.28	0.41	1.42	2.94	3.40	3.75
Reported EPS	1.32	1.28	0.41	0.37	3.23	3.40	3.75
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	281.0	283.8
Loans & leases, gross	781.6	852.8	854.5	878.0	851.5	892.0	936.5
Total assets	918.4	1,010.8	1,117.4	1,107.1	1,177.2	1,201.7	1,259.9
Core deposits	703.6	746.4	942.2	949.1	997.3	1,019.8	1,071.8
Purchased funds	105.0	129.5	58.2	41.2	54.8	55.0	55.0
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	73.0	82.3
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%	13.05%	12.97%
Net interest margin	2.87%	2.81%	2.77%	3.04%	3.29%	3.41%	3.40%
Loan loss provision % avg assets	0.35%	0.44%	0.78%	0.64%	0.38%	0.34%	0.24%
Noninterest income % avg assets	0.53%	0.53%	0.61%	0.61%	0.63%	0.67%	0.66%
Noninterest expense % avg assets	2.34%	2.26%	2.33%	2.33%	2.34%	2.43%	2.45%
Preprovision pretax income % avg assets	0.95%	0.98%	0.95%	1.18%	1.43%	1.52%	1.52%
Tangible efficiency ratio	71%	70%	72%	66%	62%	62%	62%
Payout ratio	20%	22%	66%	75%	9%	8%	7%
Asset Quality							
Net charge-offs % avg loans	0.19%	0.28%	0.69%	0.57%	0.74%	0.45%	0.31%
Allowance % loans	1.26%	1.39%	1.65%	1.85%	1.66%	1.61%	1.55%
NPAs % loans & related assets	1.22%	2.25%	3.45%	4.56%	2.81%	1.64%	1.45%
Allowance % NPAs	103%	61%	48%	41%	59%	98%	107%
Liquidity & Funding							
Liquid assets % purchased funds	109%	103%	404%	496%	543%	511%	516%
Core deposits % loans	90%	88%	110%	108%	117%	114%	114%
Liquid assets % assets	13%	13%	21%	18%	25%	23%	23%
Loans % assets	85%	84%	76%	79%	72%	74%	74%
Capital Adequacy							
Total equity % assets	5.29%	5.24%	4.87%	5.00%	5.45%	6.07%	6.53%
Tangible equity % assets	5.00%	4.98%	4.63%	5.00%	5.45%	6.07%	6.53%
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%	170.5%	163.4%

First Business Financial Services, Inc.

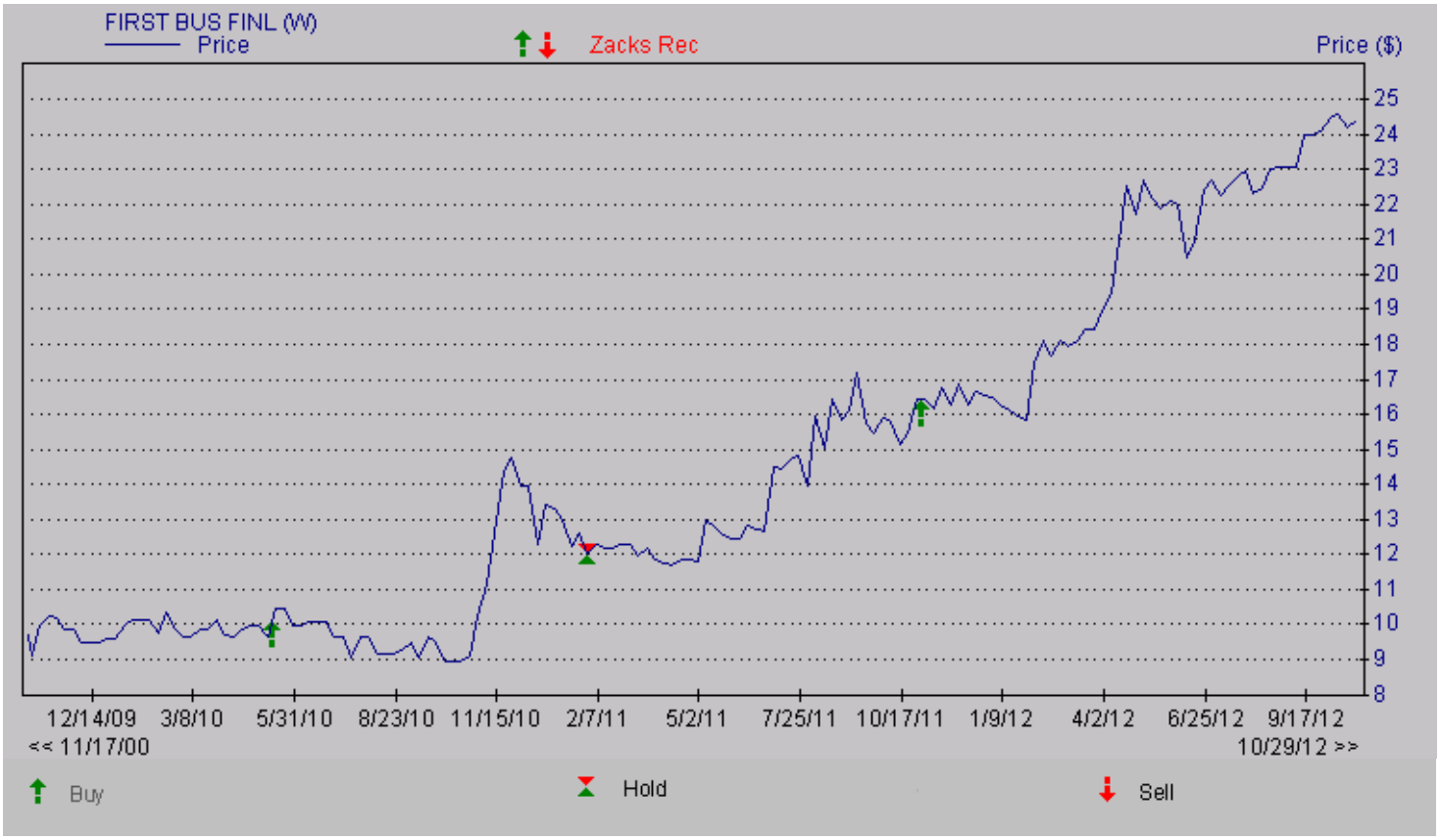
Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2011				2012			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 E**
Net interest income	8.5	9.0	9.1	8.9	8.9	9.6	9.9	10.2
Non-interest income	1.7	1.7	1.7	1.9	1.9	1.9	2.3	2.0
Total net revenue	10.2	10.7	10.8	10.8	10.8	11.5	12.2	12.2
Loan loss provision	1.4	1.5	0.4	0.9	0.5	2.0	0.9	0.6
Non-interest expense	6.8	6.6	6.8	6.2	6.8	7.1	7.3	7.5
Income taxes & other	0.7	0.8	1.4	1.3	1.3	0.8	1.4	1.5
Zacks adjusted income before NRI	1.3	1.8	2.2	2.4	2.2	1.6	2.6	2.6
GAAP net income	1.3	2.5	2.2	2.4	2.2	1.6	2.6	2.6
Diluted EPS before NRI	0.52	0.68	0.83	0.90	0.84	0.60	0.99	0.97
Reported EPS	0.52	0.97	0.83	0.90	0.84	0.60	0.99	0.97
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	266.5	280.6	281.0
Loans & leases, gross	868.7	861.4	861.5	851.5	832.5	863.2	878.8	892.0
Total assets	1,112.9	1,096.4	1,135.6	1,177.2	1,162.0	1,160.0	1,192.1	1,201.7
Core deposits	956.9	938.3	973.9	997.3	979.8	975.2	1,007.3	1,019.8
Purchased funds	39.2	39.2	39.2	54.8	56.5	57.4	54.5	55.0
Long-term debt	49.8	49.8	49.8	49.8	49.3	49.3	49.3	49.0
Shareholders' equity	56.3	59.8	61.8	64.2	66.4	67.8	70.5	73.0
Profitability								
Return on avg assets*	0.48%	0.65%	0.78%	0.82%	0.74%	0.54%	0.88%	0.87%
Return on avg equity *	9.62%	12.27%	14.02%	15.00%	13.43%	9.16%	15.10%	14.43%
Net interest margin	3.14%	3.39%	3.40%	3.23%	3.15%	3.49%	3.50%	3.50%
Loan loss provision % avg assets*	0.50%	0.53%	0.16%	0.32%	0.17%	0.71%	0.29%	0.21%
Noninterest income % avg assets*	0.59%	0.63%	0.62%	0.66%	0.62%	0.66%	0.76%	0.66%
Noninterest expense % avg assets*	2.39%	2.40%	2.41%	2.16%	2.30%	2.47%	2.44%	2.50%
Preprovision pretax inc.% avg assets*	1.20%	1.48%	1.46%	1.58%	1.33%	1.52%	1.65%	1.57%
Tangible efficiency ratio	67%	62%	62%	58%	63%	62%	60%	62%
Payout ratio	13%	7%	8%	8%	8%	12%	7%	7%
Asset Quality								
Net charge-offs % avg loans*	0.40%	1.09%	1.04%	0.43%	0.10%	0.80%	0.44%	0.45%
Allowance % loans	1.93%	1.85%	1.64%	1.66%	1.74%	1.72%	1.67%	1.61%
NPAs % loans & related assets	4.77%	4.18%	3.37%	2.81%	2.73%	2.01%	1.71%	1.64%
Allowance % NPAs	40%	44%	49%	59%	63%	85%	98%	98%
Liquidity & Funding								
Liquid assets % purchased funds	561%	539%	634%	543%	533%	464%	515%	511%
Core deposits % loans	110%	109%	113%	117%	118%	113%	115%	114%
Liquid assets % assets	20%	19%	22%	25%	26%	23%	24%	23%
Loans % assets	78%	79%	76%	72%	72%	74%	74%	74%
Capital Adequacy								
Total equity % assets	5.06%	5.46%	5.44%	5.45%	5.72%	5.84%	5.92%	6.07%
Tangible equity % assets	5.06%	5.46%	5.44%	5.45%	5.72%	5.84%	5.92%	6.07%
Tier 1 capital ratio	6.92%	7.29%	7.60%	7.91%	8.21%	8.04%	8.12%	
Total capital ratio	11.64%	12.20%	12.66%	13.11%	13.56%	13.31%	13.33%	

*Annualized.

HISTORICAL ZACKS RECOMMENDATIONS



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