

FIRST BUSINESS FINANCIAL SERVICES, INC.  
Form 10-Q  
October 30, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2015

OR  
 Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
Commission file number 001-34095

FIRST BUSINESS FINANCIAL SERVICES, INC.  
(Exact name of registrant as specified in its charter)  
Wisconsin

39-1576570

(State or other jurisdiction of incorporation or  
organization)  
401 Charmany Drive, Madison, WI

(I.R.S. Employer Identification No.)  
53719

(Address of Principal Executive Offices)  
(608) 238-8008

(Zip Code)

Registrant's telephone number, including area code

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant's sole class of common stock, par value \$0.01 per share, on October 27, 2015 was 8,697,089 shares.

Table of Contents

FIRST BUSINESS FINANCIAL SERVICES, INC.  
INDEX — FORM 10-Q

<u>PART I. Financial Information</u>	<u>1</u>
<u>Item 1. Financial Statements</u>	<u>1</u>
<u>Consolidated Balance Sheets</u>	<u>1</u>
<u>Consolidated Statements of Income (Unaudited)</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income (Unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Changes in Stockholders' Equity (Unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows (Unaudited)</u>	<u>5</u>
<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>39</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>58</u>
<u>Item 4. Controls and Procedures</u>	<u>58</u>
<u>PART II. Other Information</u>	<u>58</u>
<u>Item 1. Legal Proceedings</u>	<u>58</u>
<u>Item 1A. Risk Factors</u>	<u>58</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>58</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>58</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>58</u>
<u>Item 5. Other Information</u>	<u>59</u>
<u>Item 6. Exhibits</u>	<u>59</u>
<u>Signatures</u>	<u>59</u>

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Table of Contents

## PART I. Financial Information

## Item 1. Financial Statements

## First Business Financial Services, Inc.

## Consolidated Balance Sheets

	September 30, 2015 (unaudited)	December 31, 2014
	(In Thousands, Except Share Data)	
Assets		
Cash and due from banks	\$17,135	\$14,881
Short-term investments	105,536	88,356
Cash and cash equivalents	122,671	103,237
Securities available-for-sale, at fair value	143,729	144,698
Securities held-to-maturity, at amortized cost	38,364	41,563
Loans held for sale	2,910	1,340
Loans and leases receivable, net of allowance for loan and lease losses of \$15,359 and \$14,329, respectively	1,361,813	1,265,098
Premises and equipment, net	3,889	3,943
Foreclosed properties	1,632	1,693
Cash surrender value of bank-owned life insurance	28,029	27,314
Investment in Federal Home Loan Bank and Federal Reserve Bank stock, at cost	2,843	2,340
Accrued interest receivable and other assets	26,029	26,217
Goodwill and other intangible assets	12,244	11,944
Total assets	\$1,744,153	\$1,629,387
Liabilities and Stockholders' Equity		
Deposits		
Federal Home Loan Bank and other borrowings	\$1,539,370	\$1,438,268
Junior subordinated notes	36,354	33,994
Accrued interest payable and other liabilities	10,315	10,315
Total liabilities	10,147	9,062
	1,596,186	1,491,639
Stockholders' equity:		
Preferred stock, \$0.01 par value, 2,500,000 shares authorized, none issued or outstanding	—	—
Common stock, \$0.01 par value, 25,000,000 shares authorized, 8,920,599 and 8,873,353 shares issued, 8,698,775 and 8,671,854 shares outstanding at September 30, 2015 and December 31, 2014, respectively	89	45
Additional paid-in capital	76,189	74,963
Retained earnings	77,458	67,886
Accumulated other comprehensive income	512	218
Treasury stock (221,824 and 201,499 shares at September 30, 2015 and December 31, 2014, respectively), at cost	(6,281	) (5,364
Total stockholders' equity	147,967	137,748
Total liabilities and stockholders' equity	\$1,744,153	\$1,629,387

See accompanying Notes to Unaudited Consolidated Financial Statements.



Table of ContentsFirst Business Financial Services, Inc.  
Consolidated Statements of Income (Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In Thousands, Except Per Share Data)			
Interest income:				
Loans and leases	\$17,323	\$12,968	\$51,328	\$38,094
Securities income	722	821	2,246	2,543
Short-term investments	90	82	297	201
Total interest income	18,135	13,871	53,871	40,838
Interest expense:				
Deposits	2,785	2,405	7,947	6,911
Notes payable and other borrowings	460	251	1,364	561
Junior subordinated notes	280	280	832	831
Total interest expense	3,525	2,936	10,143	8,303
Net interest income	14,610	10,935	43,728	32,535
Provision for loan and lease losses	287	(89)	1,491	—
Net interest income after provision for loan and lease losses	14,323	11,024	42,237	32,535
Non-interest income:				
Trust and investment services fee income	1,251	1,137	3,737	3,315
Gain on sale of SBA loans	927	—	2,274	—
Gain on sale of residential mortgage loans	244	—	614	—
Service charges on deposits	705	620	2,094	1,787
Loan fees	486	386	1,487	1,156
Increase in cash surrender value of bank-owned life insurance	243	215	715	630
Other	246	101	1,155	250
Total non-interest income	4,102	2,459	12,076	7,138
Non-interest expense:				
Compensation	7,320	5,193	21,598	14,991
Occupancy	486	324	1,472	963
Professional fees	1,268	674	3,772	2,201
Data processing	587	389	1,772	1,227
Marketing	693	409	2,036	1,120
Equipment	308	145	914	400
FDIC insurance	260	179	693	542
Collateral liquidation costs	22	32	402	276
Net gain on foreclosed properties	(163)	(9)	(178)	(5)
Other	1,203	711	3,209	1,933
Total non-interest expense	11,984	8,047	35,690	23,648
Income before income tax expense	6,441	5,436	18,623	16,025
Income tax expense	2,060	1,883	6,192	5,630
Net income	\$4,381	\$3,553	\$12,431	\$10,395
Earnings per common share:				
Basic	\$0.50	\$0.45	\$1.43	\$1.32
Diluted	\$0.50	\$0.45	\$1.43	\$1.31
Dividends declared per share	\$0.11	\$0.105	\$0.33	\$0.315

See accompanying Notes to Unaudited Consolidated Financial Statements.

2

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Table of ContentsFirst Business Financial Services, Inc.  
Consolidated Statements of Comprehensive Income (Unaudited)

	For the Three Months Ended September 30, 2015		For the Nine Months Ended September 30, 2015	
	2014		2014	
	(In Thousands)			
Net income	\$4,381	\$3,553	\$12,431	\$10,395
Other comprehensive income (loss), before tax				
Securities available-for-sale:				
Net unrealized securities gains (losses) arising during the period	443	(431	) 298	1,711
Securities held-to-maturity:				
Unrealized losses transferred to held-to-maturity	—	—	—	(874
Amortization of net unrealized losses transferred from available-for-sale	54	75	181	100
Income tax (expense) benefit	(192	) 137	(185	) (362
Comprehensive income	\$4,686	\$3,334	\$12,725	\$10,970

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents

First Business Financial Services, Inc.

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

	Common shares outstanding	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive (loss) income	Treasury stock	Total
	(In Thousands, Except Share Data)						
Balance at December 31, 2013	8,252,481	\$41	\$56,002	\$57,143	\$ (342 )	\$(3,569)	\$109,275
Net income	—	—	—	10,395	—	—	10,395
Other comprehensive income	—	—	—	—	575	—	575
Exercise of stock options	4,000	—	48	—	—	—	48
Share-based compensation - restricted shares	46,772	—	618	—	—	—	618
Share-based compensation - tax benefits	—	—	226	—	—	—	226
Cash dividends (\$0.315 per share)	—	—	—	(2,485 )	—	—	(2,485 )
Treasury stock purchased	(20,536 )	—	—	—	—	(460 )	(460 )
Balance at September 30, 2014	8,282,717	\$41	\$56,894	\$65,053	\$ 233	\$(4,029)	\$118,192

	Common shares outstanding	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock	Total
	(In Thousands, Except Share Data)						
Balance at December 31, 2014	8,671,854	\$45	\$74,963	\$67,886	\$ 218	\$(5,364)	\$137,748
Net income	—	—	—	12,431	—	—	12,431
Other comprehensive income	—	—	—	—	294	—	294
Common stock dividends	—	44	(44 )	—	—	—	—
Exercise of stock options	24,000	—	300	—	—	—	300
Share-based compensation - restricted shares	43,602	—	717	—	—	—	717
Share-based compensation - tax benefits	—	—	253	—	—	—	253
Cash dividends (\$0.33 per share)	—	—	—	(2,859 )	—	—	(2,859 )
Treasury stock purchased	(40,681 )	—	—	—	—	(917 )	(917 )
Balance at September 30, 2015	8,698,775	\$89	\$76,189	\$77,458	\$ 512	\$(6,281)	\$147,967

See accompanying Notes to Unaudited Consolidated Financial Statements.



Table of Contents

First Business Financial Services, Inc.

Consolidated Statements of Cash Flows (Unaudited)

	For the Nine Months Ended September	
	30,	2014
	2015	2014
	(In Thousands)	
Operating activities		
Net income	\$12,431	\$10,395
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes, net	319	283
Provision for loan and lease losses	1,491	—
Depreciation, amortization and accretion, net	(379)	) 1,324
Share-based compensation	717	618
Increase in cash surrender value of bank-owned life insurance	(715)	) (630)
Origination of loans for sale	(52,295)	) —
Sale of loans originated for sale	53,612	—
Gain on sale of loans originated for sale	(2,887)	) —
Net (gain) loss on foreclosed properties, including impairment valuation	(178)	) (5)
Excess tax benefit from share-based compensation	(253)	) (226)
Decrease (increase) in accrued interest receivable and other assets	(1,107)	) (396)
Increase (decrease) in accrued interest payable and other liabilities	1,342	(124)
Net cash provided by operating activities	12,098	11,239
Investing activities		
Proceeds from maturities, redemptions and paydowns of available-for-sale securities	32,930	34,185
Proceeds from maturities, redemptions and paydowns of held-to-maturity securities	3,253	1,231
Purchases of available-for-sale securities	(32,614)	) (40,310)
Proceeds from sale of foreclosed properties	528	232
Net increase in loans and leases	(96,898)	) (60,836)
Investment in limited partnerships	—	(500)
Distributions from limited partnerships	332	676
Investment in FHLB and FRB Stock	(1,349)	) (467)
Proceeds from sale of FHLB Stock	846	373
Purchases of leasehold improvements and equipment, net	(498)	) (285)
Net cash used in investing activities	(93,470)	) (65,701)
Financing activities		
Net increase in deposits	101,529	139,345
Net increase in short-term borrowed funds	2,500	—
Proceeds from issuance of subordinated notes payable	—	15,000
Repayment of subordinated notes payable	—	(4,000)
Excess tax benefit from share-based compensation	253	226
Cash dividends paid	(2,859)	) (2,485)
Exercise of stock options	300	48
Purchase of treasury stock	(917)	) (460)
Net cash provided by financing activities	100,806	147,674
Net (decrease) increase in cash and cash equivalents	19,434	93,212
Cash and cash equivalents at the beginning of the period	103,237	81,286

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Cash and cash equivalents at the end of the period	\$122,671	\$174,498
Supplementary cash flow information		
Cash paid during the period for:		
Interest paid on deposits and borrowings	\$9,817	\$7,575
Income taxes paid	3,793	5,128
Non-cash investing and financing activities:		
Transfer of securities from available-for-sale to held-to-maturity	—	44,587
Unrealized loss on transfer from available-for-sale to held-to-maturity	—	(874
Transfer to foreclosed properties	289	—
See accompanying Notes to Unaudited Consolidated Financial Statements.		)

5

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Table of Contents

## Notes to Unaudited Consolidated Financial Statements

## Note 1 — Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations. The accounting and reporting practices of First Business Financial Services, Inc. (the “Corporation”), its wholly owned subsidiaries, First Business Bank (“FBB”), First Business Bank – Milwaukee (“FBB – Milwaukee”) and Alterra Bank (“Alterra”), have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). FBB, FBB – Milwaukee and Alterra are sometimes referred to together as the “Banks.” FBB operates as a commercial banking institution in the Madison, Wisconsin market, consisting primarily of Dane County and the surrounding areas, with loan production offices in Northeast Wisconsin. FBB also offers trust and investment services through First Business Trust & Investments (“FBTI”), a division of FBB. FBB – Milwaukee operates as a commercial banking institution in the Milwaukee, Wisconsin market, consisting primarily of Waukesha County and the surrounding areas, with a loan production office in Kenosha, Wisconsin. Alterra operates as a commercial banking institution in the Kansas City market and the surrounding areas. The Banks provide a full range of financial services to businesses, business owners, executives, professionals and high net worth individuals. The Banks are subject to competition from other financial institutions and service providers and are also subject to state and federal regulations. FBB has the following wholly owned subsidiaries: First Business Capital Corp. (“FBCC”), First Madison Investment Corp. (“FMIC”), First Business Equipment Finance, LLC (“FBEF”), Rimrock Road Investment Fund, LLC (“Rimrock Road”) and BOC Investment, LLC (“BOC”). FMIC is located in and was formed under the laws of the state of Nevada. FBB-Milwaukee has one subsidiary, FBB – Milwaukee Real Estate, LLC (“FBBMRE”).

Basis of Presentation. The accompanying unaudited Consolidated Financial Statements were prepared in accordance with GAAP and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Corporation’s Consolidated Financial Statements and footnotes thereto included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2014. The unaudited Consolidated Financial Statements include the accounts of the Corporation and its wholly owned subsidiaries. In accordance with the provisions of Accounting Standards Codification (“ASC”) Topic 810, the Corporation’s ownership interest in FBFS Statutory Trust II (“Trust II”) has not been consolidated into the financial statements. All significant intercompany balances and transactions have been eliminated in consolidation.

Management of the Corporation is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that could significantly change in the near-term include the value of foreclosed property, lease residuals, property under operating leases, securities, income taxes and the level of the allowance for loan and lease losses. The results of operations for the nine-month period ended September 30, 2015 are not necessarily indicative of results that may be expected for any other interim period or the entire fiscal year ending December 31, 2015. Certain amounts in prior periods may have been reclassified to conform to the current presentation. Subsequent events have been evaluated through the date of the issuance of the Consolidated Financial Statements. No significant subsequent events have occurred through this date requiring adjustment to the financial statements or disclosures.

The Corporation has not changed its significant accounting and reporting policies from those disclosed in the Corporation’s Form 10-K for the year ended December 31, 2014 except as described further below in this Note 1.

## Recent Accounting Pronouncements

In August 2015, the FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606).” In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606),” with an original effective date for annual reporting periods beginning after December 15, 2016. The ASU is a converged standard between the FASB and the IASB that provides a single comprehensive revenue recognition model for all contracts with customers across transactions and industries. The primary objective of the ASU is revenue recognition that represents the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2015-14 deferred the effective

date of ASU 2014-09 to annual and interim reporting periods in fiscal years beginning after December 15, 2017. Earlier application is permitted only as of annual and interim reporting periods in fiscal years beginning after December 15, 2016. The Corporation is in the process of evaluating the impact of this standard but does not expect this standard to have a material impact on the Corporation's consolidated results of operations, financial position, or liquidity.

In June 2014, the FASB issued ASU No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." This ASU requires a reporting

Table of Contents

entity to treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. A reporting entity should apply FASB ASC Topic 718, Compensation-Stock Compensation, to awards with performance conditions that affect vesting. For all entities, ASU 2014-12 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. ASU 2014-12 may be adopted either prospectively for share-based payment awards granted or modified on or after the effective date, or retrospectively, using a modified retrospective approach. The modified retrospective approach would apply to share-based payment awards outstanding as of the beginning of the earliest annual period presented in the financial statements on adoption, and to all new or modified awards thereafter. While the Corporation does not have any performance-based awards outstanding as of the reporting date, the Corporation's equity incentive plan does allow for such awards. The Corporation adopted the accounting standard during the third quarter of 2015 with no material impact on its results of operations, financial position, or liquidity.

In August 2014, the FASB issued ASU 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This ASU describes how an entity should assess its ability to meet obligations and sets rules for how this information should be disclosed in the financial statements. The standard provides accounting guidance that will be used along with existing auditing standards. The ASU is effective for interim and annual periods beginning after December 15, 2016. Early application is permitted. The Corporation adopted the accounting standard during the third quarter of 2015 with no material impact on its results of operations, financial position, or liquidity.

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." This ASU changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity (VIE), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. It also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities. The new guidance excludes money market funds that are required to comply with Rule 2a-7 of the Investment Company Act of 1940 and similar entities from the U.S. GAAP consolidation requirements. The new consolidation guidance is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2015. At the effective date, all previous consolidation analysis that the guidance affects must be reconsidered. This includes the consolidation analysis for all VIEs and for all limited partnerships and similar entities that previously were consolidated by the general partner even though the entities were not VIEs. Early adoption is permitted, including early adoption in an interim period. If a reporting enterprise chooses to early adopt in an interim period, adjustments resulting from the revised consolidation analysis must be reflected as of the beginning of the fiscal year that includes that interim period. The Corporation is in the process of evaluating the impact of this standard but does not expect this standard to have a material impact on the Corporation's consolidated results of operations, financial position, or liquidity.

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." This ASU intends to simplify the presentation of debt issuance costs. This ASU is effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Corporation is in the process of evaluating the impact of this standard but does not expect this standard to have a material impact on the Corporation's consolidated results of operations, financial position, or liquidity.

In April 2015, the FASB issued ASU 2015-05, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." This ASU provides explicit guidance to help companies evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The new guidance clarifies that if a cloud computing arrangement includes a software license, the customer should account for the license consistent with its accounting for other software licenses. If the arrangement does not include a software license, the customer should account for the arrangement as a service contract. This ASU is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. An entity can elect to adopt the amendments either prospectively for all arrangements entered

into or materially modified after the effective date, or retrospectively. Early adoption is permitted for all entities. The Corporation adopted the accounting standard during the third quarter of 2015 with no material impact on its results of operations, financial position, or liquidity.

In May 2015, the FASB issued ASU 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." This ASU will eliminate the requirement to categorize investments in the fair value hierarchy if their fair value is measured at net asset value (NAV) per share (or its equivalent) using the practical expedient in the FASB's fair value measurement guidance. Reporting entities are required to adopt the ASU retrospectively. The effective date for public business entities is fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for all entities. The Corporation adopted the accounting standard during the third quarter of 2015 with no material impact on its results of operations, financial position, or liquidity.

Table of Contents

## Note 2 — Earnings Per Common Share

Earnings per common share are computed using the two-class method. Basic earnings per common share are computed by dividing net income allocated to common shares by the weighted average number of shares outstanding during the applicable period, excluding outstanding participating securities. Participating securities include unvested restricted shares. Unvested restricted shares are considered participating securities because holders of these securities receive non-forfeitable dividends at the same rate as holders of the Corporation's common stock. Diluted earnings per share are computed by dividing net income allocated to common shares, adjusted for reallocation of undistributed earnings of unvested restricted shares, by the weighted average number of shares determined for the basic earnings per common share computation plus the dilutive effect of common stock equivalents using the treasury stock method. For both the three and nine month periods ending September 30, 2015 and 2014, there were no average anti-dilutive employee share-based awards (all shares and earnings per share amounts have been adjusted to reflect the 2-for-1 stock split in the form of a 100% stock dividend completed in August 2015).

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in Thousands, Except Per Share Data)			
Basic earnings per common share				
Net income	\$4,381	\$3,553	\$12,431	\$10,395
Less: earnings allocated to participating securities	68	75	206	222
Basic earnings allocated to common shareholders	\$4,313	\$3,478	\$12,225	\$10,173
Weighted-average common shares outstanding, excluding participating securities	8,546,563	7,739,918	8,538,219	7,727,300
Basic earnings per common share	\$0.50	\$0.45	\$1.43	\$1.32
Diluted earnings per common share				
Earnings allocated to common shareholders	\$4,313	\$3,478	\$12,225	\$10,173
Reallocation of undistributed earnings	—	—	—	1
Diluted earnings allocated to common shareholders	\$4,313	\$3,478	\$12,225	\$10,174
Weighted-average common shares outstanding, excluding participating securities	8,546,563	7,739,918	8,538,219	7,727,300
Dilutive effect of share-based awards	—	43,694	1,486	44,185
Weighted-average diluted common shares outstanding, excluding participating securities	8,546,563	7,783,612	8,539,705	7,771,485
Diluted earnings per common share	\$0.50	\$0.45	\$1.43	\$1.31

## Note 3 — Share-Based Compensation

The Corporation adopted the 2012 Equity Incentive Plan (the "Plan") during the quarter ended June 30, 2012. The Plan is administered by the Compensation Committee of the Board of Directors of the Corporation and provides for the grant of equity ownership opportunities through incentive stock options and nonqualified stock options (together, "Stock Options"), restricted stock, restricted stock units, dividend equivalent units, and any other type of award permitted by the Plan. As of September 30, 2015, 313,190 shares were available for future grants under the Plan, after giving effect to the 2-for-1 stock split completed in the form of a 100% stock dividend effected in August 2015. Shares covered by awards that expire, terminate or lapse will again be available for the grant of awards under the Plan. The Corporation may issue new shares and shares from treasury for shares delivered under the Plan.





Table of Contents

## Stock Options

The Corporation may grant Stock Options to senior executives and other employees under the Plan. Stock Options generally have an exercise price that is equal to the fair value of the common shares on the date the option is awarded. Stock Options granted under the Plan are subject to graded vesting, generally ranging from 4 years to 8 years, and have a contractual term of 10 years. For any new awards issued, compensation expense is recognized over the requisite service period for the entire award on a straight-line basis. No Stock Options have been granted since the Corporation became a reporting company under the Securities Exchange Act of 1934, as amended, and no Stock Options have been modified, repurchased or canceled since such time. For that reason, no stock-based compensation expense related to Stock Options was recognized in the Consolidated Financial Statements for the three and nine months ended September 30, 2015 and 2014. As of September 30, 2015, no Stock Options remain outstanding. The benefits of tax deductions as a result of disqualifying dispositions upon exercise of stock options are recognized as a financing cash flow.

Stock Option activity for the year ended December 31, 2014 and nine months ended September 30, 2015 was as follows (all amounts have been adjusted to reflect the 2-for-1 stock split in the form of a 100% stock dividend completed in August 2015):

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Outstanding at December 31, 2013	102,000	\$ 12.12	0.88
Granted	—	—	
Exercised	(78,000 )	12.00	
Expired	—	—	
Forfeited	—	—	
Outstanding at December 31, 2014	24,000	\$ 12.50	0.13
Exercisable at December 31, 2014	24,000	\$ 12.50	0.13
Outstanding as of December 31, 2014	24,000	\$ 12.50	0.13
Granted	—	—	
Exercised	(24,000 )	12.50	
Expired	—	—	
Forfeited	—	—	
Outstanding as of September 30, 2015	—	\$—	
Exercisable at September 30, 2015	—	\$—	

## Restricted Stock

Under the Plan, the Corporation may grant restricted shares to plan participants, subject to forfeiture upon the occurrence of certain events until the dates specified in the participant's award agreement. While the restricted shares are subject to forfeiture, the participant may exercise full voting rights and will receive all dividends and other distributions paid with respect to the restricted shares. The restricted shares granted under the Plan are typically subject to a vesting period. Compensation expense is recognized over the requisite service period of generally four years for the entire award on a straight-line basis. Upon vesting of restricted share awards, the benefit of tax deductions in excess of recognized compensation expense is recognized as a financing cash flow activity.

Table of Contents

Restricted share activity for the year ended December 31, 2014 and the nine months ended September 30, 2015 was as follows (all amounts have been adjusted to reflect the 2-for-1 stock split in the form of a 100% stock dividend completed in August 2015):

	Number of Restricted Shares	Weighted Average Grant-Date Fair Value
Nonvested balance as of December 31, 2013	169,418	\$11.55
Granted	64,522	22.49
Vested	(78,942 )	9.86
Forfeited	—	—
Nonvested balance as of December 31, 2014	154,998	16.97
Granted	52,540	22.45
Vested	(57,441 )	14.36
Forfeited	(8,938 )	15.69
Nonvested balance as of September 30, 2015	141,159	\$20.15

As of September 30, 2015, \$2.6 million of deferred compensation expense was included in additional paid-in capital in the Consolidated Balance Sheets related to unvested restricted shares, which the Corporation expects to recognize over a weighted-average period of approximately 3.0 years. As of September 30, 2015, all restricted shares that vested were issued.

For the three and nine months ended September 30, 2015 and 2014, share-based compensation expense related to restricted stock included in the Consolidated Statements of Income was as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In Thousands)			
Share-based compensation expense	\$268	\$229	\$717	\$618

## Note 4 — Securities

The amortized cost and estimated fair value of securities available-for-sale and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

	As of September 30, 2015			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
	(In Thousands)			
Available-for-sale:				
U.S. Government agency obligations - government-sponsored enterprises	\$8,047	\$29	\$(8 )	\$8,068
Municipal obligations	4,141	16	(3 )	4,154
Asset-backed securities	1,381	—	(56 )	1,325
Collateralized mortgage obligations - government issued	48,799	1,064	(70 )	49,793
Collateralized mortgage obligations - government-sponsored enterprises	80,001	481	(93 )	80,389

\$142,369    \$1,590    \$(230    ) \$143,729

Table of Contents

	As of December 31, 2014			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
	(In Thousands)			
Available-for-sale:				
U.S. Government agency obligations - government-sponsored enterprises	\$9,046	\$—	\$(81)	) \$8,965
Municipal obligations	573	5	—	) 578
Asset-backed securities	1,514	\$—	(4)	) 1,510
Collateralized mortgage obligations - government issued	67,740	1,390	(256)	) 68,874
Collateralized mortgage obligations - government-sponsored enterprises	64,763	234	(226)	) 64,771
	\$143,636	\$1,629	\$(567)	) \$144,698

The amortized cost and estimated fair value of securities held-to-maturity and the corresponding amounts of gross unrecognized gains and losses were as follows:

	As of September 30, 2015			
	Amortized cost	Gross unrecognized holding gains	Gross unrecognized holding losses	Estimated fair value
	(In Thousands)			
Held-to-maturity:				
U.S. Government agency obligations - government-sponsored enterprises	\$1,495	\$6	\$(4)	) \$1,497
Municipal obligations	16,050	196	(7)	) 16,239
Collateralized mortgage obligations - government issued	12,391	118	(1)	) 12,508
Collateralized mortgage obligations - government-sponsored enterprises	8,428	84	(12)	) 8,500
	\$38,364	\$404	\$(24)	) \$38,744

	As of December 31, 2014			
	Amortized cost	Gross unrecognized holding gains	Gross unrecognized holding losses	Estimated fair value
	(In Thousands)			
Held-to-maturity:				
U.S. Government agency obligations - government-sponsored enterprises	\$1,490	\$—	\$(17)	) \$1,473
Municipal obligations	16,088	85	(18)	) 16,155
Collateralized mortgage obligations - government issued	14,505	57	(31)	) 14,531
Collateralized mortgage obligations - government-sponsored enterprises	9,480	74	(19)	) 9,535
	\$41,563	\$216	\$(85)	) \$41,694

U.S. Government agency obligations - government-sponsored enterprises represent securities issued by the Federal Home Loan Mortgage Corporation (“FHLMC”) and Federal National Mortgage Association (“FNMA”). Collateralized mortgage obligations - government issued represent securities guaranteed by the Government National Mortgage Association

Table of Contents

(“GNMA”). Collateralized mortgage obligations - government-sponsored enterprises include securities guaranteed by the FHLMC and the FNMA. Asset-backed securities represent securities issued by the Student Loan Marketing Association (“SLMA”) which are 97% guaranteed by the U.S. government. Municipal obligations include securities issued by various municipalities located primarily within the State of Wisconsin and are primarily general obligation bonds that are tax-exempt in nature. There were no sales of securities available-for-sale for the three and nine months ended September 30, 2015 and 2014.

At September 30, 2015 and December 31, 2014, securities with a fair value of \$25.3 million and \$32.7 million, respectively, were pledged to secure interest rate swap contracts, outstanding Federal Home Loan Bank (“FHLB”) advances, if any, and additional FHLB availability.

The amortized cost and estimated fair value of securities by contractual maturity at September 30, 2015 are shown below. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay certain obligations without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
	(In Thousands)			
Due in one year or less	\$—	\$—	\$—	\$—
Due in one year through five years	13,038	13,093	3,645	3,659
Due in five through ten years	85,139	85,966	13,400	13,565
Due in over ten years	44,192	44,670	21,319	21,520
	\$142,369	\$143,729	\$38,364	\$38,744

The tables below show the Corporation’s gross unrealized losses and fair value of available-for-sale investments with unrealized losses, aggregated by investment category and length of time that individual investments were in a continuous loss position at September 30, 2015 and December 31, 2014. At September 30, 2015 and December 31, 2014, the Corporation held 34 and 59 available-for-sale securities that were in an unrealized loss position, respectively. Such securities have not experienced credit rating downgrades; however, they have primarily declined in value due to the current interest rate environment. At September 30, 2015, the Corporation held 13 available-for-sale securities that had been in a continuous unrealized loss position for twelve months or greater.

The Corporation also has not specifically identified available-for-sale securities in a loss position that it intends to sell in the near term and does not believe that it will be required to sell any such securities. It is expected that the Corporation will recover the entire amortized cost basis of each security based upon an evaluation of the present value of the expected future cash flows. Accordingly, no other than temporary impairment was recorded in the Consolidated Statements of Income for the nine months ended September 30, 2015 and 2014.

Table of Contents

A summary of unrealized loss information for securities available-for-sale, categorized by security type follows:

	As of September 30, 2015					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
	(In Thousands)					
Available-for-sale:						
U.S. Government agency obligations - government-sponsored enterprises	\$998	\$1	\$2,744	\$7	\$3,742	\$8
Municipal obligations	745	3	—	—	745	3
Asset-backed securities	1,325	56	—	—	1,325	56
Collateralized mortgage obligations - government issued	—	1	5,997	69	5,997	70
Collateralized mortgage obligations - government-sponsored enterprises	21,636	64	2,573	29	24,209	93
	\$24,704	\$125	\$11,314	\$105	\$36,018	\$230
	As of December 31, 2014					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
	(In Thousands)					
Available-for-sale:						
U.S. Government agency obligations - government-sponsored enterprises	\$3,486	\$12	\$5,479	\$69	\$8,965	\$81
Asset-backed securities	—	\$—	1,510	4	1,510	4
Collateralized mortgage obligations - government issued	9,201	50	9,536	206	18,737	256
Collateralized mortgage obligations - government-sponsored enterprises	29,498	97	4,993	129	34,491	226
	\$42,185	\$159	\$21,518	\$408	\$63,703	\$567

The tables below show the Corporation's gross unrecognized losses and fair value of held-to-maturity investments, aggregated by investment category and length of time that individual investments were in a continuous loss position at September 30, 2015 and December 31, 2014. At September 30, 2015 and December 31, 2014, the Corporation held nine and 57 held-to-maturity securities that were in an unrecognized loss position, respectively. Such securities have not experienced credit rating downgrades; however, they have primarily declined in value due to the current interest rate environment. There were four held-to-maturity securities that were in a continuous unrecognized loss position for

twelve months or greater as of September 30, 2015. It is expected that the Corporation will recover the entire amortized cost basis of each held-to-maturity security based upon an evaluation of the present value of the expected future cash flows. Accordingly, no other than temporary impairment was recorded in the Consolidated Statements of Income for the nine months ended September 30, 2015.

A summary of unrecognized loss information for securities held-to-maturity, categorized by security type follows:

13

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Table of Contents

	As of September 30, 2015					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrecognized losses	Fair value	Unrecognized losses	Fair value	Unrecognized losses
	(In Thousands)					
Held-to-maturity:						
U.S. Government agency obligations - government-sponsored enterprises	\$—	\$—	\$1,000	\$4	\$1,000	\$4
Municipal obligations	600	2	398	5	998	7
Collateralized mortgage obligations - government issued	663	1	—	—	663	1
Collateralized mortgage obligations - government-sponsored enterprises	2,058	12	—	—	2,058	12
	\$3,321	\$15	\$1,398	\$9	\$4,719	\$24
	As of December 31, 2014					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrecognized losses	Fair value	Unrecognized losses	Fair value	Unrecognized losses
	(In Thousands)					
Held-to-maturity:						
U.S. Government agency obligations - government-sponsored enterprises	\$1,490	\$17	\$—	\$—	\$1,490	\$17
Municipal obligations	2,222	18	—	—	2,222	18
Collateralized mortgage obligations - government issued	3,247	31	—	—	3,247	31
Collateralized mortgage obligations - government-sponsored enterprises	3,076	19	—	—	3,076	19
	\$10,035	\$85	\$—	\$—	\$10,035	\$85

Table of Contents

## Note 5 — Loan and Lease Receivables, Impaired Loans and Leases and Allowance for Loan and Lease Losses

Loan and lease receivables consist of the following:

	September 30, 2015	December 31, 2014
	(In Thousands)	
Commercial real estate		
Commercial real estate — owner occupied	\$ 170,195	\$ 163,884
Commercial real estate — non-owner occupied <sup>(1)</sup>	416,421	417,962
Construction and land development	157,651	121,160
Multi-family	90,514	72,578
1-4 family <sup>(2)</sup>	44,476	36,182
Total commercial real estate	879,257	811,766
Commercial and industrial <sup>(3)</sup>	450,307	416,654
Direct financing leases, net	28,958	34,165
Consumer and other		
Home equity and second mortgages	8,908	7,866
Other	13,809	11,341
Total consumer and other	22,717	19,207
Total gross loans and leases receivable	1,381,239	1,281,792
Less:		
Allowance for loan and lease losses	15,359	14,329
Deferred loan fees	1,157	1,025
Loans and leases receivable, net	\$ 1,364,723	\$ 1,266,438

(1) Includes guaranteed portion of SBA loans held for sale totaling \$1.5 million as of September 30, 2015.

(2) Includes residential real estate loans held for sale totaling \$307,000 as of September 30, 2015 and \$1.3 million as of December 31, 2014.

(3) Includes guaranteed portion of SBA loans held for sale totaling \$1.1 million as of September 30, 2015.

Loans transferred to third parties consist of the guaranteed portion of SBA loans as well as participation interests in other originated loans. The total principal amount of loans transferred during the three months ended September 30, 2015 and 2014 was \$28.7 million and \$5.5 million, respectively. For the nine months ended September 30, 2015 and 2014, \$74.0 million and \$16.1 million of loans were transferred to third parties, respectively. Each of the transfers of these financial assets met the qualifications for sale accounting, including the requirements specific to loan participations, and therefore all of the loans transferred during the three and nine months ended September 30, 2015 and September 30, 2014 have been derecognized in the unaudited Consolidated Financial Statements. The Corporation has a continuing involvement in each of the agreements by way of relationship management and servicing the loans; however, there are no further obligations to the third-party participant required of the Corporation in the event of a borrower's default, other than standard representations and warranties related to sold amounts. The guaranteed portion of SBA loans were transferred at their fair value and the related gain was recognized upon the transfer as non-interest income in the unaudited Consolidated Financial Statements. No gain or loss was recognized on participation interests in other originated loans as they were transferred at or near the date of loan origination and the payments received for servicing the portion of the loans participated represents adequate compensation. The total amount of loan participations purchased on the Corporation's Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014 was \$471,000 and \$482,000, respectively.

The total amount of outstanding loans transferred to third parties as loan participations sold at September 30, 2015 and December 31, 2014 was \$148.8 million and \$116.6 million, respectively, all of which was treated as a sale and derecognized under the applicable accounting guidance in effect at the time of the transfers of the financial assets. The

Corporation's continuing involvement with these loans is by way of partial ownership, relationship management and all servicing responsibilities. As of September 30, 2015 and December 31, 2014, the total amount of the Corporation's partial ownership of loans on the Corporation's Consolidated Balance Sheets was \$105.6 million and \$96.4 million, respectively. As of September 30, 2015, \$1.7 million loans in this participation sold portfolio were considered impaired as compared to \$1.2 million as of December 31, 2014. The Corporation does not share in the participant's portion of the charge-offs.

Table of Contents

The Corporation sells residential real estate loans, servicing released, in the secondary market. The total principal amount of residential real estate loans sold during the three and nine months ended September 30, 2015 was \$9.0 million and \$28.6 million, respectively. No residential real estate loans were originated or sold during the three and nine months ended September 30, 2014. Each of the transfers of these financial assets met the qualifications for sale accounting, and therefore all of the loans transferred during the three and nine months ended September 30, 2015 have been derecognized in the unaudited Consolidated Financial Statements. The Corporation has a continuing involvement in each of the transactions by way of relationship management; however, there are no further obligations of the Corporation in the event of a borrower's default, other than standard representations and warranties related to the sold amount. The loans were transferred at their fair value and the related gain was recognized as non-interest income upon the transfer in the unaudited Consolidated Financial Statements.

ASC 310-30, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, applies to purchased loans with evidence of deterioration in credit quality since origination for which it is probable at acquisition that the Corporation will be unable to collect all contractually required payments are considered to be credit impaired. Purchased credit-impaired loans are initially recorded at fair value, which is estimated by discounting the cash flows expected to be collected at the acquisition date. Because the estimate of expected cash flows reflects an estimate of future credit losses expected to be incurred over the life of the loans, an allowance for credit losses is not recorded at the acquisition date. The excess of cash flows expected at acquisition over the estimated fair value, referred to as the accretable yield, is recognized in interest income over the remaining life of the loan on a level-yield basis, contingent on the subsequent evaluation of future expected cash flows. The difference between the contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. A subsequent decrease in the estimate of cash flows expected to be received on purchased credit-impaired loans generally results in the recognition of an allowance for credit losses. Subsequent increases in cash flows result in reversal of any nonaccretable difference (or allowance for loan and lease losses to the extent any has been recorded) with a positive impact on interest income recognized. The measurement of cash flows involves assumptions and judgments for interest rates, prepayments, default rates, loss severity, and collateral values. All of these factors are inherently subjective and significant changes in the cash flow estimates over the life of the loan can result.

The following table reflects the contractually required payments receivable and fair value of the Corporation's purchased credit impaired loans as of September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
	(In Thousands)	
Contractually required payments	\$5,714	\$6,874
Fair value of purchased credit impaired loans	\$3,578	\$4,025

The following table presents a rollforward of the Corporation's accretable yield as of September 30, 2015 and December 31, 2014:

	As of and for the Nine Months Ended September 30, 2015	As of and for the Year Ended December 31, 2014
	(In Thousands)	
Accretable yield, beginning of period	\$676	\$683
Accretion recognized in earnings	(22	) (7
Reclassification to nonaccretable difference for loans with changing cash flows <sup>(1)</sup>	(22	) —
Changes in accretable yield for non-credit related changes in expected cash flows <sup>(2)</sup>	(163	) —
Accretable yield, end of period	\$469	\$676

(1) Represents changes in accretable yield for those loans that are driven primarily by credit performance.

(2) Represents changes in accretable yield for those loans that are driven primarily by changes in actual and estimated payments.

Table of Contents

The following information illustrates ending balances of the Corporation's loan and lease portfolio, including impaired loans by class of receivable, and considering certain credit quality indicators as of September 30, 2015 and December 31, 2014:

As of September 30, 2015	Category				Total
	I	II	III	IV	
	(Dollars in Thousands)				
Commercial real estate:					
Commercial real estate — owner occupied	\$ 146,041	\$ 11,945	\$ 10,983	\$ 1,226	\$ 170,195
Commercial real estate — non-owner occupied	392,777	19,325	3,419	900	416,421
Construction and land development	146,334	2,466	4,285	4,566	157,651
Multi-family	90,143	365	—	6	90,514
1-4 family	34,626	4,904	2,667	2,279	44,476
Total commercial real estate	809,921	39,005	21,354	8,977	879,257
Commercial and industrial	407,976	9,078	25,772	7,481	450,307
Direct financing leases, net	27,121	1,199	638	—	28,958
Consumer and other:					
Home equity and second mortgages	7,890	444	142	432	8,908
Other	13,136	3	—	670	13,809
Total consumer and other	21,026	447	142	1,102	22,717
Total gross loans and leases receivable	\$ 1,266,044	\$ 49,729	\$ 47,906	\$ 17,560	\$ 1,381,239
Category as a % of total portfolio	91.66	% 3.60	% 3.47	% 1.27	% 100.00

Table of Contents

As of December 31, 2014	Category				Total
	I	II	III	IV	
	(Dollars in Thousands)				
Commercial real estate:					
Commercial real estate — owner occupied	\$ 131,094	\$ 15,592	\$ 16,621	\$ 577	\$ 163,884
Commercial real estate — non-owner occupied	378,671	20,823	17,498	970	417,962
Construction and land development	100,934	8,193	6,876	5,157	121,160
Multi-family	70,897	751	913	17	72,578
1-4 family	25,997	5,278	3,336	1,571	36,182
Total commercial real estate	707,593	50,637	45,244	8,292	811,766
Commercial and industrial	383,755	18,524	12,026	2,349	416,654
Direct financing leases, net	32,756	1,120	289	—	34,165
Consumer and other:					
Home equity and second mortgages	7,039	205	189	433	7,866
Other	10,570	50	—	721	11,341
Total consumer and other	17,609	255	189	1,154	19,207
Total gross loans and leases receivable	\$ 1,141,713	\$ 70,536	\$ 57,748	\$ 11,795	\$ 1,281,792
Category as a % of total portfolio	89.07	% 5.50	% 4.51	% 0.92	% 100.00

Credit underwriting through a committee process is a key component of the Corporation's operating philosophy. Business development officers have relatively low individual lending authority limits, and thus a significant portion of the Corporation's new credit extensions require approval from a loan approval committee regardless of the type of loan or lease, asset quality grade of the credit, amount of the credit, or the related complexities of each proposal. In addition, the Corporation makes every effort to ensure that there is appropriate collateral at the time of origination to protect the Corporation's interest in the related loan or lease.

Each credit is evaluated for proper risk rating upon origination, at the time of each subsequent renewal, upon receipt and evaluation of updated financial information from the Corporation's borrowers, or as other circumstances dictate. The Corporation uses a nine grade risk rating system to monitor the ongoing credit quality of its loans and leases. The risk rating grades follow a consistent definition, and are then applied to specific loan types based on the nature of the loan. Each risk rating is subjective and, depending on the size and nature of the credit, subject to various levels of review and concurrence on the stated risk rating. In addition to its nine grade risk rating system, the Corporation groups loans into four loan and related risk categories which determine the level and nature of review by management. Category I — Loans and leases in this category are performing in accordance with the terms of the contract and generally exhibit no immediate concerns regarding the security and viability of the underlying collateral, financial stability of the borrower, integrity or strength of the borrower's management team or the industry in which the borrower operates. Loans and leases in this category are not subject to additional monitoring procedures above and beyond what is required at the origination or renewal of the loan or lease. The Corporation monitors Category I loans and leases through payment performance, continued maintenance of its personal relationships with such borrowers and continued review of such borrowers' compliance with the terms of their respective agreements.

Category II — Loans and leases in this category are beginning to show signs of deterioration in one or more of the Corporation's core underwriting criteria such as financial stability, management strength, industry trends and collateral values. Management will place credits in this category to allow for proactive monitoring and resolution with the borrower to possibly mitigate the area of concern and prevent further deterioration or risk of loss to the Corporation. Category II loans are considered performing but are monitored frequently by the assigned business development

officer and by subcommittees of the Banks' loan committees.

18

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Table of Contents

Category III — Loans and leases in this category are identified by management as warranting special attention. However, the balance in this category is not intended to represent the amount of adversely classified assets held by the Banks. Category III loans and leases generally exhibit undesirable characteristics such as evidence of adverse financial trends and conditions, managerial problems, deteriorating economic conditions within the related industry, or evidence of adverse public filings and may exhibit collateral shortfall positions. Management continues to believe that it will collect all required principal and interest in accordance with the original terms of the contracts relating to the loans and leases in this category, and therefore Category III loans are considered performing with no specific reserves established for this category. Category III loans are monitored by management and loan committees of the Banks on a monthly basis and the Banks' Boards of Directors at each of their regularly scheduled meetings.

Category IV — Loans and leases in this category are considered to be impaired. Impaired loans and leases have been placed on non-accrual as management has determined that it is unlikely that the Banks will receive the required principal and interest in accordance with the contractual terms of the agreement. Impaired loans are individually evaluated to assess the need for the establishment of specific reserves or charge-offs. When analyzing the adequacy of collateral, the Corporation obtains external appraisals at least annually for impaired loans and leases. External appraisals are obtained from the Corporation's approved appraiser listing and are independently reviewed to monitor the quality of such appraisals. To the extent a collateral shortfall position is present, a specific reserve or charge-off will be recorded to reflect the magnitude of the impairment. Loans and leases in this category are monitored by management and loan committees of the Banks on a monthly basis and the Banks' Boards of Directors at each of their regularly scheduled meetings.

Utilizing regulatory classification terminology, the Corporation identified \$11.1 million and \$27.1 million of loans and leases as Substandard as of September 30, 2015 and December 31, 2014, respectively. No loans were considered Special Mention, Doubtful or Loss as of either September 30, 2015 or December 31, 2014. The population of Substandard loans are a subset of Category III and Category IV loans.

Table of Contents

The delinquency aging of the loan and lease portfolio by class of receivable as of September 30, 2015 and December 31, 2014 is as follows:

As of September 30, 2015	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Current	Total loans
	(Dollars in Thousands)					
Accruing loans and leases						
Commercial real estate:						
Owner occupied	\$39	\$—	\$—	\$39	\$169,002	\$169,041
Non-owner occupied	—	—	—	—	416,148	416,148
Construction and land development	—	—	—	—	153,285	153,285
Multi-family	—	—	—	—	90,508	90,508
1-4 family	—	—	—	—	42,980	42,980
Commercial and industrial	—	—	—	—	448,906	448,906
Direct financing leases, net	—	—	—	—	28,958	28,958
Consumer and other:						
Home equity and second mortgages	—	—	—	—	8,567	8,567
Other	—	—	—	—	13,139	13,139
Total	39	—	—	39	1,371,493	1,371,532
Non-accruing loans and leases						
Commercial real estate:						
Owner occupied	\$584	\$483	\$—	\$1,067	\$87	\$1,154
Non-owner occupied	—	—	—	—	273	273
Construction and land development	—	—	—	—	4,366	4,366
Multi-family	—	—	—	—	6	6
1-4 family	226	—	993	1,219	277	1,496
Commercial and industrial	491	35	832	1,358	43	1,401
Direct financing leases, net	—	—	—	—	—	—
Consumer and other:						
Home equity and second mortgages	—	—	99	99	242	341
Other	—	—	670	670	—	670
Total	1,301	518	2,594	4,413	5,294	9,707
Total loans and leases						
Commercial real estate:						
Owner occupied	\$623	\$483	\$—	\$1,106	\$169,089	\$170,195
Non-owner occupied	—	—	—	—	416,421	416,421
Construction and land development	—	—	—	—	157,651	157,651
Multi-family	—	—	—	—	90,514	90,514
1-4 family	226	—	993	1,219	43,257	44,476
Commercial and industrial	491	35	832	1,358	448,949	450,307
Direct financing leases, net	—	—	—	—	28,958	28,958
Consumer and other:						
	—	—	99	99	8,809	8,908

Home equity and second mortgages

Other	—	—	670	670	13,139	13,809
Total	\$1,340	\$518	\$2,594	\$4,452	\$1,376,787	\$1,381,239
Percent of portfolio	0.10	% 0.04	% 0.18	% 0.32	% 99.68	% 100.00

20

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Table of Contents

As of December 31, 2014	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Current	Total loans
(Dollars in Thousands)						
Accruing loans and leases						
Commercial real estate:						
Owner occupied	\$—	\$—	\$—	\$—	\$163,384	\$163,384
Non-owner occupied	—	—	—	—	417,676	417,676
Construction and land development	—	—	—	—	116,228	116,228
Multi-family	—	—	—	—	72,561	72,561
1-4 family	—	—	—	—	35,492	35,492
Commercial and industrial	—	—	—	—	414,336	414,336
Direct financing leases, net	—	—	—	—	34,165	34,165
Consumer and other:						
Home equity and second mortgages	—	—	—	—	7,537	7,537
Other	—	—	—	—	10,621	10,621
Total	—	—	—	—	1,272,000	1,272,000
Non-accruing loans and leases						
Commercial real estate:						
Owner occupied	\$—	\$—	\$—	\$—	\$500	\$500
Non-owner occupied	—	215	—	215	71	286
Construction and land development	—	193	—	193	4,739	4,932
Multi-family	—	—	—	—	17	17
1-4 family	—	106	306	412	278	690
Commercial and industrial	364	146	736	1,246	1,072	2,318
Direct financing leases, net	—	—	—	—	—	—
Consumer and other:						
Home equity and second mortgages	—	—	—	—	329	329
Other	—	—	720	720	—	720
Total	364	660	1,762	2,786	7,006	9,792
Total loans and leases						
Commercial real estate:						
Owner occupied	\$—	\$—	\$—	\$—	\$163,884	\$163,884
Non-owner occupied	—	215	—	215	417,747	417,962
Construction and land development	—	193	—	193	120,967	121,160
Multi-family	—	—	—	—	72,578	72,578
1-4 family	—	106	306	412	35,770	36,182
Commercial and industrial	364	146	736	1,246	415,408	416,654
Direct financing leases, net	—	—	—	—	34,165	34,165
Consumer and other:						
Home equity and second mortgages	—	—	—	—	7,866	7,866
Other	—	—	720	720	10,621	11,341

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Total	\$364	\$660	\$1,762	\$2,786	\$1,279,006	\$1,281,792	
Percent of portfolio	0.03	% 0.05	% 0.14	% 0.22	% 99.78	% 100.00	%

21

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Table of Contents

The Corporation's total impaired assets consisted of the following at September 30, 2015 and December 31, 2014, respectively.

	September 30, 2015	December 31, 2014	
	(Dollars in Thousands)		
Non-accrual loans and leases			
Commercial real estate:			
Commercial real estate — owner occupied	\$1,154	\$500	
Commercial real estate — non-owner occupied	273	286	
Construction and land development	4,366	4,932	
Multi-family	6	17	
1-4 family	1,496	690	
Total non-accrual commercial real estate	7,295	6,425	
Commercial and industrial	1,401	2,318	
Direct financing leases, net	—	—	
Consumer and other:			
Home equity and second mortgages	341	329	
Other	670	720	
Total non-accrual consumer and other loans	1,011	1,049	
Total non-accrual loans and leases	9,707	9,792	
Foreclosed properties, net	1,632	1,693	
Total non-performing assets	11,339	11,485	
Performing troubled debt restructurings	7,852	2,003	
Total impaired assets	\$19,191	\$13,488	
	September 30, 2015	December 31, 2014	
Total non-accrual loans and leases to gross loans and leases	0.70	% 0.76	%
Total non-performing assets to total gross loans and leases plus foreclosed properties, net	0.82	0.89	
Total non-performing assets to total assets	0.65	0.70	
Allowance for loan and lease losses to gross loans and leases	1.11	1.12	
Allowance for loan and lease losses to non-accrual loans and leases	158.22	146.33	

As of September 30, 2015 and December 31, 2014, \$6.8 million and \$7.4 million of the non-accrual loans were considered troubled debt restructurings, respectively. As of September 30, 2015, there were no unfunded commitments associated with troubled debt restructured loans and leases.

Table of Contents

	As of September 30, 2015			As of December 31, 2014		
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
(Dollars in Thousands)						
Troubled debt restructurings:						
Commercial real estate						
Commercial real estate — owner occupied	2	\$ 625	\$ 555	2	\$ 624	\$ 577
Commercial real estate — non-owner occupied	5	1,151	900	5	1,095	970
Construction and land development	3	6,034	4,627	4	6,260	5,157
Multi-family	1	184	6	1	184	17
1-4 family	15	2,119	1,322	16	2,119	1,368
Commercial and industrial	6	6,411	6,209	4	361	155
Direct financing leases, net	—	—	—	—	—	—
Consumer and other:						
Home equity and second mortgages	5	680	333	6	772	431
Other	1	2,077	670	2	2,080	721
Total	38	\$ 19,281	\$ 14,622	40	\$ 13,495	\$ 9,396

All loans and leases modified as a troubled debt restructuring are evaluated for impairment. The nature and extent of the impairment of restructured loans, including those which have experienced a default, is considered in the determination of an appropriate level of the allowance for loan and lease losses.

As of September 30, 2015 and December 31, 2014, the Corporation's troubled debt restructurings grouped by type of concession were as follows:

	As of September 30, 2015		As of December 31, 2014	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
(Dollars in Thousands)				
Commercial real estate				
Extension of term	1	\$28	1	\$39
Interest rate concession	1	55	1	65
Combination of extension and interest rate concession	24	7,327	26	7,984
Commercial and industrial				
Combination of extension and interest rate concession	6	6,209	4	155
Consumer and other				
Extension of term	2	702	3	753
Combination of extension and interest rate concession	4	301	5	400
Total	38	\$14,622	40	\$9,396

There were no loans and leases modified in a troubled debt restructuring during the previous 12 months which subsequently defaulted during the nine months ended September 30, 2015.



Table of Contents

The following represents additional information regarding the Corporation's impaired loans and leases by class:

## Impaired Loans and Leases

As of and for the Nine Months Ended September 30, 2015

	Recorded investment	Unpaid principal balance	Impairment reserve	Average recorded investment <sup>(1)</sup>	Foregone interest income	Interest income recognized	Net foregone interest income
(In Thousands)							
With no impairment reserve recorded:							
Commercial real estate:							
Owner occupied	\$642	\$642	\$—	\$ 566	\$21	\$—	\$21
Non-owner occupied	1,439	1,439	—	915	15	—	15
Construction and land development	4,566	7,236	—	4,916	102	—	102
Multi-family	6	373	—	12	25	—	25
1-4 family	1,291	1,365	—	1,509	46	2	44
Commercial and industrial	6,742	6,752	—	3,052	121	1	120
Direct financing leases, net	—	—	—	—	—	—	—
Consumer and other:							
Home equity and second mortgages	301	301	—	366	16	9	7
Other	670	1,337	—	696	61	—	61
Total	15,657	19,445	—	12,032	407	12	395
With impairment reserve recorded:							
Commercial real estate:							
Owner occupied	\$—	\$—	\$—	\$ 17	\$—	\$—	\$—
Non-owner occupied	45	85	45	47	2	—	2
Construction and land development	—	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—	—
1-4 family	988	993	213	560	25	—	25
Commercial and industrial	739	739	276	215	12	—	12
Direct financing leases, net	—	—	—	—	—	—	—
Consumer and other:							
Home equity and second mortgages	131	131	26	76	7	—	7
Other	—	—	—	—	—	—	—
Total	1,903	1,948	560	915	46	—	46
Total:							
Commercial real estate:							
Owner occupied	\$642	\$642	\$—	\$ 583	\$21	\$—	\$21
Non-owner occupied	1,484	1,524	45	962	17	—	17
	4,566	7,236	—	4,916	102	—	102

Construction and land development							
Multi-family	6	373	—	12	25	—	25
1-4 family	2,279	2,358	213	2,069	71	2	69
Commercial and industrial	7,481	7,491	276	3,267	133	1	132
Direct financing leases, net	—	—	—	—	—	—	—
Consumer and other:							
Home equity and second mortgages	432	432	26	442	23	9	14
Other	670	1,337	—	696	61	—	61
Grand total	\$17,560	\$21,393	\$560	\$ 12,947	\$453	\$12	\$441

(1) Average recorded investment is calculated primarily using daily average balances.

Table of Contents

## Impaired Loans and Leases

As of and for the Year Ended December 31, 2014

	Recorded investment	Unpaid principal balance	Impairment reserve	Average recorded investment <sup>(1)</sup>	Foregone interest income	Interest income recognized	Net Foregone Interest Income
(In Thousands)							
With no impairment reserve recorded:							
Commercial real estate:							
Owner occupied	\$577	\$577	\$—	\$ 484	\$30	\$79	\$(49 )
Non-owner occupied	921	921	—	349	22	—	22
Construction and land development	5,157	7,828	—	5,285	155	—	155
Multi-family	17	384	—	24	53	—	53
1-4 family	1,181	1,218	—	380	15	12	3
Commercial and industrial	2,316	2,926	—	6,141	463	649	(186 )
Direct financing leases, net	—	—	—	—	—	—	—
Consumer and other:							
Home equity and second mortgages	380	380	—	495	18	—	18
Other	721	1,389	—	768	87	—	87
Total	11,270	15,623	—	13,926	843	740	103
With impairment reserve recorded:							
Commercial real estate:							
Owner occupied	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Non-owner occupied	49	89	49	52	4	—	4
Construction and land development	—	—	—	—	—	—	—
Multi-family	—	—	—	—	—	—	—
1-4 family	390	390	155	405	18	—	18
Commercial and industrial	33	33	33	34	—	—	—
Direct financing leases, net	—	—	—	—	—	—	—
Consumer and other:							
Home equity and second mortgages	53	53	53	57	5	—	5
Other	—	—	—	—	—	—	—
Total	525	565	290	548	27	—	27
Total:							
Commercial real estate:							
Owner occupied	\$577	\$577	\$—	\$ 484	\$30	\$79	\$(49 )
Non-owner occupied	970	1,010	49	401	26	—	26
Construction and land development	5,157	7,828	—	5,285	155	—	155

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Multi-family	17	384	—	24	53	—	53
1-4 family	1,571	1,608	155	785	33	12	21
Commercial and industrial	2,349	2,959	33	6,175	463	649	(186 )
Direct financing leases, net	—	—	—	—	—	—	—
Consumer and other:							
Home equity and second mortgages	433	433	53	552	23	—	23
Other	721	1,389	—	768	87	—	87
Grand total	\$11,795	\$16,188	\$290	\$ 14,474	\$870	\$740	\$130

(1) Average recorded investment is calculated primarily using daily average balances.

Table of Contents

The difference between the loans and leases recorded investment and the unpaid principal balance of \$3.8 million and \$4.4 million as of September 30, 2015 and December 31, 2014 represents partial charge-offs resulting from confirmed losses due to the value of the collateral securing the loans and leases being below the carrying values of the loans and leases. Impaired loans and leases also included \$7.9 million and \$2.0 million of loans as of September 30, 2015 and December 31, 2014 that were performing troubled debt restructurings, and thus, while not on non-accrual, were reported as impaired, due to the concession in terms. When a loan is placed on non-accrual, interest accrual is discontinued and previously accrued but uncollected interest is deducted from interest income. Cash payments collected on non-accrual loans are first applied to principal. Foregone interest represents the interest that was contractually due on the note but not received or recorded. To the extent the amount of principal on a non-accrual note is fully collected and additional cash is received, the Corporation will recognize interest income.

To determine the level and composition of the allowance for loan and lease losses, the Corporation breaks out the portfolio by segments and risk ratings. First, the Corporation evaluates loans and leases for potential impairment classification. The Corporation analyzes each loan and lease determined to be impaired on an individual basis to determine a specific reserve based upon the estimated value of the underlying collateral for collateral-dependent loans, or alternatively, the present value of expected cash flows. The Corporation applies historical trends from established risk factors to each category of loans and leases that has not been individually evaluated for the purpose of establishing the general portion of the allowance.

A summary of the activity in the allowance for loan and lease losses by portfolio segment is as follows:

	As of and for the Nine Months Ended September 30, 2015			
	Commercial real estate	Commercial and industrial loans and leases	Consumer and other	Total
	(Dollars in Thousands)			
Allowance for credit losses:				
Beginning balance	\$8,619	\$5,492	\$218	\$14,329
Charge-offs	(94	) (447	) (5	) (546
Recoveries	75	6	4	85
Provision	505	1,011	(25	) 1,491