Zacks Small-Cap Research

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

FBIZ: Second Quarter Results-Neutral

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	01/30/2011
Current Price (08/03/11)	$16.80
Twelve- Month Target Price	**$18.25**

OUTLOOK

First Business Financial Services, Inc. (FBIZ) knocked it out of the park in the second quarter, posting diluted operating EPS of $0.68, excluding one-time tax benefits of $0.29 per share. This was $0.16 better than our $0.52 estimate and up 47% from the prior-year quarter. The second quarter also included $0.4 million of one-time net interest income as CPKF recognized previously forgone interest income on nonaccrual loans that were paid off during the quarter. We estimate this added another $0.10 to diluted EPS. Excluding both items, EPS was $0.58 per share, $0.06 above our $0.52 estimate and 26% ahead of last year's $0.46. Second quarter operating results (excluding the one-time tax benefit, but including the one-time benefit from foregone interest income) were boosted by growth in net interest income from a higher net interest margin, reduced noninterest expense, and a lower effective tax rate, partially offset by increased compensation from bonus accruals and a hike in the loan loss provision. Asset quality showed strong improvement in the second quarter, following a somewhat disappointing first quarter. Nonaccrual loans fell $4.6 million, or 12%, sequentially to $34.6 million, while foreclosed assets dropped $0.9 million, or 39%, to $1.4 million. We are raising our diluted EPS estimates to $2.35 from $1.90 for 2011 and to $2.60 from $2.10 for 2012. This translates into year-over-year gains of 65% in 2011 and 11% in 2012. We are maintaining our neutral recommendation on FBIZ, but increasing our target price to $18.25 from $14.25, following the 20% surge in FBIZ's share price over the past few days.

SUMMARY DATA

52-Week High	**$16.80**
52-Week Low	**$8.67**
One-Year Return (%)	**90.22**
Beta	**0.04**
Average Daily Volume (sh)	**4,844**
Shares Outstanding (mil)	**2.6**
Market Capitalization ($mil)	**$44**
Short Interest Ratio (days)	**0.65**
Institutional Ownership (%)	**10**
Insider Ownership (%)	**21**
Annual Cash Dividend	**$0.28**
Dividend Yield (%)	**1.67**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**13.0**
Earnings Per Share (%)	**(3.1)**
Dividend (%)	**36.1**
P/E using TTM EPS	**9.2**
P/E using 2011 Estimate	**7.1**
P/E using 2012 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)
2009	8.0 A	8.3 A	9.2 A	8.9 A	34.5 A
2010	9.5 A	9.4 A	9.8 A	10.0 A	38.7 A
2011	10.2 A	10.7 A	10.4 E	10.6 E	41.9 E
2012					43.5 E

Earnings per Share

(EPS is operating earnings before nonrecurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	(0.08) A	0.10 A	0.53 A	(0.14) A	0.41 A
2010	0.35 A	0.46 A	0.38 A	0.24 A	1.42 A
2011	0.52 A	0.68 A	0.57 E	0.58 E	2.35 E
2012					2.60 E

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

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SECOND QUARTER RESULTS

FBIZ knocked it out of the park in the second quarter, posting diluted operating EPS of $0.68, excluding one-time tax benefits of $0.29 per share. This was $0.16 better than our $0.52 estimate and up 47% from the prior-year quarter.

The second quarter also included $0.4 million of one-time net interest income as FBIZ recognized previously forgone interest income on nonaccrual loans that were paid off during the quarter. We estimate this added another $0.10 to diluted EPS. Excluding both items, EPS was $0.58 per share, $0.06 above our $0.52 estimate and 26% ahead of last year's $0.46.

Second quarter operating results (excluding the one-time tax benefit, but including the one-time benefit from foregone interest income) were boosted by growth in net interest income from a higher net interest margin, reduced noninterest expense, and a lower effective tax rate, partially offset by increased compensation from bonus accruals and a hike in the loan loss provision.

Asset quality showed strong improvement in the second quarter, following a somewhat disappointing first quarter. Nonaccrual loans fell $4.6 million, or 12%, sequentially to $34.6 million, while foreclosed assets dropped $0.9 million, or 39%, to $1.4 million. As a percentage of total loans and OREO, nonperforming assets fell 59 basis points sequentially to 4.18% from 4.77% at the end of the first quarter.

Relative to our estimate, the main reasons for the difference were a stronger net interest margin, generating correspondingly higher net interest income, and lower noninterest expense from larger-than-expected declines in FDIC insurance expense and collateral liquidation costs, which can vary significantly from quarter to quarter.

We are raising our EPS estimates to $2.35 from $1.90 for 2011 and to $2.60 from $2.10 for 2012. This translates into year-over-year gains of 65% in 2011 and 11% in 2012. Changes in both years reflect increases in our net interest margin estimates and reductions in our estimates for FDIC insurance costs and the provision for loan losses, partially offset by higher bonus accruals. In addition, our 2011 estimate incorporates the second quarter overage of $0.16 relative to our estimate.

Below, we discuss second quarter results in more detail.

Net Interest Income

Net interest income increased 17% year over year to $9.0 million (and was above our $8.6 million estimate), largely the result of 43 basis-point increase in the net interest margin to 3.39% (versus our 3.15% estimate), aided by a 1% increase in average loans outstanding.

Excluding the $0.4 million one-time benefit from the recognition of previously foregone interest income, net interest income was $8.6 million (the same as our estimate) and the net interest margin (NIM) was 3.24%, 9 basis points above our 3.15% estimate. We are raising our NIM estimates to 3.20% (up 6 basis points from our prior estimate) for the balance of 2011 and to 3.20% for 2012 (up 9 basis points).

The higher net interest margin was principally due to lower deposit costs, which fell 35 basis points to 1.98% as the Company replaced higher cost maturing CDs with those at current lower market rates, a lower rate paid on money market accounts, and a significantly higher level of non-interest-bearing deposits due to changes in federal regulations regarding FDIC limits on insurance coverage on deposit accounts that began on April 1, 2011.

In addition, the yield on the loan and receivables portfolio rose 6 basis points year over year to 6.06%, primarily the result of a 69 basis-point gain in the yield on commercial and industrial loans to 8.11% from 7.42%, due mainly to the collection of previously foregone interest income and also an increase in one-time fees collected in lieu of interest in the asset-based lending portfolio. This was partly offset by a 74

basis-point decline in the yield on the mortgage securities portfolio to 2.92%, as FBIZ invested cash flows from these obligations at current reduced market interest rates.

Noninterest Income

Noninterest income rose 3 ½% year over year to $1.7 million (matching our estimate), largely due to solid growth in trust and investment services income (up 9% year over year to $0.65 million), aided by a 40% jump in assets under management to $456.1 million and a 24% rise in assets under administration to $132.5 million. In addition, FBIZ posted a 29% gain in loan fees to $0.4 million, due to increased fees from the asset-based lending unit. Negatively, other noninterest income service charges on deposits dropped by one-half to $0.1 million due to a lower level of gains on sales of leased equipment as there were fewer lease terminations.

Loan Loss Provision

The loan loss provision increased 38% year over year to $1.5 million, and matched our estimate as net charge-offs, a key component in determining the amount of the loss provision, rose 77% to $2.3 million, or 1.09% of average loans (annualized), from $1.3 million, or 0.62% of average loans (annualized), in the comparable 2010 quarter.

Going forward, we have significantly reduced our estimates for the loan loss provision for both 2011 and 2012. In 2011, our revised estimate is $6.0 million (down from $6.7 million) and for 2012, it is $5.7 million (compared to $6.3 million before). The primary reason for these reductions is a change in the provision for the fourth quarter in both years.

In years prior to 2011, FBIZ conducted the majority of its loan appraisals in the fourth quarter, which typically resulted in higher charge-offs, and related higher loan loss provisions, as collateral backing the loans were written down to fair market value. Beginning in 2011, the Company has spread the loan appraisal process more equally throughout the year, with the result that loan loss provisions will be more evenly distributed across quarters, rather than lumped into the fourth quarter.

Noninterest Expense

Noninterest expense rose 2% year over year to $6.6 million and compares to our $6.8 million estimate. There were three primary reasons for the difference: (1) compensation costs increased 13% to $3.8 due to higher bonus accruals as FBIZ posted better earnings; (2) FDIC insurance premiums decreased 24.5% to $0.6 million due to changes in premium calculations required by the Dodd-Frank Act that became effective on April 1, 2011; and (3) collateral liquidation costs fell by 47% to $0.2 million, which can vary significantly from quarter to quarter.

Generally, the Company maintained tight control over operating expenses. Because net revenues rose 14% while noninterest expense increased only 2%, the Company's efficiency ratio improved, falling to 62.0% compared to 69.7% in 2010's second quarter.

We expect this improvement to continue and have reduced our estimates for noninterest expense in 2011 and 2012, reflecting lower FDIC insurance premiums and collateral liquidation costs, partially offset by larger bonus accruals.

Income Taxes

The Company's effective tax rate was 31.3%, compared to 34.4% in the year-ago quarter and our 32.5% estimate. This excludes one-time tax benefits related to a change in regulation for net operating loss carryforwards by the state of Wisconsin that became effective on June 26, 2011, but includes an undisclosed amount related to a confidential settlement with the Wisconsin Department of Revenue regarding taxation of FBIZ's Nevada subsidiary. In addition, beginning in 2011, the tax rate reflects tax benefits related to a chunk of private purpose tax-exempt loans FBIZ made at the tail end of 2010, and will continue over the lives of the bonds, which have maturities of 7-10 years. Because of these changes, we have reduced our 2011-12 estimate of the effective tax rate to 32.0% from 32.5% previously.

Net Income

FBIZ posted net operating earnings of $1.8 million ($0.68 per diluted share), up from $1.2 million ($0.46 per diluted share) reported in the year-ago quarter. This compares to our $1.4 million net income estimate ($0.52 per diluted share). Including the impact of the one-time tax benefit, FBIZ reported net earnings of $2.5 million ($0.97 per diluted share).

Profitability

FBIZ posted a 12.3% ROE and 0.65% ROA for the second quarter of 2011, compared to an 8.2% ROE and 0.43% ROA for the second quarter of 2010.

Loans and Asset Quality

Loans decreased $7 million, or 1%, sequentially to $861 million during the second quarter, with the decline occurring across all loan categories, except multi-family, which rose 5% to $46 million. This decline partly reflected the paydown of $6.2 million in nonaccruing commercial and industrial loans that were refinanced by other financial institutions and $1.7 million of payments on nonaccrual loans that were applied directly to the principal.

Though the Company is witnessing improved loan demand, increased rate competition from larger banks, such as JP Morgan Chase and PNC Financial, for the more creditworthy customers means that FBIZ is not winning as much business as they would like. Because of this, we are again reducing our estimate for 2011 growth in loans outstanding—this time to 2.0% from 2.5% (previously to 2.5% from 4% and before that to 4% from 6%), with this offset by our higher estimate for the net interest margin. For 2012, our estimate for loan growth remains 7%, with a flat net interest margin at 3.20% (this is up from our prior estimate of 3.11%). In 2010, loans increased 3% and the net interest margin was 3.04%.

On a sequential basis, the NPA ratio fell 59 basis points to 4.18% of loans and related assets from 4.77% at March 31, 2011. This improvement was broadly based and affected all major loan categories, except for very modest deterioration in direct financing leases and consumer. In addition, the improvement reflected the paydown of $6.2 million in nonaccruing commercial and industrial loans that were refinanced by other financial institutions $1.7 million of payments on nonaccrual loans that were applied directly to the principal and $3.9 million in loans that were charged off, partly offset by the transfer of $9.1 million of loans to nonaccrual status.

The loan loss allowance as a percent of nonperforming assets rose to 44% at the end of the quarter from 40% at the end of 2011's first quarter. This was the result of a lower level nonaccrual loans and foreclosed assets, partly offset by a reduced loan loss allowance that decreased to $15.9 million, or 1.85% of gross loans, from $16.8 million, or 1.93% of gross loans.

In a development related to a new 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 June 30, 2011 (figures for December 31, 2010 are in parentheses), FBIZ 's loan portfolio divided 75.5% (74.8%) Category I, 12.2% (13.5%) Category II, 8.3% (7.2%) Category III, and 4.0% (4.5%) Category IV. Though Category III showed modest deterioration during the second quarter as loans migrated from Category II, importantly Category IV, the weakest loan category giving rise to the majority of loan losses, improved by 50 basis points.

Liquidity and Funding

FBIZ decreased cash and short-investments by $17.5 million during the second quarter and added $8.5 million to the mortgage securities portfolio, thereby decreasing total liquid assets about $9 million to $211 million. As a result, liquid assets to purchased funds increased to 539% at the end of June from 561% at the end of March.

The Company remains heavily reliant on brokered deposits, which were $497 million and represented 51% of total deposits at June quarterend (up from 49% at the end of March 2011). FBIZ is committed to reducing its useage of brokered deposits, and has amended its bonus compensation plan to include increasing core deposits as one of its three criteria at the bank and holding company levels.

FBIZ's funding profile continues strong, and at least one year of maturities 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 37 basis points to 7.29% at the end of 2011's second quarter from 6.92% at March 31, 2011, and the Total capital ratio gained 56 basis points to 12.20% from 11.64%, largely due to growth in retained earnings, though there was a modest 1% decline is risk-weighted assets as well.

Total shareholders' equity increased $3.0 million during the second quarter, due to a combination of growth in retained earnings and a $1.1 million gain in accumulated comprehensive income to $2.5 million at the end of the second quarter from $1.4 million at the end of the first quarter. This was the result of gains in the fair market value of the securities portfolio due to declining interest rates. Reflecting these factors, tangible book value per share also increased during the second quarter, by $1.36 per share to $23.04 from $21.68.

On June 17, 2011, FBIZ declared its regular quarterly $0.07 cash dividend, paid on July 15, 2011 to shareholders of record at the close of business on July 1, 2011. We do not expect any increase in the common dividend for the foreseeable future as the Company exects to retain capital 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 $1.1 billion in total assets at June 30, 2011. 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.

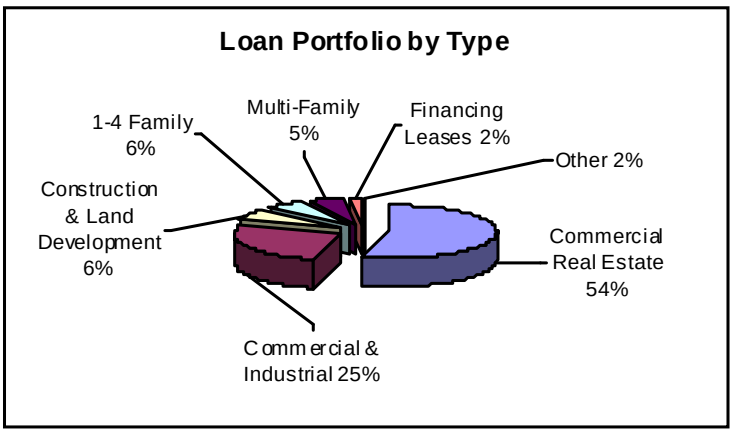
Banking operations are carried on through two banks, First Business Bank (FBB) located in Madison and First Business Bank-Milwaukee (FBB-Milwaukee), as well as First Business Trust & Investments (FBTI), a division of FBB that offers trust and investment services. FBB also has three loan production offices 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 five single-person business development offices, which are located in Minneapolis, Minnesota; Chicago, Illinois; St. Louis, Missouri; Detroit, Michigan; and Cleveland, Ohio. These subsidiaries include: First Business Capital Corp. (FBCC, with net income of $3.2 million in 2010), 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 $659,000 in 2010), which is a commercial finance company that finances equipment for small and middle market companies. In addition, the Company has four 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 $19,000 net loss in 2010), and First Business Bank-Milwaukee Real Estate LCC (FBBMRE, owned by FBB-Milwaukee and posting a net loss of $212,000 in 2010), which are limited liability companies that dispose of real estate and other assets acquired through foreclosure; First Madison Investment Corp. (FMIC, owned by FBB, earning net income of $5.1 million in 2010), which is located in the state of Nevada and manages a portion of the Bank's investment portfolio; and First Madison Capital Corp Nevada Corp (FMCCNC, owned by FBCC and generating net earnings of $813,000 in 2010), which is domiciled in Nevada and invests in loans purchased from 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 June 30, 2011. The rest of the lending book consists of commercial and industrial (accounting for 25% of total gross loans), construction and land development (6%), 1-4 family (6%), multi-family (5%), 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 19% of total assets. Transaction and money market accounts accounted for 41% of total deposits at March 31, 2011, with certificates of deposit (CDs) at 8%, and brokered CDs at 51%.

In 2010, 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 ½%), loan fees (3%), and increase in cash surrender value of bank-owned life insurance (2%).

FBIZ's 2011 business plan includes: (1) improving the overall quality of its loan portfolio, (2) minimizing loan loss specific reserves and charge-offs, (3) generating organic growth in the loan portfolio, (4) increasing its market share of in-market core deposits, and (5) increasing fee income.

VALUATION

Refecting its superlative quarter, FBIZ's share price has surged 20% since it reported second quarter earnings last Friday after market close and is now up 25.8% year to date, establishing a new 52-week high. This is a very strong performance relative to the S&P 500 (up 0.2%) and for banks in the Zacks small-cap index (up 5.4%).

At its current price, FBIZ is trading at a discount to the industry median P/E of 45% in 2011 (versus a discount of 51% at the time of our last report on June 22, 2011) and of 39% in 2012, based upon our FBIZ EPS estimates (versus a discount of 48% previously). This is far in excess of the average 23% P/E discount for FBIZ, based upon 5-year historical P/E averages.

Turning to Price/Tangible Book Value, which is the valuation favored by most investors at present, FBIZ is valued at 0.75X versus the industry median of 0.83X. This represents a 10% discount, or about 13 points better than the FBIZ's average historical discount of 23% since the end of 2005.

We believe a higher premium is justified for a couple of reasons: (1) the Company's earnings and profitability prospects are better and (2) liquidity in the shares has improved following the addition of FBIZ shares to the Russell Microcap Index on June 24, 2011.

Applying the 0.75X ratio to our estimated book value for FBIZ one year out results in a price target of approximately $18.25. When combined with the Company's current dividend yield, our new target price for FBIZ represents a total return of approximately 10%, consistent with our expectations for broader U.S. equity market gains during this period. Therefore, we recommend a Neutral on FBIZ shares.

Industry Comparables- Small-cap Banks

		Price / Earnings Ratios					Return on Equity		Return on Assets		
	Pr Chg YTD	TTM* EPS	2011E	2012E	5-Yr Avg	Price/ Tang Book	TTM*	5-Yr Avg	TTM*	5-Yr Avg	Div Yld
FIRST BUS FINL	**25.8**	**9.2**	**7.1**	**6.5**	**12.9**	**0.75**	**8.3**	**6.0**	**0.42**	**0.33**	**1.7**
S&P 500	0.2	17.2	13.1	12.0	18.0	3.7	25.9	-----	10.0	-----	2.1
Median	**5.4**	**13.8**	**12.8**	**10.7**	**16.7**	**0.83**	**5.3**	**4.6**	**0.45**	**0.33**	**-----**
Average	8.3	14.7	15.2	29.4	20.4	0.7	4.0	2.9	0.46	0.34	1.4
High	73.6	31.4	41.3	452.0	43.6	1.4	20.9	13.3	2.19	2.48	6.6
Low	(28.7)	6.0	5.3	6.9	12.3	0.3	(36.8)	(30.8)	(1.40)	(1.74)	-----

*Trailing twelve months

First Business Financial Services, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

Summary Financial Data	12/06	12/07	12/08	12/09	12/10	12/11 E	12/12E
Net interest income	18.9	23.2	26.3	28.1	32.0	34.9	36.4
Non-interest income	3.7	4.4	5.1	6.4	6.7	7.0	7.1
Total net revenue	22.6	27.6	31.4	34.5	38.7	41.9	43.5
Loan loss provision	1.5	2.9	4.3	8.2	7.0	6.0	5.7
Non-interest expense	15.7	19.7	21.9	24.5	25.7	26.9	27.9
Income taxes & other	1.7	1.7	2.1	0.8	2.4	2.9	3.2
Zacks adjusted income before NRI	3.7	3.3	3.1	1.0	3.6	6.1	6.7
GAAP net income	3.7	3.3	3.1	1.0	0.9	6.8	6.7
Diluted EPS before NRI	1.52	1.32	1.28	0.41	1.42	2.35	2.60
Reported EPS	1.52	1.32	1.28	0.41	0.37	2.64	2.60
Dividends per share	0.24	0.26	0.28	0.28	0.28	0.28	0.28
Liquid assets	119.3	114.9	132.8	235.0	204.2	211.8	213.1
Loans & leases, gross	648.3	781.6	852.8	854.5	878.0	896.2	960.6
Total assets	788.3	918.4	1,010.8	1,117.4	1,107.1	1,140.7	1,222.6
Core deposits	604.3	703.6	746.4	942.2	949.1	976.2	1,036.1
Purchased funds	88.4	105.0	129.5	58.2	41.2	40.0	45.0
Long-term debt	40.5	49.5	67.8	51.8	49.8	50.0	50.0
Shareholders' equity	45.8	48.6	53.0	54.4	55.3	62.5	68.1
Profitability							
Return on avg assets	0.54%	0.39%	0.32%	0.10%	0.33%	0.55%	0.57%
Return on avg equity	8.65%	6.86%	6.11%	1.90%	6.46%	10.34%	10.36%
Net interest margin	2.87%	2.87%	2.81%	2.77%	3.04%	3.23%	3.20%
Loan loss provision % avg assets	0.22%	0.35%	0.44%	0.78%	0.64%	0.53%	0.48%
Noninterest income % avg assets	0.53%	0.53%	0.53%	0.61%	0.61%	0.62%	0.60%
Noninterest expense % avg assets	2.27%	2.34%	2.26%	2.33%	2.33%	2.41%	2.37%
Preprovision pretax income % avg assets	1.00%	0.95%	0.98%	0.95%	1.18%	1.34%	1.32%
Tangible efficiency ratio	69%	71%	70%	72%	66%	64%	64%
Payout ratio	16%	20%	22%	66%	75%	11%	11%
Asset Quality							
Net charge-offs % avg loans	(0.00)%	0.19%	0.28%	0.69%	0.57%	0.67%	0.54%
Allowance % loans	1.28%	1.26%	1.39%	1.65%	1.85%	1.83%	1.78%
NPAs % loans & related assets	0.17%	1.22%	2.25%	3.45%	4.56%	4.07%	3.57%
Allowance % NPAs	748%	103%	61%	48%	41%	45%	50%
Liquidity & Funding							
Liquid assets % purchased funds	135%	109%	103%	404%	496%	530%	474%
Core deposits % loans	93%	90%	88%	110%	108%	109%	108%
Liquid assets % assets	15%	13%	13%	21%	18%	19%	17%
Loans % assets	82%	85%	84%	76%	79%	79%	79%
Capital Adequacy							
Total equity % assets	5.80%	5.29%	5.24%	4.87%	5.00%	5.48%	5.57%
Tangible equity % assets	5.47%	5.00%	4.98%	4.63%	5.00%	5.47%	5.57%
Tier 1 capital ratio	6.24%	5.42%	6.48%	6.61%	6.65%		
Total capital ratio	10.40%	10.22%	12.00%	12.15%	11.23%		
Parent Company Statistics							
Interest coverage	(0.9)X	(1.1)X	(0.9)X	0.3X	0.2X	0.3X	0.3X
Interest & dividend coverage	(0.7)X	(0.9)X	(0.7)X	0.2X	0.2X	0.3X	0.3X
Short-term debt coverage	19.2X	16.9X	Lge	Lge	Lge	Lge	Lge
Total debt coverage	1.4X	1.1X	0.9X	1.0X	1.0X	1.2X	1.3X
Double leverage	150.2%	169.1%	185.6%	187.0%	189.5%	178.8%	174.0%

First Business Financial Services, Inc.

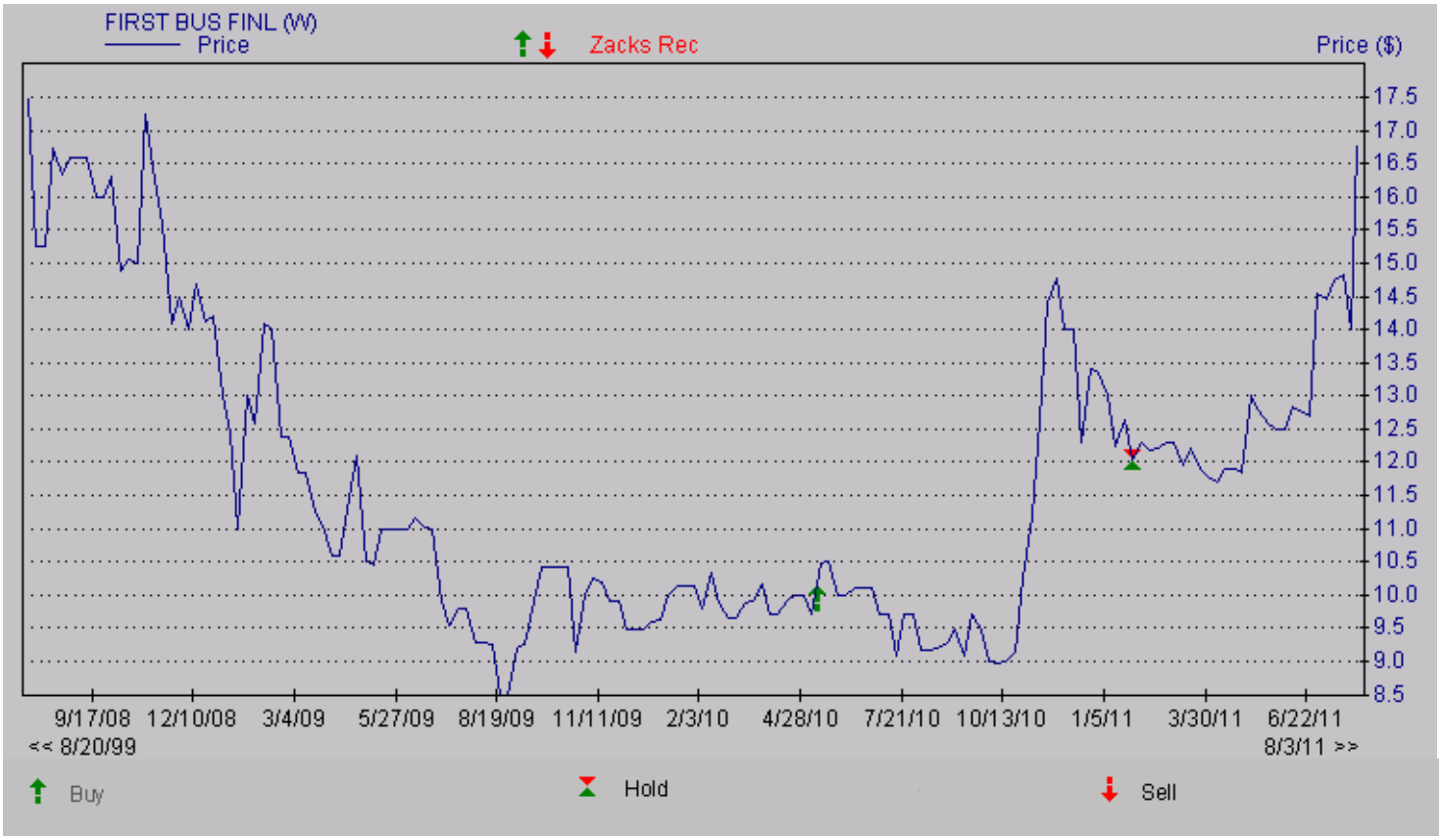
Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2010				2011			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 A**	**Q2 A**	**Q3 E**	**Q4 E**
Net interest income	7.9	7.7	8.1	8.3	8.5	9.0	8.7	8.8
Non-interest income	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.8
Total net revenue	9.5	9.4	9.8	10.0	10.2	10.7	10.4	10.6
Loan loss provision	1.3	1.1	1.9	2.7	1.4	1.5	1.5	1.6
Non-interest expense	6.5	6.5	6.4	6.2	6.8	6.6	6.7	6.8
Income taxes & other	0.8	0.6	0.5	0.5	0.7	0.8	0.7	0.7
Zacks adjusted income before NRI	0.9	1.2	1.0	0.6	1.3	1.8	1.5	1.5
GAAP net income	0.9	(1.5)	1.0	0.6	1.3	2.5	1.5	1.5
Diluted EPS before NRI	0.35	0.46	0.38	0.24	0.52	0.68	0.57	0.58
Reported EPS	0.35	(0.60)	0.38	0.24	0.52	0.97	0.57	0.58
Dividends per share	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07
Liquid assets	219.0	203.0	217.3	204.2	220.1	211.2	211.5	211.8
Loans & leases, gross	855.2	845.0	879.9	878.0	868.7	861.4	878.6	896.2
Total assets	1,101.8	1,073.9	1,122.8	1,107.1	1,112.9	1,096.4	1,118.3	1,140.7
Core deposits	922.3	896.4	955.9	949.1	956.9	938.3	957.1	976.2
Purchased funds	60.2	60.2	44.2	41.2	39.2	39.2	40.0	40.0
Long-term debt	49.8	49.8	49.8	49.8	49.8	49.8	50.0	50.0
Shareholders' equity	55.5	54.3	55.5	55.3	56.3	59.8	61.1	62.5
Profitability								
Return on avg assets*	0.33%	0.43%	0.35%	0.21%	0.48%	0.65%	0.53%	0.54%
Return on avg equity *	6.46%	8.22%	6.96%	4.21%	9.62%	12.27	9.70%	9.80%
Net interest margin	3.00%	2.96%	3.12%	3.08%	3.14%	3.39%	3.20%	3.20%
Loan loss provision % avg assets*	0.49%	0.39%	0.72%	0.95%	0.50%	0.53%	0.54%	0.57%
Noninterest income % avg assets*	0.59%	0.62%	0.61%	0.63%	0.59%	0.63%	0.63%	0.64%
Noninterest expense % avg assets*	2.39%	2.40%	2.33%	2.21%	2.39%	2.40%	2.43%	2.40%
Preprovision pretax inc.% avg assets*	1.07%	1.05%	1.26%	1.35%	1.20%	1.48%	1.32%	1.36%
Tangible efficiency ratio	69%	70%	65%	62%	67%	62%	65%	64%
Payout ratio	19%	(11)%	18%	30%	13%	7%	12%	12%
Asset Quality								
Net charge-offs % avg loans*	0.06%	0.62%	0.64%	0.95%	0.40%	1.09%	0.60%	0.59%
Allowance % loans	1.79%	1.79%	1.78%	1.85%	1.93%	1.85%	1.84%	1.83%
NPAs % loans & related assets	3.85%	3.87%	3.65%	4.56%	4.77%	4.18%	4.15%	4.07%
Allowance % NPAs	47%	46%	49%	41%	40%	44%	44%	45%
Liquidity & Funding								
Liquid assets % purchased funds	364%	337%	492%	496%	561%	539%	529%	530%
Core deposits % loans	108%	106%	109%	108%	110%	109%	109%	109%
Liquid assets % assets	20%	19%	19%	18%	20%	19%	19%	19%
Loans % assets	78%	79%	78%	79%	78%	79%	79%	79%
Capital Adequacy								
Total equity % assets	5.04%	5.06%	4.94%	5.00%	5.06%	5.46%	5.47%	5.48%
Tangible equity % assets	4.80%	5.05%	4.94%	5.00%	5.06%	5.46%	5.46%	5.47%
Tier 1 capital ratio	6.71%	6.82%	6.59%	6.65%	6.92%	7.29%		
Total capital ratio	12.25%	11.48%	11.15%	11.23%	11.64%	12.20%		

*Annualized.

HISTORICAL ZACKS RECOMMENDATIONS



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