Zacks Small-Cap Research

November 2, 2011
Ann H. Heffron, CFA, CPA
312-265-9428
aheffron@zacks.com

scr.zacks.com
111 North Canal Street • Chicago, IL 60606

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

FBIZ: Raising to Outperform on Excellent Third Quarter

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	11/01/2011
Current Price (11/01/11)	$16.08
Twelve- Month Target Price	**$19.00**

OUTLOOK

We are raising our recommendation on First Business Financial Services, Inc. (FBIZ) to Outperform from Neutral following third quarter results. FBIZ had an exceptional third quarter, beating our estimate by $0.26 and posting diluted EPS of $0.83. This was more than double the prior-year quarter's $0.38 and well above our $0.57 EPS estimate. Third quarter results were boosted by a gain in net interest income from a higher net interest margin, strong growth in trust and investment services income and loan fees, a significantly reduced loan loss provision, and lower FDIC premium expense and collateral liquidation costs, partially offset by increased compensation from bonus accruals, higher marketing costs, and an increased effective tax rate. The Company made excellent progress in reducing problem assets and believes indications are that it has turned the corner regarding asset quality. Nonaccrual loans fell $7.6 million, or 22%, sequentially to $27.0 million, while foreclosed assets jumped $0.6 million, or 46%, to $2.0 million. As a percentage of total loans and OREO, nonperforming assets fell 81 basis points sequentially to 3.37% from 4.18% at the end of the second quarter and 140 basis points from the 4.77% at the end of the first quarter. We are sharply increasing our EPS estimates to $2.90 from $2.35 for 2011 and to $3.40 from $2.60 for 2012. This translates into year-over-year gains of 104% in 2011 and 17% in 2012. Changes in both years primarily reflect higher net interest margin estimates and lower estimates for the provision for loan losses, due to improved asset quality. In addition, our 2011 estimate incorporates the third quarter overage of $0.26 relative to our estimate.

SUMMARY DATA

52-Week High	**$17.23**
52-Week Low	**$10.25**
One-Year Return (%)	**58.62**
Beta	**0.00**
Average Daily Volume (sh)	**2,129**
Shares Outstanding (mil)	**2.6**
Market Capitalization ($mil)	**$42**
Short Interest Ratio (days)	**1.37**
Institutional Ownership (%)	**10**
Insider Ownership (%)	**21**
Annual Cash Dividend	**$0.28**
Dividend Yield (%)	**1.74**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**13.0**
Earnings Per Share (%)	**(3.1)**
Dividend (%)	**36.1**
P/E using TTM EPS	**7.1**
P/E using 2011 Estimate	**5.5**
P/E using 2012 Estimate	**4.7**
Zacks Rank	**3**

Risk Level	**Average**
Type of Stock	**Small-Value**
Industry	**Banks-Midwest**
Zacks Rank in Industry	**21 of 36**

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	10.8 A	10.8 E	42.5 E
2012					43.7 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	0.83 A	0.87 E	2.90 E
2012					3.40 E

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

© Copyright 2011, Zacks Investment Research. All Rights Reserved.

THIRD QUARTER RESULTS

FBIZ had an exceptional third quarter, beating our estimate by $0.26 and posting diluted EPS of $0.83. This was more than double the prior-year quarter's $0.38 and well above our $0.57 diluted EPS estimate.

Third quarter results were boosted by a gain in net interest income from a higher net interest margin, strong growth in trust and investment services income and loan fees, a significantly reduced loan loss provision, and lower FDIC premium expense and collateral liquidation costs, partially offset by increased compensation from bonus accruals, higher marketing costs, and an increased effective tax rate.

The Company made excellent progress in reducing problem assets and believes indications are that it has turned the corner regarding asset quality. Nonaccrual loans fell $7.6 million, or 22%, sequentially to $27.0 million, while foreclosed assets jumped $0.6 million, or 46%, to $2.0 million. As a percentage of total loans and OREO, nonperforming assets fell 81 basis points sequentially to 3.37% from 4.18% at the end of the second quarter and 140 basis points from the 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 a lower-than-expected loan loss provision, partly offset by a higher effective tax rate.

We are sharply increasing our EPS estimates to $2.90 from $2.35 for 2011 and to $3.40 from $2.60 for 2012. This translates into year-over-year gains of 104% in 2011 and 17% in 2012. Changes in both years primarily reflect higher net interest margin estimates and lower estimates for the provision for loan losses, reflecting three factors: (1) reduced expectations for loan growth; (2) a slowdown in the rate of growth in nonaccrual loans; and (3) an increase in nonaccrual loans exiting the bank. In addition, our 2011 estimate incorporates the third quarter overage of $0.26 relative to our estimate.

Below, we discuss third quarter results in more detail.

Net Interest Income

Net interest income increased 12% year over year to $9.1 million (and was above our $8.7 million estimate), largely the result of 28 basis-point increase in the net interest margin to 3.40% (versus our 3.20% estimate), aided by a 2% increase in average interest-earning assets.

Net interest income continues to benefit from a lower level of nonaccruing loans as well as a reduction in interest expense from lower deposit costs. We are raising our NIM estimates to 3.40% for 2011's fourth quarter (up 20 basis points from our prior estimate) and to 3.30% for 2012 (up 10 basis points).

The higher net interest margin in the third quarter was principally due to lower deposit costs, which fell 39 basis points to 1.86% 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 2 basis points year over year to 6.06%, primarily the result of a 28 basis-point gain in the yield on commercial and industrial loans to 7.97% from 7.69%, due mainly to an increase in one-time fees collected in lieu of interest in the asset-based lending portfolio. This was partly offset by a 65 basis-point decline in the yield on the mortgage securities portfolio to 2.49%, 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 $0.62 million), benefitting from a 22% jump in assets under management to $458.0 million and a 6% rise in assets under administration to

$123.9 million. In addition, FBIZ posted a 22% gain in loan fees to $0.4 million, due to increased fees from the asset-based lending unit. Negatively, other noninterest income dropped by 45% to $0.08 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 slid 78% year over year to $0.4 million, and was well below our $1.5 million estimate, reflecting improved asset quality.

Going forward, we have significantly reduced our estimates for the loan loss provision for both 2011 and 2012. In 2011, our revised estimate is $3.9 million (down from $6.0 million) and for 2012, it is $2.2 million (compared to $5.7 million before), primarily reflecting three factors: (1) reduced expectations for loan growth; (2) a slowdown in the rate of growth in nonaccrual loans; and (3) an increase in nonaccrual loans exiting the bank.

Noninterest Expense

Noninterest expense rose 6% year over year to $6.75 million and compares to our $6.73 million estimate.

Relative to the year-ago quarter, there were four primary reasons that contributed to the change: (1) compensation costs increased 12% to $3.8 due to higher bonus accruals as FBIZ posted better earnings; (2) marketing costs surged 64% to $0.3 million due to a renewed corporatewide marketing effort; (3) FDIC insurance premiums decreased 28% to $0.6 million due to changes in premium calculations required by the Dodd-Frank Act that became effective on April 1, 2011; and (4) collateral liquidation costs, which can vary significantly from quarter to quarter, fell by 46% to $0.2 million.

Generally, the Company maintained tight control over operating expenses. Because net revenues rose 10% while noninterest expense increased only 6%, the Company's efficiency ratio improved, falling to 62.3% compared to 64.9% in 2010's third quarter.

Income Taxes

The Company's effective tax rate was 40.3%, compared to 35.3% in the year-ago quarter and our 32.0% estimate. This was the result of one-time charges as the Company made adjustments to its estimated 2010 tax liability to the actual amount after all tax returns had been filed. 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.

That said, we have increased our estimated effective tax rate to 33% from 32% as we now 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.

Net Income

FBIZ posted net earnings of $2.2 million ($0.83 per diluted share), up from $1.0 million ($0.38 per diluted share) reported in the year-ago quarter. This compares to our $1.5 million net income estimate ($0.57 per diluted share).

Profitability

FBIZ posted a 14.0% ROE and 0.78% ROA for the third quarter of 2011, compared to a 7.0% ROE and 0.35% ROA for the third quarter of 2010.

Loans and Asset Quality

Loans were flat at $861 million during the third quarter. Sequentially, commercial real estate loans increased 0.5% to $465.3 million, while total commercial loans rose 5% to $240.6 million. All other loan categories declined, with the largest drops in construction and land development loans, which slid 14% to $48.1 million, and multi-family, which decreased 9% to $42.1 million.

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. At some point in the future, FBIZ may have to meet competitors' pricing to achieve satisfactory loan growth, but this has not occurred yet.

Because of competition and the lackluster economy, we are again reducing our estimate growth in loans outstanding. In 2011, we have now estimated loans outstanding to fall 1.0% (we had previously estimated loan growth of 2.0% and originally showed 2011 growing 6%) and in 2012, we project loans to grow 3%, down from 7% before. This slowdown is partly offset by net interest margin expansion, which we estimate at 3.33% in 2011 and 3.30% in 2012, 10-basis-point gains over our previous estimates of 3.23% and 3.20%, respectively. In 2010, loans increased 3% and the net interest margin was 3.04%.

On a sequential basis, the NPA ratio fell 81 basis points to 3.37% of loans plus OREO from 4.18% at the end of the second quarter and 140 basis points from 4.77% at March 31, 2011. This improvement was broadly based and affected all major loan categories, except for moderate deterioration in the 1-4 family loan category. On a more detailed basis, quarterly improvement reflected the paydown of $5.6 million in nonaccruing loans that were refinanced by other financial institutions, $2.3 million in loans that were charged off, $1.7 million of payments on nonaccrual loans that were applied directly to principal, $1.1 million of payments on nonaccrual loans that were transferred to foreclosed properties, and $1.2 million in loans that were either returned to accrual status or where principal payments were applied, partly offset by the transfer of $2.6 million of loans to nonaccrual status.

The loan loss allowance as a percent of nonperforming assets rose to 49% at the end of the quarter from 44% at the end of 2011's second 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 $14.1 million, or 1.64% of gross loans, from $15.9 million, or 1.85% 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 September 30, 2011 (figures for December 31, 2010 are in parentheses), FBIZ 's loan portfolio divided 76.7% (74.8%) Category I, 11.9% (13.5%) Category II, 8.2% (7.2%) Category III, and 3.2% (4.5%) Category IV. Importantly, both Category I, which represents the highest credit quality loan category, increased 190 basis points during the year to 76.74%, while Category IV, the weakest loan category giving rise to the majority of loan losses, improved by 131 basis points and fell to 3.15%.

Liquidity and Funding

FBIZ increased cash and short-investments by $37.6 million during the third 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 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.

Mortgage securities were flat during the quarter at $168 million. In total, liquid assets to purchased funds increased to 634% at the end of September from 539% at the end of June.

The Company remains heavily reliant on brokered deposits, which were $483 million and represented 48% of total deposits at June quarterend (down from 51% at the end of June 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 20 months of maturities (up from 12 months at the end of 2011's second quarter) 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 31 basis points to 7.60% at the end of 2011's third quarter from 7.29% % at June 30, 2011, and the Total capital ratio gained 46 basis points to 12.66% from 12.20%, largely due to growth in retained earnings, though there was a modest decline is risk-weighted assets as well.

Total shareholders' equity increased $1.9 million during the third quarter, due to a combination of $2.0 million growth in retained earnings, a $0.1 million increase from capital changes, and a $0.2 million slide in accumulated comprehensive income to $2.3 million at the end of the third quarter from $2.5 million at the end of the second quarter. Reflecting these factors, tangible book value per share also increased during the third quarter, by $0.74 per share to $23.78 from $23.04.

On September 20, 2011, FBIZ declared its regular quarterly $0.07 cash dividend, paid on October 15, 2011 to shareholders of record at the close of business on October 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 September 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.

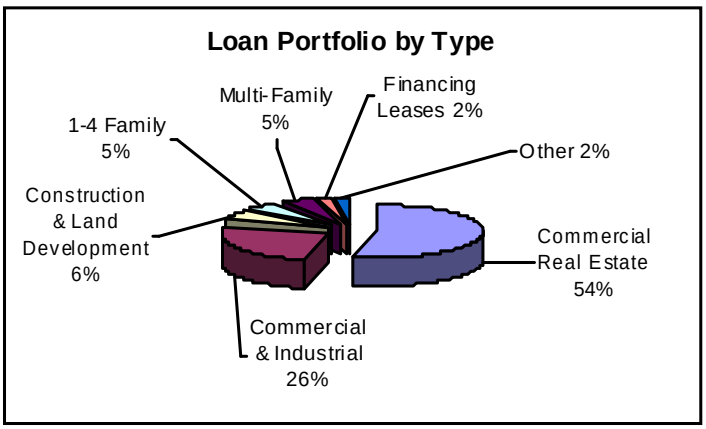
FBB owns two non-bank subsidiaries that engage in lending that is different than that typical for banks through six single-person business development offices, which are located in Minneapolis, Minnesota; Chicago, Illinois; St. Louis, Missouri; Detroit, Michigan; Cleveland, Ohio; and Denver, Colorado. These subsidiaries include: First Business Capital Corp. (FBCC, with net income of $3.2 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 September 30, 2011. The rest of the lending book consists of commercial and industrial (accounting for 26% of total gross loans), construction and land development (6%), 1-4 family (5%), 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 22% of total assets. Transaction and money market accounts accounted for 45% of total deposits at September 30, 2011, with certificates of deposit (CDs) at 7%, and brokered CDs at 48%.

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

FBIZ stock has outperformed the industry, with a year-to-date price gain of 20.4% compared to declines of 3.1% for the S&P 500 and 1.7% 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 51% in 2011 (versus a discount of 45% at the time of our last report on August 4, 2011) and of 54% in 2012, based upon our FBIZ EPS estimates (versus a discount of 39% previously). This is far in excess of the average 24% 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 0.70X versus the industry median of 0.77X. This represents a 9% discount, or about 12 points better than the FBIZ's average historical discount of 21% 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 much improved and (2) liquidity in the shares has increased following the addition of FBIZ shares to the Russell Microcap Index on June 24, 2011.

Applying the 0.70X ratio to our estimated book value for FBIZ one year out results in a price target of approximately $19.00. When combined with the Company's current dividend yield, our new target price for FBIZ represents a total return of approximately 20%, above our expectations for broader U.S. equity market gains during this period. Therefore, we are raising our recommendation on FBIZ shares to Outperform from Neutral.

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	**20.4**	**7.1**	**5.5**	**4.7**	**12.5**	**0.70**	**11.6**	**6.0**	**0.60**	**0.32**	**1.7**
S&P 500	(3.1)	16.6	12.6	11.8	18.0	-----	28.5	-----	10.2	-----	2.1
Median	**(1.7)**	**11.6**	**11.2**	**10.2**	**16.5**	**0.77**	**6.1**	**4.5**	**0.58**	**0.34**	**0.4**
Average	(0.7)	13.2	13.7	20.5	20.0	0.7	5.1	2.7	0.56	0.33	1.5
High	70.8	32.5	41.1	249.0	42.5	1.3	23.4	12.4	2.34	2.41	6.4
Low	(62.4)	4.9	4.6	4.9	12.0	0.2	(51.6)	(32.9)	(1.73)	(1.88)	-----

*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	35.6	36.5
Non-interest income	3.7	4.4	5.1	6.4	6.7	6.9	7.2
Total net revenue	22.6	27.6	31.4	34.5	38.7	42.5	43.7
Loan loss provision	1.5	2.9	4.3	8.2	7.0	3.9	2.2
Non-interest expense	15.7	19.7	21.9	24.5	25.7	27.0	28.2
Income taxes & other	1.7	1.7	2.1	0.8	2.4	4.0	4.4
Zacks adjusted income before NRI	3.7	3.3	3.1	1.0	3.6	7.6	8.9
GAAP net income	3.7	3.3	3.1	1.0	0.9	8.3	8.9
Diluted EPS before NRI	1.52	1.32	1.28	0.41	1.42	2.90	3.40
Reported EPS	1.52	1.32	1.28	0.41	0.37	3.19	3.40
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	250.0	252.5
Loans & leases, gross	648.3	781.6	852.8	854.5	878.0	868.4	894.7
Total assets	788.3	918.4	1,010.8	1,117.4	1,107.1	1,141.3	1,176.5
Core deposits	604.3	703.6	746.4	942.2	949.1	993.4	1,054.4
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	63.8	71.6
Profitability							
Return on avg assets	0.54%	0.39%	0.32%	0.10%	0.33%	0.68%	0.77%
Return on avg equity	8.65%	6.86%	6.11%	1.90%	6.46%	12.69%	13.20%
Net interest margin	2.87%	2.87%	2.81%	2.77%	3.04%	3.33%	3.30%
Loan loss provision % avg assets	0.22%	0.35%	0.44%	0.78%	0.64%	0.35%	0.19%
Noninterest income % avg assets	0.53%	0.53%	0.53%	0.61%	0.61%	0.61%	0.62%
Noninterest expense % avg assets	2.27%	2.34%	2.26%	2.33%	2.33%	2.40%	2.44%
Preprovision pretax income % avg assets	1.00%	0.95%	0.98%	0.95%	1.18%	1.39%	1.34%
Tangible efficiency ratio	69%	71%	70%	72%	66%	63%	65%
Payout ratio	16%	20%	22%	66%	75%	9%	8%
Asset Quality							
Net charge-offs % avg loans	(0.00)%	0.19%	0.28%	0.69%	0.57%	0.78%	0.50%
Allowance % loans	1.28%	1.26%	1.39%	1.65%	1.85%	1.55%	1.26%
NPAs % loans & related assets	0.17%	1.22%	2.25%	3.45%	4.56%	3.10%	2.49%
Allowance % NPAs	748%	103%	61%	48%	41%	50%	50%
Liquidity & Funding							
Liquid assets % purchased funds	135%	109%	103%	404%	496%	625%	561%
Core deposits % loans	93%	90%	88%	110%	108%	114%	118%
Liquid assets % assets	15%	13%	13%	21%	18%	22%	21%
Loans % assets	82%	85%	84%	76%	79%	76%	76%
Capital Adequacy							
Total equity % assets	5.80%	5.29%	5.24%	4.87%	5.00%	5.59%	6.09%
Tangible equity % assets	5.47%	5.00%	4.98%	4.63%	5.00%	5.59%	6.09%
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	1.4X
Double leverage	150.2%	169.1%	185.6%	187.0%	189.5%	177.3%	170.4%

First Business Financial Services, Inc.

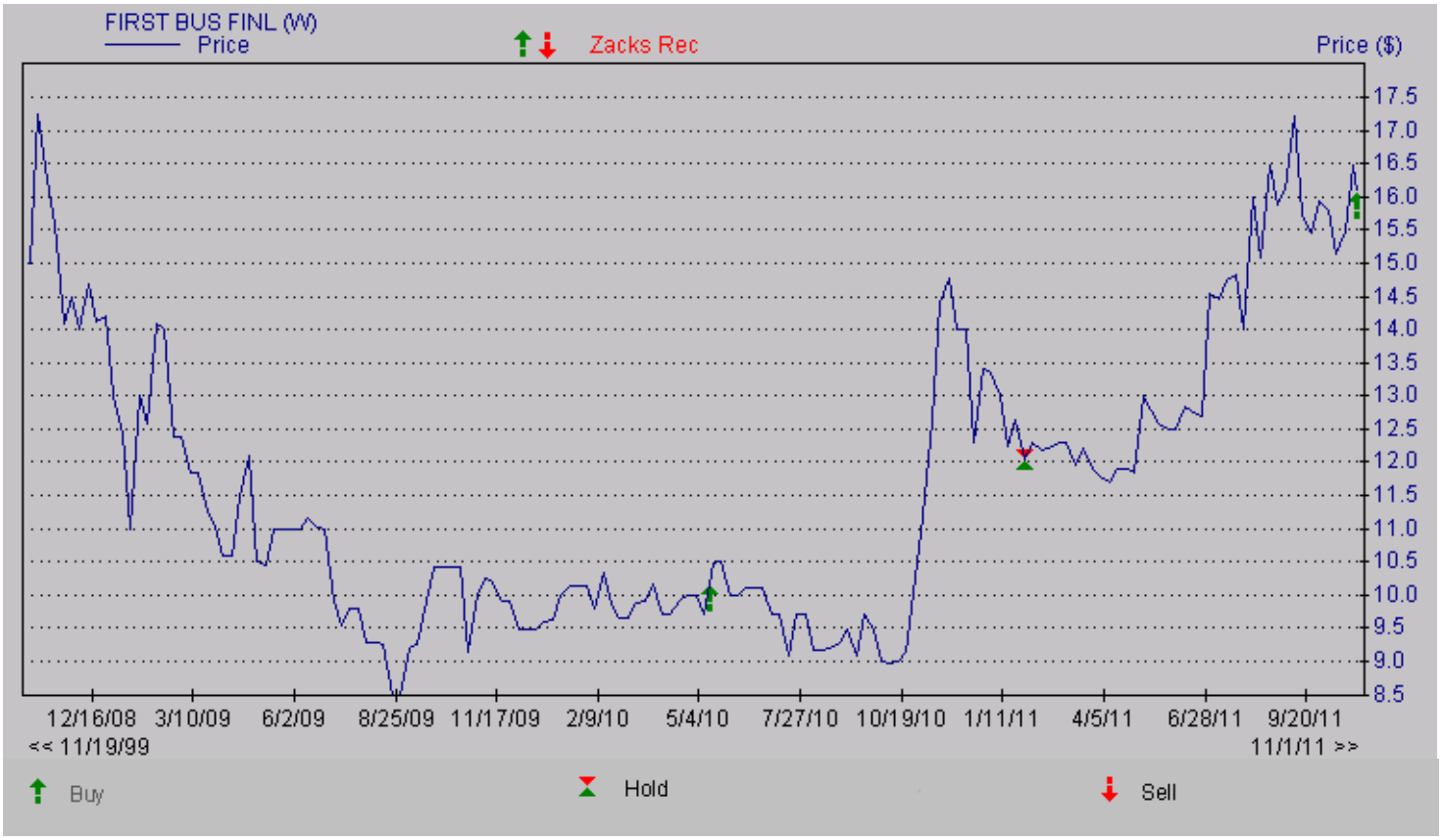
Income Statement and Balance Sheet

(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 A**	**Q4 E**
Net interest income	7.9	7.7	8.1	8.3	8.5	9.0	9.1	9.1
Non-interest income	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Total net revenue	9.5	9.4	9.8	10.0	10.2	10.7	10.8	10.8
Loan loss provision	1.3	1.1	1.9	2.7	1.4	1.5	0.4	0.6
Non-interest expense	6.5	6.5	6.4	6.2	6.8	6.6	6.8	6.8
Income taxes & other	0.8	0.6	0.5	0.5	0.7	0.8	1.4	1.1
Zacks adjusted income before NRI	0.9	1.2	1.0	0.6	1.3	1.8	2.2	2.3
GAAP net income	0.9	(1.5)	1.0	0.6	1.3	2.5	2.2	2.3
Diluted EPS before NRI	0.35	0.46	0.38	0.24	0.52	0.68	0.83	0.87
Reported EPS	0.35	(0.60)	0.38	0.24	0.52	0.97	0.83	0.87
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	248.8	250.0
Loans & leases, gross	855.2	845.0	879.9	878.0	868.7	861.4	861.5	868.4
Total assets	1,101.8	1,073.9	1,122.8	1,107.1	1,112.9	1,096.4	1,135.6	1,141.3
Core deposits	922.3	896.4	955.9	949.1	956.9	938.3	973.9	993.4
Purchased funds	60.2	60.2	44.2	41.2	39.2	39.2	39.2	40.0
Long-term debt	49.8	49.8	49.8	49.8	49.8	49.8	49.8	50.0
Shareholders' equity	55.5	54.3	55.5	55.3	56.3	59.8	61.8	63.8
Profitability								
Return on avg assets*	0.33%	0.43%	0.35%	0.21%	0.48%	0.65%	0.78%	0.80%
Return on avg equity *	6.46%	8.22%	6.96%	4.21%	9.62%	12.27%	14.02%	14.49%
Net interest margin	3.00%	2.96%	3.12%	3.08%	3.14%	3.39%	3.40%	3.40%
Loan loss provision % avg assets*	0.49%	0.39%	0.72%	0.95%	0.50%	0.53%	0.16%	0.21%
Noninterest income % avg assets*	0.59%	0.62%	0.61%	0.63%	0.59%	0.63%	0.62%	0.62%
Noninterest expense % avg assets*	2.39%	2.40%	2.33%	2.21%	2.39%	2.40%	2.41%	2.39%
Preprovision pretax inc.% avg assets*	1.07%	1.05%	1.26%	1.35%	1.20%	1.48%	1.46%	1.41%
Tangible efficiency ratio	69%	70%	65%	62%	67%	62%	62%	63%
Payout ratio	19%	(11)%	18%	30%	13%	7%	8%	8%
Asset Quality								
Net charge-offs % avg loans*	0.06%	0.62%	0.64%	0.95%	0.40%	1.09%	1.04%	0.60%
Allowance % loans	1.79%	1.79%	1.78%	1.85%	1.93%	1.85%	1.64%	1.55%
NPAs % loans & related assets	3.85%	3.87%	3.65%	4.56%	4.77%	4.18%	3.37%	3.10%
Allowance % NPAs	47%	46%	49%	41%	40%	44%	49%	50%
Liquidity & Funding								
Liquid assets % purchased funds	364%	337%	492%	496%	561%	539%	634%	625%
Core deposits % loans	108%	106%	109%	108%	110%	109%	113%	114%
Liquid assets % assets	20%	19%	19%	18%	20%	19%	22%	22%
Loans % assets	78%	79%	78%	79%	78%	79%	76%	76%
Capital Adequacy								
Total equity % assets	5.04%	5.06%	4.94%	5.00%	5.06%	5.46%	5.44%	5.59%
Tangible equity % assets	4.80%	5.05%	4.94%	5.00%	5.06%	5.46%	5.44%	5.59%
Tier 1 capital ratio	6.71%	6.82%	6.59%	6.65%	6.92%	7.29%	7.60%	
Total capital ratio	12.25%	11.48%	11.15%	11.23%	11.64%	12.20%	12.66%	

*Annualized.

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Investment Research ("ZIR") and Zacks Small-Cap Research ("Zacks SCR") and the issuers covered by the Zacks SCR analysts in the Small-Cap Universe.

ZIR or Zacks SCR Analysts do not hold or trade securities in the issuers which they cover. Each analyst has full discretion on the rating and price target based on their own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for non-investment banking services. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or blog.

ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Zacks SCR has never received compensation for investment banking services on the small-cap universe. Zacks SCR does not expect received compensation for investment banking services on the small-cap universe. Zacks SCR has received compensation for non-investment banking services on the small-cap universe, and expects to receive additional compensation for non-investment banking services on the small-cap universe, paid by issuers of securities covered by Zacks SCR. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, investment research, and investment management.

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change. Reports are not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks SCR uses the following rating system for the securities it covers. Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters. Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters. Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution of Zacks Ratings is as follows on the 1025 companies covered: Buy/Outperform- 16.8%, Hold/Neutral- 75.5%, Sell/Underperform – 6.8%. Data is as of midnight on the business day immediately prior to this publication.