FIRST BUSINESS FINANCIAL SERVICES, INC.
Form 10-Q
July 28, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
þ Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2017
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)	(I.R.S. Employer Identification No.)

401 Charmany Drive, Madison, WI	53719
(Address of Principal Executive Offices)	(Zip Code)

(608) 238-8008
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 þ 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 þ 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," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ
The number of shares outstanding of the registrant's sole class of common stock, par value $0.01 per share, on July 23, 2017 was 8,715,063 shares.

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PART I. Financial Information
Item 1. Financial Statements
First Business Financial Services, Inc.
Consolidated Balance Sheets

	June 30, 2017 (unaudited)	December 31, 2016
	(In Thousands, Except Share Data)	
Assets		
Cash and due from banks	$ 17,703	$ 14,596
Short-term investments	46,042	62,921
Cash and cash equivalents	63,745	77,517
Securities available-for-sale, at fair value	136,834	145,893
Securities held-to-maturity, at amortized cost	37,806	38,612
Loans held for sale	3,491	1,111
Loans and leases receivable, net of allowance for loan and lease losses of $21,677 and $20,912, respectively	1,436,498	1,429,763
Premises and equipment, net	2,930	3,772
Foreclosed properties	2,585	1,472
Bank-owned life insurance	39,674	39,048
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	2,815	2,131
Goodwill and other intangible assets	12,760	12,773
Accrued interest receivable and other assets	29,790	28,607
Total assets	$ 1,768,928	$ 1,780,699
Liabilities and Stockholders' Equity		
Deposits	$ 1,474,598	$ 1,538,855
Federal Home Loan Bank advances and other borrowings	106,395	59,676
Junior subordinated notes	10,012	10,004
Accrued interest payable and other liabilities	12,689	10,514
Total liabilities	1,603,694	1,619,049
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, 8,962,084 and 8,959,239 shares issued, 8,715,063 and 8,715,856 shares outstanding at June 30, 2017 and December 31, 2016, respectively	90	90
Additional paid-in capital	78,086	77,542
Retained earnings	94,333	91,317
Accumulated other comprehensive loss	(491)	(522)
Treasury stock, 247,021 and 243,383 shares at June 30, 2017 and December 31, 2016, respectively, at cost	(6,784)	(6,777)
Total stockholders' equity	165,234	161,650
Total liabilities and stockholders' equity	$ 1,768,928	$ 1,780,699

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(In Thousands, Except Per Share Data)			
Interest income				
Loans and leases	$18,284	$18,701	$35,806	$37,145
Securities income	776	681	1,555	1,404
Short-term investments	165	173	311	349
Total interest income	19,225	19,555	37,672	38,898
Interest expense				
Deposits	2,658	3,038	5,331	6,091
Federal Home Loan Bank advances and other borrowings	811	499	1,422	973
Junior subordinated notes	277	277	552	555
Total interest expense	3,746	3,814	7,305	7,619
Net interest income	15,479	15,741	30,367	31,279
Provision for loan and lease losses	3,656	2,762	4,228	3,287
Net interest income after provision for loan and lease losses	11,823	12,979	26,139	27,992
Non-interest income				
Trust and investment services fee income	1,648	1,344	3,277	2,618
Gain on sale of Small Business Administration loans	535	2,131	895	3,506
Gain on sale of residential mortgage loans	15	198	26	342
Service charges on deposits	766	733	1,531	1,475
Loan fees	675	676	1,133	1,285
Increase in cash surrender value of bank-owned life insurance	316	243	627	486
Other non-interest income	783	498	1,312	704
Total non-interest income	4,738	5,823	8,801	10,416
Non-interest expense				
Compensation	8,382	8,447	17,065	16,818
Occupancy	519	500	994	1,008
Professional fees	1,041	961	2,051	1,822
Data processing	635	697	1,219	1,348
Marketing	582	448	952	1,182
Equipment	300	341	583	621
Computer software	639	574	1,322	1,068
FDIC insurance	381	254	761	545
Collateral liquidation costs	77	68	185	114
Net loss on foreclosed properties	—	93	—	93
Impairment of tax credit investments	112	94	225	206
Small Business Administration recourse provision	774	74	780	160
Other non-interest expense	779	907	1,644	1,171
Total non-interest expense	14,221	13,458	27,781	26,156
Income before income tax expense	2,340	5,344	7,159	12,252
Income tax expense	454	1,621	1,876	3,976
Net income	$1,886	$3,723	$5,283	$8,276
Earnings per common share				

Basic	$0.22	$0.43	$0.61	$0.95
Diluted	0.22	0.43	$0.61	$0.95
Dividends declared per share	0.13	0.12	$0.26	$0.24

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(In Thousands)			
Net income	$1,886	$3,723	$5,283	$8,276
Other comprehensive income, before tax				
Securities available-for-sale:				
Net unrealized securities gains arising during the period	109	361	26	1,237
Securities held-to-maturity:				
Amortization of net unrealized losses transferred from available-for-sale	29	43	55	83
Income tax expense	(53)	(156)	(50)	(510)
Total other comprehensive income	$85	$248	$31	$810
Comprehensive income	$1,971	$3,971	$5,314	$9,086

See accompanying Notes to Unaudited Consolidated Financial Statements.

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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, 2015	8,699,410	$ 89	$ 76,549	$ 80,584	$ (80)	$ (6,310)	$ 150,832
Net income	—	—	—	8,276	—	—	8,276
Other comprehensive income	—	—	—	—	810	—	810
Share-based compensation - restricted shares, net	4,631	—	564	—	—	—	564
Cash dividends ($0.24 per share)	—	—	—	(2,086)	—	—	(2,086)
Treasury stock purchased	(99)	—	—	—	—	(2)	(2)
Balance at June 30, 2016	8,703,942	$ 89	$ 77,113	$ 86,774	$ 730	$ (6,312)	$ 158,394

	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
	(In Thousands, Except Share Data)						
Balance at December 31, 2016	8,715,856	$ 90	$ 77,542	$ 91,317	$ (522)	$ (6,777)	$ 161,650
Net income	—	—	—	5,283	—	—	5,283
Other comprehensive income	—	—	—	—	31	—	31
Share-based compensation - restricted shares, net	(484)	—	544	—	—	—	544
Cash dividends ($0.26 per share)	—	—	—	(2,267)	—	—	(2,267)
Treasury stock purchased	(309)	—	—	—	—	(7)	(7)
Balance at June 30, 2017	8,715,063	$ 90	$ 78,086	$ 94,333	$ (491)	$ (6,784)	$ 165,234

See accompanying Notes to Unaudited Consolidated Financial Statements.

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First Business Financial Services, Inc.
Consolidated Statements of Cash Flows (Unaudited)

	For the Six Months Ended June 30,	
	2017	2016
	(In Thousands)	
Operating activities		
Net income	$5,283	$8,276
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes, net	(149)	(259)
Impairment of tax credit investments	225	206
Provision for loan and lease losses	4,228	3,287
Depreciation, amortization and accretion, net	731	650
Share-based compensation	544	565
Increase in value of bank-owned life insurance policies	(627)	(486)
Origination of loans for sale	(14,153)	(52,727)
Sale of loans originated for sale	12,694	61,820
Gain on sale of loans originated for sale	(921)	(3,848)
Net loss on foreclosed properties, including impairment valuation	—	93
Excess tax benefit from share-based compensation	(7)	(13)
Returns on investments in limited partnerships	92	250
Net increase in accrued interest receivable and other assets	(1,014)	(1,113)
Net increase (decrease) in accrued interest payable and other liabilities	2,174	(855)
Net cash provided by operating activities	9,100	15,846
Investing activities		
Proceeds from maturities, redemptions and paydowns of available-for-sale securities	19,541	20,419
Proceeds from maturities, redemptions and paydowns of held-to-maturity securities	1,814	1,843
Proceeds from sale of available-for-sale securities	5,063	2,191
Purchases of available-for-sale and held-to-maturity securities	(16,957)	(19,797)
Proceeds from sale of foreclosed properties	—	35
Net increase in loans and leases	(10,803)	(30,041)
Investments in limited partnerships	(500)	(750)
Returns of investments in limited partnerships	—	438
Investment in Federal Home Loan Bank and Federal Reserve Bank Stock	(7,454)	(387)
Proceeds from the sale of Federal Home Loan Bank Stock	6,770	1,066
Purchases of leasehold improvements and equipment, net	(635)	(400)
Net cash used in investing activities	(3,161)	(25,383)
Financing activities		
Net (decrease) increase in deposits	(64,241)	30,799
Repayment of Federal Home Loan Bank advances	(260,916)	(2,500)
Proceeds from Federal Home Loan Bank advances	309,415	—
Proceeds from issuance of subordinated notes payable	9,090	—
Repayment of subordinated notes payable	(7,877)	—
Net (decrease) increase in other borrowed funds	(2,908)	1,373
Cash dividends paid	(2,267)	(2,086)
Purchase of treasury stock	(7)	(2)
Net cash (used in) provided by financing activities	(19,711)	27,584
Net (decrease) increase in cash and cash equivalents	(13,772)	18,047
Cash and cash equivalents at the beginning of the period	77,517	113,564

Cash and cash equivalents at the end of the period	$63,745	$131,611
Supplementary cash flow information		
Cash paid during the period for:		
Interest paid on deposits and borrowings	$7,359	$7,624
Income taxes paid	339	3,385
Non-cash investing and financing activities:		
Transfer of loans from held-to-maturity to held-for-sale	6,966	8,091
Transfer from premises and equipment to foreclosed properties	1,113	—

See accompanying Notes to Unaudited Consolidated Financial Statements.

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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"), through our wholly-owned subsidiary, First Business Bank ("FBB" or the "Bank"), has been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). FBB operates as a commercial banking institution primarily in the Wisconsin and greater Kansas City markets. FBB also offers trust and investment services through First Business Trust & Investments ("FBTI"), a division of FBB. The Bank provides a full range of financial services to businesses, business owners, executives, professionals and high net worth individuals. The Bank is subject to competition from other financial institutions and service providers and is 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"), BOC Investment, LLC ("BOC"), Mitchell Street Apartments Investment, LLC ("Mitchell Street") and FBB – Milwaukee Real Estate, LLC ("FBBMRE"). FMIC is located in and was formed under the laws of the state of Nevada.

Effective June 1, 2017, we completed the consolidation of our three bank charters into a single charter and rebranded Alterra Bank to First Business Bank.

Basis of Presentation. The accompanying unaudited Consolidated Financial Statements were prepared in accordance with GAAP and 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, 2016. The unaudited Consolidated Financial Statements include the accounts of the Corporation and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. 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.

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 securities, level of the allowance for loan and lease losses, lease residuals, property under operating leases, goodwill, level of the Small Business Administration ("SBA") recourse reserve and income taxes. The results of operations for the six month period ended June 30, 2017 are not necessarily indicative of results that may be expected for any other interim period or the entire fiscal year ending December 31, 2017. 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 unaudited 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, 2016.

Recent Accounting Pronouncements

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 to in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, which defers 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. In March 2016, the FASB issued ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net.” The ASU intends to improve the operability and understandability of the implementation guidance of ASU 2014-09 on principal versus agent considerations. In April, May and December 2016, the FASB also issued ASU No. 2016-10, No. 2016-12 and No. 2016-20, respectively, related to Topic 606. The amendments do not change the core principles of the previously issued guidance, but instead further clarify and provide implementation guidance for certain aspects of the original ASU. The Corporation intends to adopt the accounting standards during the first quarter of 2018, as required. The Corporation has conducted its initial assessment and is currently evaluating contracts to assess and quantify accounting methodology changes resulting from the adoption of this standard. The adoption of this accounting standard is not expected to have a material impact on the Corporation's consolidated financial statements. The FASB continues to release new accounting guidance related to the adoption of this standard, which could impact the Corporation's initial assessment and may change the conclusions reached as to the application of this new guidance.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” The ASU intends to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities and disclosing key information about leasing arrangements. The ASU will require lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessees’ obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The new lease guidance simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. The ASU is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Corporation intends to adopt the accounting standard during the first quarter of 2019, as required, and is currently evaluating the impact on its results of operations, financial position and liquidity.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments- Credit Losses (Topic 326).” The ASU replaces the incurred loss impairment methodology for recognizing credit losses with a methodology that reflects all expected credit losses. The ASU also requires consideration of a broader range of information to inform credit loss estimates, including such factors as past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, and any other financial asset not excluded from the scope that have the contractual right to receive cash. Entities will apply the amendments in the ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The ASU is effective for public companies for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of the fiscal years beginning after December 15, 2018. The Corporation intends to adopt the accounting standard during the first quarter of 2020, as required, and is currently evaluating the impact on its results of operations, financial position and liquidity.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation- Stock Compensation (Topic 718).” The ASU provides clarity about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The ASU is effective for all entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. 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 its results of operations, financial position and liquidity.

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, or dividend equivalents, 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.

There were no anti-dilutive employee share-based awards for the three and six month periods ended June 30, 2017 and 2016.

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	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in Thousands, Except Share Data)			
Basic earnings per common share				
Net income	$1,886	$ 3,723	$5,283	$ 8,276
Less: earnings allocated to participating securities	25	58	70	128
Basic earnings allocated to common shareholders	$1,861	$ 3,665	$5,213	$ 8,148
Weighted-average common shares outstanding, excluding participating securities	8,601,379	8,566,718	8,601,002	8,565,933
Basic earnings per common share	$0.22	$ 0.43	$0.61	$ 0.95
Diluted earnings per common share				
Earnings allocated to common shareholders, diluted	$1,861	$ 3,665	$5,213	$ 8,148
Weighted-average diluted common shares outstanding, excluding participating securities	8,601,379	8,566,718	8,601,002	8,565,933
Diluted earnings per common share	$0.22	$ 0.43	$0.61	$ 0.95

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 June 30, 2017, 275,065 shares were available for future grants under the Plan. 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 its treasury stock for shares delivered under the Plan.

Restricted Stock

Under the Plan, the Corporation may grant restricted stock to plan participants, subject to forfeiture upon the occurrence of certain events until the dates specified in the participant’s award agreement. While restricted stock is subject to forfeiture, with the exception of restricted stock units, which do not have voting rights and are provided dividend equivalents, restricted stock participants may exercise full voting rights and will receive all dividends and other distributions paid with respect to the restricted shares. The restricted stock granted under the Plan is 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 stock, the benefit of tax deductions in excess of recognized compensation expense is reflected as an income tax benefit in the unaudited Consolidated Statements of Income.

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Restricted stock activity for the year ended December 31, 2016 and the six months ended June 30, 2017 was as follows:

	Number of Restricted Shares/Units	Weighted Average Grant-Date Fair Value
Nonvested balance as of December 31, 2015	135,471	$ 20.13
Granted	60,415	22.74
Vested	(56,090)	18.71
Forfeited	(23,551)	20.90
Nonvested balance as of December 31, 2016	116,245	21.13
Granted	7,135	24.09
Vested	(4,043)	23.97
Forfeited	(7,619)	21.57
Nonvested balance as of June 30, 2017	111,718	$ 20.55

As of June 30, 2017, the Corporation had $1.7 million of deferred unvested compensation expense, which the Corporation expects to recognize over a weighted-average period of approximately 2.44 years.

For the three and six months ended June 30, 2017 and 2016, share-based compensation expense related to restricted stock included in the unaudited Consolidated Statements of Income was as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
	(In Thousands)			
Share-based compensation expense	$268	$269	$544	$565

Note 4 — Securities

The amortized cost and 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 June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale:				
U.S. Government agency obligations - government-sponsored enterprises	$5,299	$ 12	$ (5)	$5,306
Municipal obligations	7,692	8	(30)	7,670
Asset-backed securities	1,018	—	(9)	1,009
Collateralized mortgage obligations - government issued	25,046	336	(148)	25,234
Collateralized mortgage obligations - government-sponsored enterprises	98,320	137	(842)	97,615
	$137,375	$ 493	$ (1,034)	$136,834

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	As of December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale:				
U.S. Government agency obligations - government-sponsored enterprises	$6,298	$ 7	$ (10)	$6,295
Municipal obligations	8,246	2	(92)	8,156
Asset-backed securities	1,116	—	(35)	1,081
Collateralized mortgage obligations - government issued	30,936	423	(146)	31,213
Collateralized mortgage obligations - government-sponsored enterprises	99,865	252	(969)	99,148
	$146,461	$ 684	$ (1,252)	$145,893

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

	As of June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Held-to-maturity:				
U.S. Government agency obligations - government-sponsored enterprises	$1,498	$ 1	$ (5)	$1,494
Municipal obligations	21,953	398	(13)	22,338
Collateralized mortgage obligations - government issued	8,198	19	(27)	8,190
Collateralized mortgage obligations - government-sponsored enterprises	6,157	11	(38)	6,130
	$37,806	$ 429	$ (83)	$38,152

	As of December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Held-to-maturity:				
U.S. Government agency obligations - government-sponsored enterprises	$1,497	$ 2	$ (5)	$1,494
Municipal obligations	21,173	62	(78)	21,157
Collateralized mortgage obligations - government issued	9,148	17	(38)	9,127
Collateralized mortgage obligations - government-sponsored enterprises	6,794	6	(58)	6,742
	$38,612	$ 87	$ (179)	$38,520

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"). 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. Asset-backed securities represent securities issued by the Student Loan Marketing Association ("SLMA") which are 97% guaranteed by the U.S. Government. Collateralized mortgage obligations - government issued represent securities guaranteed by the Government National Mortgage Association ("GNMA"). Collateralized mortgage

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obligations - government-sponsored enterprises include securities guaranteed by the FHLMC and the FNMA. There were six sales of available-for-sale securities that occurred during the six months ended June 30, 2017 and three sales of available-for-sale securities that occurred during the six months ended June 30, 2016.

At June 30, 2017 and December 31, 2016, securities with a fair value of $18.9 million and $22.4 million, respectively, were pledged to secure interest rate swap contracts, outstanding Federal Home Loan Bank ("FHLB") advances and additional FHLB availability.

The amortized cost and fair value of securities by contractual maturity at June 30, 2017 are shown below. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay certain obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Due in one year or less	$7,250	$7,242	$—	$—
Due in one year through five years	13,409	13,422	11,191	11,313
Due in five through ten years	56,104	56,171	12,302	12,533
Due in over ten years	60,612	59,999	14,313	14,306
	$137,375	$136,834	$37,806	$38,152

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 June 30, 2017 and December 31, 2016. At June 30, 2017, the Corporation held 123 available-for-sale securities that were in an unrealized loss position. Such securities have not experienced credit rating downgrades; however, they have primarily declined in value due to the current interest rate environment. At June 30, 2017, the Corporation held 16 available-for-sale securities that had been in a continuous unrealized loss position for twelve months or greater.

The Corporation 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. The Corporation reviews its securities on a quarterly basis to monitor its exposure to other-than-temporary impairment. Consideration is given to such factors as the length of time and extent to which the security has been in an unrealized loss position, changes in security ratings and an evaluation of the present value of expected future cash flows, if necessary. Based on the Corporation's evaluation, it is expected that the Corporation will recover the entire amortized cost basis of each security. Accordingly, no other-than-temporary impairment was recorded in the unaudited Consolidated Statements of Income for the six months ended June 30, 2017 and 2016.

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A summary of unrealized loss information for securities available-for-sale, categorized by security type and length of time for which the security has been in a continuous unrealized loss position, follows:

	As of June 30, 2017					
	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	$4,295	$ 5	$—	$ —	$4,295	$ 5
Municipal obligations	4,956	28	756	2	5,712	30
Asset-backed securities	—	—	1,009	9	1,009	9
Collateralized mortgage obligations - government issued	9,159	134	452	14	9,611	148
Collateralized mortgage obligations - government-sponsored enterprises	63,427	696	8,049	146	71,476	842
	$81,837	$ 863	$10,266	$ 171	$92,103	$ 1,034

	As of December 31, 2016					
	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	$1,991	$ 10	$—	$ —	$1,991	$ 10
Municipal obligations	7,207	89	406	3	7,613	92
Asset-backed securities	—	$ —	1,081	35	1,081	35
Collateralized mortgage obligations - government issued	10,552	130	493	16	11,045	146
Collateralized mortgage obligations - government-sponsored enterprises	54,843	931	1,819	38	56,662	969
	$74,593	$ 1,160	$3,799	$ 92	$78,392	$ 1,252

The tables below show the Corporation’s gross unrealized 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 June 30, 2017 and December 31, 2016. At June 30, 2017, the Corporation held 17 held-to-maturity securities that were in an unrealized loss position. Such securities have not experienced credit rating downgrades; however, they have primarily declined in value due to the current interest rate environment. There were five held-to-maturity securities that had been in a continuous loss position for twelve months or greater as of June 30, 2017. It is expected that the Corporation will recover the entire amortized cost basis of each held-to-maturity security based upon an evaluation of aforementioned factors. Accordingly, no other-than-temporary impairment was recorded in the unaudited Consolidated Statements of Income for the six months ended June 30, 2017 and 2016.

A summary of unrealized loss information for securities held-to-maturity, categorized by security type and length of time for which the security has been in a continuous unrealized loss position, follows:

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	As of June 30, 2017					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
Held-to-maturity:						
U.S. Government agency obligations - government-sponsored enterprises	$1,000	$ 5	$—	$ —	$1,000	$ 5
Municipal obligations	1,257	8	261	5	1,518	13
Collateralized mortgage obligations - government issued	4,177	15	796	12	4,973	27
Collateralized mortgage obligations - government-sponsored enterprises	2,260	19	2,042	19	4,302	38
	$8,694	$ 47	$3,099	$ 36	$11,793	$ 83

	As of December 31, 2016					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
Held-to-maturity:						
U.S. Government agency obligations - government-sponsored enterprises	$1,000	$ 5	$ —	$ —	$1,000	$ 5
Municipal obligations	9,472	78	—	—	9,472	78
Collateralized mortgage obligations - government issued	6,980	38	—	—	6,980	38
Collateralized mortgage obligations - government-sponsored enterprises	4,682	58	—	—	4,682	58
	$22,134	$ 179	$ —	$ —	$22,134	$ 179

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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:

	June 30, 2017	December 31, 2016
	(In Thousands)	
Commercial real estate:		
Commercial real estate — owner occupied	$183,161	$ 176,459
Commercial real estate — non-owner occupied	468,778	473,158
Land development	46,500	56,638
Construction	104,515	101,206
Multi-family	124,488	92,762
1-4 family	38,922	45,651
Total commercial real estate	966,364	945,874
Commercial and industrial	437,955	450,298
Direct financing leases, net	29,216	30,951
Consumer and other:		
Home equity and second mortgages	7,973	8,412
Other	17,976	16,329
Total consumer and other	25,949	24,741
Total gross loans and leases receivable	1,459,484	1,451,864
Less:		
Allowance for loan and lease losses	21,677	20,912
Deferred loan fees	1,309	1,189
Loans and leases receivable, net	$1,436,498	$ 1,429,763

As of June 30, 2017 and December 31, 2016, the total amount of the Corporation's ownership of SBA loans on the Consolidated Balance Sheets comprised of the following:

	June 30, 2017	December 31, 2016
	(In Thousands)	
Retained, unguaranteed portion of sold SBA loans	$32,716	$ 30,418
Other SBA loans[1]	31,446	31,728
Total SBA loans	$64,162	$ 62,146

(1) Primarily consisted of SBA Express loans and partially funding 7(a) program loans, which were not saleable as of June 30, 2017 and December 31, 2016, respectively.

As of June 30, 2017 and December 31, 2016, $11.6 million and $5.5 million of loans in this portfolio were considered impaired, respectively.

Loans transferred to third parties consist of the guaranteed portion of SBA loans which the Corporation sold in the secondary market, participation interests in other originated loans and residential real estate loans. The total principal amount of the guaranteed portion of SBA loans sold during the three months ended June 30, 2017 and 2016 was $5.9 million and $20.0 million, respectively. The total principal amount of the guaranteed portion of SBA loans sold during the six months ended June 30, 2017 and 2016 was $9.2 million and $33.1 million, respectively. 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 six months ended June 30, 2017 and 2016 have been derecognized in the unaudited Consolidated Financial Statements. 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. The total outstanding balance of sold SBA loans at June 30, 2017 and December 31, 2016 was $101.2 million and $105.1 million, respectively.

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The total principal amount of transferred participation interests in other originated commercial loans during the three months ended June 30, 2017 and 2016 was $2.4 million and $9.4 million, respectively. The total principal amount of transferred participation interests in other originated commercial loans during the six months ended June 30, 2017 and 2016 was $7.9 million and $9.8 million, respectively, all of which were treated as sales and derecognized under the applicable accounting guidance at the time of transfer. 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 outstanding balance of these transferred loans at June 30, 2017 and December 31, 2016 was $89.8 million and $102.7 million, respectively. As of June 30, 2017 and December 31, 2016, the total amount of the Corporation’s partial ownership of these transferred loans on the unaudited Consolidated Balance Sheets was $144.7 million and $106.1 million, respectively. No loans in this participation portfolio were considered impaired as of June 30, 2017 and December 31, 2016. The Corporation does not share in the participant’s portion of any potential charge-offs. The total amount of loan participations purchased on the unaudited Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016 was $688,000 and $1.2 million, respectively.

The Corporation also previously sold residential real estate loans, servicing released, in the secondary market. The total principal amount of residential real estate loans sold during the three months ended June 30, 2017 and 2016 was $597,000 and $8.0 million, respectively. The total principal amount of residential real estate loans sold during the six months ended June 30, 2017 and 2016 was $1.6 million and $15.2 million, respectively. Each of the transfers of these financial assets met the qualifications for sale accounting, and therefore all of the loans transferred have been derecognized in the unaudited Consolidated Financial Statements. 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.

The following tables illustrate 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 June 30, 2017 and December 31, 2016:

	June 30, 2017				
	Category				
	I	II	III	IV	Total
	(Dollars in Thousands)				
Commercial real estate:					
Commercial real estate — owner occupied	$145,360	$18,750	$11,847	$7,204	$183,161
Commercial real estate — non-owner occupied	440,470	24,943	1,468	1,897	468,778
Land development	42,399	804	284	3,013	46,500
Construction	97,939	792	431	5,353	104,515
Multi-family	124,488	—	—	—	124,488
1-4 family	27,102	7,914	1,382	2,524	38,922
Total commercial real estate	877,758	53,203	15,412	19,991	966,364
Commercial and industrial	331,529	33,596	55,357	17,473	437,955
Direct financing leases, net	26,677	2,539	—	—	29,216
Consumer and other:					
Home equity and second mortgages	7,957	—	10	6	7,973
Other	17,582	—	—	394	17,976
Total consumer and other	25,539	—	10	400	25,949
Total gross loans and leases receivable	$1,261,503	$89,338	$70,779	$37,864	$1,459,484
Category as a % of total portfolio	86.44 %	6.12 %	4.85 %	2.59 %	100.00 %

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	December 31, 2016				
	Category				
	I	II	III	IV	Total
	(Dollars in Thousands)				
Commercial real estate:					
Commercial real estate — owner occupied	$142,704	$20,294	$11,174	$2,287	$176,459
Commercial real estate — non-owner occupied	447,895	20,933	2,721	1,609	473,158
Land development	52,082	823	293	3,440	56,638
Construction	93,510	3,154	1,624	2,918	101,206
Multi-family	87,418	1,937	3,407	—	92,762
1-4 family	38,504	3,144	1,431	2,572	45,651
Total commercial real estate	862,113	50,285	20,650	12,826	945,874
Commercial and industrial	348,201	42,949	46,675	12,473	450,298
Direct financing leases, net	29,351	1,600	—	—	30,951
Consumer and other:					
Home equity and second mortgages	8,271	121	12	8	8,412
Other	15,714	—	11	604	16,329
Total consumer and other	23,985	121	23	612	24,741
Total gross loans and leases receivable	$1,263,650	$94,955	$67,348	$25,911	$1,451,864
Category as a % of total portfolio	87.04 %	6.54 %	4.64 %	1.78 %	100.00 %

Credit underwriting through a committee process is a key component of the Corporation's operating philosophy. Commercial lenders 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.

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 borrowers' management team or the industry in which the borrower operates. 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 or 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 Bank's loan committee.

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 Bank. 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 contractual principal and interest in accordance with the original terms of the contracts relating to the loans and leases in this category, and therefore

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Category III loans are considered performing with no specific reserves established for this category. Category III loans are monitored by management and the Bank's loan committee on a monthly basis and the Bank's board 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 Bank will receive the contractual principal and interest in accordance with the original 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 the Bank's loan committee on a monthly basis and the Bank's board of directors at each of their regularly scheduled meetings.

Utilizing regulatory classification terminology, the Corporation identified $39.0 million and $34.3 million of loans and leases as Substandard as of June 30, 2017 and December 31, 2016, respectively. The Corporation identified $6.7 million of loans and leases as Doubtful as of June 30, 2017. No loans and leases were considered Doubtful as of December 31, 2016. Additionally, no loans were considered Special Mention, or Loss as of either June 30, 2017 or December 31, 2016. The population of Substandard loans is a subset of Category III and Category IV loans.

The delinquency aging of the loan and lease portfolio by class of receivable as of June 30, 2017 and December 31, 2016 was as follows:

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	June 30, 2017					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans and Leases
	(Dollars in Thousands)					
Accruing loans and leases						
Commercial real estate:						
Owner occupied	$—	$50	$—	$50	$175,967	$176,017
Non-owner occupied	—	—	—	—	466,881	466,881
Land development	—	—	—	—	43,487	43,487
Construction	—	—	—	—	99,162	99,162
Multi-family	—	—	—	—	124,488	124,488
1-4 family	—	—	—	—	37,026	37,026
Commercial and industrial	974	2,075	—	3,049	417,441	420,490
Direct financing leases, net	—	—	—	—	29,216	29,216
Consumer and other:						
Home equity and second mortgages	—	—	—	—	7,973	7,973
Other	—	—	—	—	17,582	17,582
Total	$974	$2,125	$—	$3,099	$1,419,223	$1,422,322
Non-accruing loans and leases						
Commercial real estate:						
Owner occupied	$—	$—	$4,825	$4,825	$2,319	$7,144
Non-owner occupied	—	—	1,861	1,861	36	1,897
Land development	—	—	—	—	3,013	3,013
Construction	2,872	—	2,481	5,353	—	5,353
Multi-family	—	—	—	—	—	—
1-4 family	—	548	1,051	1,599	297	1,896
Commercial and industrial	—	89	14,156	14,245	3,220	17,465
Direct financing leases, net	—	—	—	—	—	—
Consumer and other:						
Home equity and second mortgages	—	—	—	—	—	—
Other	—	18	376	394	—	394
Total	$2,872	$655	$24,750	$28,277	$8,885	$37,162
Total loans and leases						
Commercial real estate:						
Owner occupied	$—	$50	$4,825	$4,875	$178,286	$183,161
Non-owner occupied	—	—	1,861	1,861	466,917	468,778
Land development	—	—	—	—	46,500	46,500
Construction	2,872	—	2,481	5,353	99,162	104,515
Multi-family	—	—	—	—	124,488	124,488
1-4 family	—	548	1,051	1,599	37,323	38,922
Commercial and industrial	974	2,164	14,156	17,294	420,661	437,955
Direct financing leases, net	—	—	—	—	29,216	29,216
Consumer and other:						
Home equity and second mortgages	—	—	—	—	7,973	7,973
Other	—	18	376	394	17,582	17,976
Total	$3,846	$2,780	$24,750	$31,376	$1,428,108	$1,459,484
Percent of portfolio	0.26 %	0.19 %	1.70 %	2.15 %	97.85 %	100.00 %

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December 31, 2016					
30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans and Leases