FIRST BUSINESS FINANCIAL SERVICES, INC.
Form 10-K
March 08, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
(Mark One)

þ	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended December 31, 2012
¨	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from to

Commission file number 001-34095

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

Wisconsin	39-1576570
(State or jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
401 Charmany Drive, Madison, WI	53719
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (608) 238-8008

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	NASDAQ Stock Exchange
Common Share Purchase Rights	NASDAQ Stock Exchange

Securities registered pursuant to section 12(g) of the Act
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No þ

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 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 if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 o Accelerated Filer o Non-accelerated filer o Smaller Reporting Company þ

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

The aggregate market value of the common equity held by non-affiliates computed by reference to the closing price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter, was approximately $59.7 million.

As of February 22, 2013, 3,918,758 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III – Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 20, 2013 are incorporated by reference into Part III hereof.

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PART I.

Item 1. Business

BUSINESS
General

First Business Financial Services, Inc. (together with all of its subsidiaries, collectively referred to as "Corporation," "FBFS," "we," "us," or "our") is a registered bank holding company originally incorporated in 1986 under the laws of the State of Wisconsin and engaged in the commercial banking business through our two wholly-owned bank subsidiaries, First Business Bank ("FBB"), headquartered in Madison, Wisconsin, and First Business Bank-Milwaukee ("FBB-Milwaukee" and, together with FBB, the "Banks"), headquartered in Brookfield, Wisconsin. All of our operations are conducted through the Banks and certain subsidiaries of FBB. The Banks operate as business banks focusing on delivering a full line of commercial banking products, including commercial loans and commercial real estate loans, and services tailored to meet the specific needs of small- and medium-sized businesses, business owners, executives, professionals and high net worth individuals. The Banks generally target businesses with annual sales between $2.0 million and $50.0 million. Because of their focus on business banking, the Banks do not utilize branch networks to attract retail clients and, to supplement their business banking deposit base, the Banks utilize wholesale funding alternatives to fund a portion of their assets. As of December 31, 2012, on a consolidated basis, we had total assets of $1.226 billion, total deposits of $1.092 billion and total stockholders' equity of $99.5 million.

Our Business Lines

Commercial Lending

We strive to meet the specific commercial-lending needs of small- to medium-sized companies in our target market areas of Wisconsin, primarily through lines of credit for working capital needs and term loans to businesses with annual sales between $2.0 million and $50.0 million. Through FBB, we have a strong presence in Madison and its surrounding areas. In 2000, we opened FBB-Milwaukee to take advantage of the strong commercial base located in Milwaukee and the surrounding communities. In 2006, FBB opened a loan production office in Appleton to take advantage of the strong commercial environment in Northeast Wisconsin. Since then, we have opened additional loan production offices in Oshkosh and Green Bay.

Our commercial loans are typically secured by various types of business assets, including inventory, receivables and equipment. We also originate loans secured by commercial real estate, including non-residential owner-occupied commercial facilities, multi-family housing, office buildings, retail centers, and, to a lesser extent, commercial real estate construction loans. In very limited cases, we may originate loans on an unsecured basis. As of December 31, 2012, our commercial real estate and commercial loans, excluding asset-based lending and equipment financing, represented approximately 80.7% of our total gross loans and leases receivable.

Asset-Based Lending

First Business Capital Corp., a wholly-owned subsidiary of FBB ("FBCC"), is focused on asset based lending to small to medium-sized companies with credit requirements of $1.0 million up to $10.0 million. With its seven sales offices, FBCC does not limit itself to conducting business in Wisconsin.

FBCC primarily provides revolving lines of credit and term loans for financial and strategic acquisitions (e.g., leveraged or management buyouts), capital expenditures, rapid growth, bank debt refinancing, debt restructuring, corporate turnaround strategies, and debtor-in-possession financing in the course of bankruptcy proceedings or the exit therefrom. As a bank-owned, asset-based lender with strong underwriting standards, First Business Capital Corp. is positioned to provide cost-effective financing solutions to companies with borrowing needs that do not have the established stable cash flows necessary to qualify for a more traditional commercial lending product. Asset-based lending is generally more profitable than traditional commercial lending, and this line of business complements our traditional commercial loan portfolio and provides us with more diverse income opportunities. As of December 31, 2012, our asset-based lending line represented 12.8% of our total gross loan and leases receivable.

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Equipment Financing

First Business Equipment Finance, LLC ("FBEF"), a wholly-owned subsidiary of FBB, delivers a broad range of equipment finance products, including leases and loans, to address the financing needs of commercial clients in a variety of industries. FBEF's focus includes manufacturing equipment, industrial assets, construction and transportation equipment, and drilling and oil field equipment, in addition to a wide variety of other commercial equipment. These financings generally range between \$2.0 million and \$10.0 million with terms of 36 to 84 months. We believe that we can continue to grow this business through our existing offices in Wisconsin and our recently opened office in Kansas City, Kansas. As of December 31, 2012, our equipment financing business line represented approximately 4.8% of our total gross loans and leases receivable.

Treasury Management Services

The Banks provide comprehensive services for commercial clients to manage their cash and liquidity, including lock box, accounts receivable collection services, electronic payment solutions, fraud protection, information reporting, reconciliation and data integration solutions. The Banks also offer demand deposit account and balance optimization solutions. As we continue to seek to diversify our income and increase our non-interest income, we have focused on increasing these services and have emphasized these offerings with new and existing business clients.

Trust and Investment Services

FBB, through its First Business Trust & Investments division, acts as fiduciary and investment manager for individual and corporate clients, creating asset allocation strategies tailored to each client's unique situation while using third-party investment managers to execute overarching strategies. For managed assets, First Business Trust & Investments offers financial advice and acts either in a trustee or agency capacity. First Business Trust & Investments also provides custody services, for which it administers and safeguards assets but does not provide financial advice. At December 31, 2012, First Business Trust & Investments had \$784.2 million of assets under management and administration.

Competition

The Banks encounter strong competition in attracting commercial loan, equipment finance and deposit clients as well as trust and investment clients. Such competition includes banks, savings institutions, mortgage banking companies, credit unions, finance companies, equipment finance companies, mutual funds, insurance companies, brokerage firms and investment banking firms. The Banks' market areas include branches of several commercial banks that are substantially larger in terms of loans and deposits. Furthermore, credit unions exempt from income taxes operate in the Banks' market areas and aggressively price their products and services to a large portion of the market. The Banks also compete with regional and national financial institutions, many of which have greater liquidity, higher lending limits, greater access to capital, more established market recognition and more resources and collective experience than the Banks. We believe that the strength of our executive management team, the experience and capabilities of our front-line banking professionals, the range and quality of the products that we offer and our emphasis on building long-lasting relationships sets us apart from our competitors.

The following table lists the counties in which the Banks have their main offices as well as certain other information as of June 30, 2012, the most recent data published by the FDIC:

County	Total Number of Banking Organizations	Total Number of Banking Offices	Total Deposits in County (in thousands)	FBFS Market Share Rank	FBFS Market Deposit Share	
Dane County	40	185	14,541,493	6	5.83	%

Waukesha County	39	195	10,557,351	17	1.84	%

Employees

At December 31, 2012, we had 155 employees equating to 140.3 full-time equivalent employees. We believe that our relationship with our employees is good.

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Our Subsidiaries

First Business Bank

FBB is a state bank chartered in 1909 under the name Kingston State Bank. In 1990, FBB relocated its home office to Madison, Wisconsin, opened a banking facility in University Research Park, and began focusing on providing high-quality banking services to small- to medium-sized businesses located in Madison, Wisconsin and the surrounding area. FBB's product lines include commercial loans, commercial real estate loans, equipment loans and leases and treasury management services. FBB offers a variety of deposit accounts and personal loans to business owners, executives, professionals and high net worth individuals. FBB also offers trust and investment services through First Business Trust & Investments, a division of FBB. FBB has three loan production offices in the Northeast Region of Wisconsin serving Appleton, Oshkosh, and Green Bay and their surrounding areas.

FBB has four wholly-owned subsidiaries:

- First Business Capital Corp., is an asset-based commercial lending company specializing in providing lines of credit and term loans secured by accounts receivable, inventory, equipment and real estate assets, primarily to manufacturers and wholesale distribution companies located primarily in the Midwest. FBCC was established in 1995 and has sales offices in seven states.

- First Business Equipment Finance, LLC is a commercial equipment finance company offering a full array of finance and leasing options to commercial clients of which the majority are currently located in Wisconsin. It offers new and replacement equipment loans and leases, debt restructuring, consolidation, and sale-lease-back transactions, through its primary banking locations in Wisconsin and business development offices in Kansas City, Kansas and Denver, Colorado.

- FBB Real Estate, LLC is a limited liability company established for the purpose of holding and liquidating real estate and other assets acquired by FBB through foreclosure or other legal proceedings.

- First Madison Investment Corp. is located in and formed under the laws of the state of Nevada, and was organized for the purpose of managing a portion of FBB's investment portfolio.

As of December 31, 2012, FBB had total gross loans and leases of $816.9 million, total deposits of $910.2 million and total stockholders' equity of $106.1 million.

First Business Bank-Milwaukee

FBB-Milwaukee is a state bank chartered in 2000 in Wisconsin. We formed FBB-Milwaukee to focus on commercial banking in the greater Milwaukee market area. Like FBB, FBB-Milwaukee's product lines include commercial loans, commercial real estate loans and treasury management services for similar sized businesses as those served by FBB. FBB-Milwaukee offers a variety of deposit accounts and personal loans, to business owners, executives, professionals and high net worth individuals. FBB-Milwaukee also offers trust and investment services (through a trust service office agreement with FBB). FBB-Milwaukee has one wholly-owned subsidiary, FBB-Milwaukee Real Estate, LLC, which is a limited liability company established for the purpose of holding and liquidating real estate and other assets acquired through foreclosure or other legal proceedings.

As of December 31, 2012, FBB-Milwaukee had total loans of $95.1 million, total deposits of $198.9 million and total stockholders' equity of $14.7 million.

FBFS Statutory Trust II

In September 2008, we formed FBFS Statutory Trust II (“Trust II”), a Delaware business trust wholly-owned by FBFS. In 2008, Trust II completed the sale of $10.0 million of 10.5% fixed rate trust preferred securities. Trust II also issued common securities in the amount of $315,000 to us. Trust II used the proceeds from the offering to purchase $10.3 million of 10.5% junior subordinated notes issued by us. We have the right to redeem the junior subordinated notes at any time on or after September 26, 2013. The preferred securities are mandatorily redeemable upon the maturity of the junior subordinated notes on September 26, 2038. FBFS's ownership interest in Trust II has not been consolidated into the financial statements.

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Corporate Information

Our principal executive offices are located at 401 Charmany Drive, Madison, Wisconsin 53719 and our telephone number is (608) 238-8008. We maintain an Internet website at www.firstbusiness.com. This Form 10-K and all of our other filings under the Securities Exchange Act of 1934, as amended, are available through that website, free of charge, including copies of our proxy statement, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, on the date that we file those materials with, or furnish them to, the Securities and Exchange Commission ("SEC"). These filings are also available to the public on the internet at the SEC’s website at www.sec.gov. Shareholders may also read and copy any document that we file at the SEC’s public reference rooms located at 100 F Street, NE, Washington, DC 20549. Shareholders may call the SEC at 1-800-SEC-0300 for further information on the public reference room.

Our Market Area

Although certain of our business lines are marketed throughout the Midwest and beyond, our primary market areas lie in Wisconsin. Specifically, our three target market areas consist of Madison and Milwaukee, Wisconsin and their surrounding communities, and Northeastern Wisconsin, including Appleton, Green Bay and Oshkosh, Wisconsin and their surrounding communities. Each of our primary markets provides a unique set of economic and demographic characteristics which provide us with a variety of strategic opportunities. A brief description of each of our primary markets is as follows:

Madison

As the capital city of Wisconsin and home of the University of Wisconsin - Madison, our Madison market, specifically Dane County, offers an appealing economic environment populated by a highly educated workforce (more than 45% of the population of Dane County age 25 or older holds a bachelor's degree or higher degree according to the U.S. Census Bureau, as compared to 26% for the State of Wisconsin as a whole). While the economy of the Madison market is driven in large part by the government and education sectors, there is also a diverse array of industries outside of these segments, including significant concentration of insurance companies (one of which, American Family Insurance Group, is a Fortune 500 Company) and agricultural-related industries. Madison is also home to a concentration of research and development related companies, which benefit from the area's strong governmental and academic ties, as well as the University of Wisconsin Hospital, which provides healthcare services to the Southcentral Wisconsin market.

According to the U.S. Census Bureau, as of April 1, 2010 (the 2010 Census Date), the Madison metropolitan statistical area ("MSA"), consisting of Dane County, Columbia County and Iowa County, had a total population of 568,593 and 229,033 total households. Since 2000, the Madison MSA has experienced population growth of 13%, compared to the State of Wisconsin's population growth rate of 6%. Due to the composition of its workforce and major economic drivers, the Madison area generally experienced fewer adverse economic effects than many other areas of the country during the economic downturn in recent years. As of April, 2010, the five-year average median household income level in Dane County - the largest county within the Madison MSA - was $60,519, which compares favorably to the average median household income levels in the United States and the State of Wisconsin of $51,914 and $51,598, respectively. According to preliminary Bureau Labor of Statistics data, as of December 2012, the unadjusted unemployment rate in the Madison MSA was 4.6% compared to the national unemployment rate of 7.6% and an unemployment rate in the State of Wisconsin of 6.5%. The unemployment rate in the Madison MSA improved 1.5% from December 2009, compared to the improvement in the national and Wisconsin averages, which was 2.1% and 2.3%, respectively over the same period.

Milwaukee

Our Milwaukee market, the primary commercial and industrial hub for Southeastern Wisconsin, provides a diverse economic base, with both a highly skilled labor force and significant manufacturing base. The most prominent economic sectors in the Milwaukee market include manufacturing, financial services, health care, diversified service companies and education. The metropolitan area ranks among the top manufacturing centers in the United States. Milwaukee's percentage of its workforce in the manufacturing sector is one of the highest of any MSA. In addition to this strong manufacturing base, Milwaukee is home to several major hospitals, providing health services to the greater Southeastern Wisconsin market, several large academic institutions including the University of Wisconsin-Milwaukee and Marquette University, and a wide variety of small- to medium-size firms with representatives in nearly every industrial classification. The Milwaukee area is also the home to six Fortune 500 companies, including Johnson Controls, Inc., Harley Davidson, Inc., Kohl's Corporation, Rockwell Automation, Inc., ManPower Group and Northwestern Mutual.

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According to the U.S. Census Bureau, as of April 1, 2010 (the 2010 Census Date), the Milwaukee MSA, consisting of Milwaukee County, Ozaukee County, Washington County, and Waukesha County, had a total population of 1,555,908 and 615,847 total households. Since 2000, the Milwaukee MSA has experienced a population growth of 4%, compared to the State of Wisconsin's population growth rate of 6%. As of April, 2010, the five-year average median household income level in Waukesha County - our primary market within the Milwaukee Area - was $75,064, which compares favorably to the median household income level averages in the United States and the State of Wisconsin of $51,914 and $51,598, respectively. Despite the economic downturn of recent years, the Milwaukee area has begun to experience improvement in its general economic climate. As of December 2012, the preliminary unadjusted unemployment rate in the Milwaukee MSA was 7.0%, compared to the national unemployment rate of 7.6% and an unemployment rate in the State of Wisconsin generally of 6.5%. The unemployment rate in the Milwaukee MSA improved 2.0% from December 2009, compared to the improvement in the national and Wisconsin averages, which was 2.1% and 2.3%, respectively, over the same period.

Northeastern Wisconsin

The cities of Appleton, Green Bay, and Oshkosh, Wisconsin serve as the primary population centers in our Northeast Wisconsin market and provide an attractive market to a variety of industries, including transportation, utilities, packaging and diversified services, with the most significant economic drivers being the manufacturing, packaging and paper goods industries. The most significant individual employers in this market include Bemis Company, Inc., a packaging company, and Oshkosh Corporation, a specialty truck manufacturer, each of which is a Fortune 500 company. As the home of the Green Bay Packers NFL franchise, tourism is also a meaningful industry in this market.

According to the U.S. Census Bureau, as of April 1, 2010 (the 2010 Census Date), the three major MSAs in our Northeast Wisconsin market (Appleton, Green Bay and Oshkosh-Neenah) had a total population of 698,901 and total households of 275,674. Since 2000, these MSAs have experienced a population growth of 9%, compared to the State of Wisconsin's population growth rate of 6%. As of April, 2010, the five-year average median household income level in Outagamie County - where our primary loan production office in this region is located - was $55,914, compared to the median household income level averages in the United States and the State of Wisconsin of $51,914 and $51,598, respectively. According to the Bureau of Labor Statistics, as of December 2012, the preliminary unemployment rate in the three major MSAs in this market ranged from 5.7% to 6.1%, compared to the national unemployment rate of 7.6% and an unemployment rate in the State of Wisconsin of 6.5%. These unemployment rates improved between 1.8% and 2.5% from December 2009, compared to the improvement in the national and Wisconsin averages, which was 2.1% and 2.3%, respectively, over the same period.

Executive Officers of the Registrant

The following contains certain information about the executive officers of FBFS. There are no family relationships between any directors or executive officers of FBFS.

Corey A. Chambas, age 50, has served as a director since July 2002, as Chief Executive Officer of FBFS since December 2006 and as President since February 2005. He served as Chief Operating Officer of FBFS from February 2005 to September 2006 and as Executive Vice President from July 2002 to February 2005. He served as Chief Executive Officer of FBB from July 1999 to September 2006 and as President of FBB from July 1999 to February 2005. He also currently serves as a director of our subsidiaries FBCC and First Madison Investment Corp. Mr. Chambas has over 25 years of commercial banking experience. Prior to joining FBFS, he was a Vice President of Commercial Lending with M&I Bank, now known as BMO Harris Bank, in Madison, Wisconsin.

James F. Ropella, age 53, has served as Senior Vice President and Chief Financial Officer of FBFS since September 2000. Mr. Ropella also serves as the Chief Financial Officer of each of the Banks. He also currently serves as a director of our subsidiaries First Madison Investment Corp. and FBB - Milwaukee. Mr. Ropella has over 30 years of experience in finance and accounting, primarily in the banking industry. Prior to joining FBFS, Mr. Ropella was treasurer of a consumer products company. Prior to that, he was Treasurer of Firstar Corporation, now known as U.S. Bancorp.

Michael J. Losenegger, age 55, has served as Chief Credit Officer of FBFS since May 2011. Mr. Losenegger also serves as the Senior Credit Officer of the Banks. He also currently serves as a director for our subsidiaries First Madison Investment Corp., FBCC and FBEF. Prior to being appointed Chief Credit Officer, Mr. Losenegger served as FBFS's Chief Operating Officer since September 2006. Mr. Losenegger joined FBFS in 2003 and has held various positions with FBB, including Chief Executive Officer, Chief Operating Officer and Senior Vice President of Business Development. Mr. Losenegger has over 27 years of experience in commercial lending. Prior to joining FBFS, Mr. Losenegger was Senior Vice President of Lending at M&I Bank, now known as BMO Harris Bank, in Madison, Wisconsin.

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Barbara M. Conley, age 59, has served as FBFS's General Counsel since June 2008 and as Senior Vice President/Corporate Secretary since December 2007. Ms. Conley also serves as General Counsel, Senior Vice President and Corporate Secretary of the Banks. She has also served as a Director of FBCC since June 2009. Ms. Conley has over 30 years of experience in commercial banking. Directly prior to joining FBFS in 2007, Ms. Conley was a Senior Vice President in Corporate Banking with Associated Bank. She had been employed at Associated Bank since May 1976.

Jodi A. Chandler, age 48, has served as Senior Vice President-Human Resources & Administration of FBFS since January 2010. Prior to that, she held the position of Senior Vice President-Human Resources for several years. She has been an employee of FBFS for almost 20 years.

Mark J. Meloy, age 51, has served as President and Chief Executive Officer of FBB since December 2007. Mr. Meloy joined FBFS in 2000 and has held various positions including Executive Vice President of FBB and President and Chief Executive Officer of FBB-Milwaukee. He currently serves as CEO of FBEF. Mr. Meloy has over 25 years of commercial lending experience. Prior to joining FBFS, Mr. Meloy was a Vice President and Senior Relationship Manager with Firstar Bank, NA, Cedar Rapids, Iowa and Milwaukee, Wisconsin, now known as U.S. Bank, working in their financial institutions group with mergers and acquisition financing.

Joan A. Burke, age 61, has served as President of FBB's Trust Division since September 2001. Ms. Burke has over 30 years of experience in providing trust and investment advice. Prior to joining FBFS, Ms. Burke was the President, Chief Executive Officer and Chairperson of the Board of Johnson Trust Company and certain of its affiliates.

Charles H. Batson, age 59, has served as the President and Chief Executive Officer of FBCC since January 2006. Mr. Batson has over 30 years of experience in asset-based lending. Directly prior to joining FBCC, Mr. Batson served as Vice President and Business Development Manager for Wells Fargo Business Credit, Inc. since 1990.

David J. Vetta, age 58, has served as President and Chief Executive Officer of FBB-Milwaukee since January 2007. Prior to joining FBB-Milwaukee, Mr. Vetta was Managing Director at JP Morgan Asset Management since 1992 overseeing National Institutional Investment Sales teams and the Regional Private Client Group, while serving as a member of the executive committee. Mr. Vetta was affiliated with JP Morgan Chase and its predecessor companies in various other roles since 1976.

SUPERVISION AND REGULATION

Below is a brief description of certain laws and regulations that relate to us and the Banks. This narrative does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

General

Financial institutions, their holding companies and their affiliates are extensively regulated under federal and state law. As a result, our growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory authorities, including the Division of Banking of the Wisconsin Department of Financial Institutions ("WDFI"), the Federal Reserve, the Federal Deposit Insurance Corporation (the "FDIC") and the newly created Bureau of Consumer Financial Protection (the "CFPB"). Furthermore, taxation laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board and securities laws administered by the SEC and state securities authorities have an impact on our business. The effect of these statutes, regulations, regulatory policies and accounting rules are significant to our operations and results, and the nature and extent of future legislative, regulatory or other changes affecting financial institutions are impossible to predict with any certainty.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of financial institutions, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than stockholders. These federal and state laws, and the regulations of the bank regulatory authorities issued under them, affect, among other things, the scope of business, the kinds and amounts of investments banks may make, reserve requirements, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with insiders and affiliates and the payment of dividends. Moreover, turmoil in the credit markets in recent years prompted the enactment of unprecedented legislation that has allowed the U.S. Department of the Treasury (the “Treasury”) to make equity capital available to qualifying

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financial institutions to help restore confidence and stability in the U.S. financial markets, which imposes additional requirements on institutions in which the Treasury invests.

In addition, FBFS and the Banks are subject to regular examination by their respective regulatory authorities, which results in examination reports and ratings that are not publicly available and that can impact the conduct and growth of business. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to us and our subsidiaries. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory or regulatory provision.

Financial Regulatory Reform

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) into law. The Dodd-Frank Act represents a sweeping reform of the supervisory and regulatory framework applicable to financial institutions and capital markets in the United States, certain aspects of which are described below in more detail. The Dodd-Frank Act created new federal governmental entities responsible for overseeing different aspects of the U.S. financial services industry, including identifying emerging systemic risks. It also shifted certain authorities and responsibilities among federal financial institution regulators, including the supervision of holding company affiliates and the regulation of consumer financial services and products. In particular, and among other things, the Dodd-Frank Act: (i) created the CFPB, which is authorized to regulate providers of consumer credit, savings, payment and other consumer financial products and services; (ii) leveled the competitive playing field in some respects by narrowing the scope of federal preemption of state consumer laws enjoyed by national banks and federal savings associations and expanded the authority of state attorneys general to bring actions to enforce federal consumer protection legislation; (iii) imposed more stringent capital requirements on most bank holding companies and subjected certain activities, including interstate mergers and acquisitions, to heightened capital conditions; (iv) significantly expanded underwriting requirements applicable to loans secured by 1-4 family residential real property; (v) restricted the interchange fees payable on debit card transactions for issuers with $10 billion in assets or greater; (vi) required the originator of a securitized loan, or the sponsor of a securitization, to retain at least 5% of the credit risk of securitized exposures unless the underlying exposures are qualified residential mortgages or meet certain underwriting standards to be determined by regulation; (vii) created a Financial Stability Oversight Council as part of a regulatory structure for identifying emerging systemic risks and improving interagency cooperation; (viii) provided for enhanced regulation of advisers to private funds and of the derivatives markets; (ix) enhanced oversight of credit rating agencies; and (x) prohibited banking agency requirements tied to credit ratings.

Numerous provisions of the Dodd-Frank Act are required to be implemented through rulemaking by the appropriate federal regulatory agencies. Many of the required regulations have been issued and others have been released for public comment, but there remain a number that have yet to be released in any form. Furthermore, while the reforms primarily target systemically important financial service providers, their influence is expected to filter down in varying degrees to smaller institutions over time. Management of FBFS and the Banks will continue to evaluate the effect of the changes; however, in many respects, the ultimate impact of the Dodd-Frank Act will not be fully known for years, and no current assurance may be given that the Dodd-Frank Act, or any other new legislative changes, will not have a negative impact on the results of operations and financial condition of FBFS and our subsidiaries.

The Increasing Regulatory Emphasis on Capital

FBFS is subject to various regulatory capital requirements administered by the federal and state banking regulators noted above. Failure to meet regulatory capital requirements may result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for “prompt corrective action” (described below), FBFS must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting policies. Our capital amounts and classifications are also subject to judgments by the regulators regarding qualitative components, risk weightings and other factors.

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While capital has historically been one of the key measures of the financial health of both bank holding companies and depository institutions, its role is becoming fundamentally more important in the wake of the financial crisis, as the regulators have recognized that the amount and quality of capital held by banking organizations was insufficient to absorb losses during periods of severe stress. Certain provisions of the Dodd-Frank Act and Basel III, discussed below, will ultimately establish strengthened capital standards for banks and bank holding companies, will require more capital to be held in the form of common stock and will disallow certain funds from being included in capital determinations. Once fully implemented, these provisions will represent regulatory capital requirements that are meaningfully more stringent than those in place currently.

Holding Company and Bank Required Capital Levels. Bank holding companies have historically had to comply with less stringent capital standards than their bank subsidiaries and were able to raise capital with hybrid instruments such as trust preferred securities. The Dodd-Frank Act mandated the Federal Reserve to establish minimum capital levels for bank holding companies on a consolidated basis that are as stringent as those required for insured depository institutions. As a consequence, over a phase-in period of three years, the components of holding company permanent capital known as “Tier 1 capital” are being restricted to capital instruments that are considered to be Tier 1 capital for insured depository institutions. A result of this change is that the proceeds of trust preferred securities are being excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by bank holding companies with less than $15 billion of assets. Because FBFS has assets of less than $15 billion, it is able to maintain its trust preferred proceeds as Tier 1 capital but will have to comply with new capital mandates in other respects, and will not be able to raise Tier 1 capital in the future through the issuance of trust preferred securities. In addition, the Basel III proposal, discussed below, includes a phase-out of trust preferred securities for all bank holding companies, including FBFS.

Under current federal regulations, the Banks are subject to, and, after the phase-in period, FBFS will be subject to, the following minimum capital standards:

- a leverage requirement, consisting of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly-rated banks with a minimum requirement of at least 4% for all others, and
- a risk-based capital requirement, consisting of a minimum ratio of total capital to total risk-weighted assets of 8% and a minimum ratio of Tier 1 capital to total risk-weighted assets of 4%. For this purpose, “Tier 1 capital” consists primarily of common stock, noncumulative perpetual preferred stock and related surplus less intangible assets (other than certain loan servicing rights and purchased credit card relationships). Total capital consists primarily of Tier 1 capital plus “Tier 2 capital,” which includes other non-permanent capital items, such as certain other debt and equity instruments that do not qualify as Tier 1 capital, and a portion of the Banks' respective allowance for loan and leases losses.

The capital standards described above are minimum requirements. Federal law and regulations provide various incentives for banking organizations to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a banking organization that is “well-capitalized” may: (i) qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities; (ii) qualify for expedited processing of other required notices or applications; and (iii) accept brokered deposits. Under the capital regulations of the Federal Reserve, in order to be “well capitalized,” a banking organization must maintain a ratio of total capital to total risk-weighted assets of 10% or greater, a ratio of Tier 1 capital to total risk-weighted assets of 6% or greater and a ratio of Tier 1 capital to total assets of 5% or greater. The Federal Reserve's guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the guidelines indicate that the Federal Reserve will continue to consider a “tangible Tier 1 leverage ratio” (deducting all intangibles) in evaluating proposals for expansion or to engage in new activity.

Higher capital levels may also be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve's capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (i.e., Tier 1 capital less all intangible assets), well above the minimum levels.

Prompt Corrective Action. A banking organization's capital plays an important role in connection with regulatory enforcement as well. Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized,” in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution's asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

As of December 31, 2012: (i) the Banks were not subject to a directive from the FDIC to increase capital to an amount in excess of the minimum regulatory capital requirements; (ii) the Banks exceeded their respective minimum regulatory capital requirements under FDIC capital adequacy guidelines; and (iii) the Banks were each “well-capitalized,” as defined by FDIC regulations. As of December 31, 2012, FBFS had regulatory capital in excess of the Federal Reserve's requirements and met the Dodd-Frank Act requirements.

Basel III. The current risk-based capital guidelines described above, which apply to the Banks and are being phased in for FBFS, are based upon the 1988 capital accord known as “Basel I” adopted by the international Basel Committee on Banking Supervision, a committee of central banks and bank supervisors, as implemented by the U.S. federal banking regulators on an interagency basis. In 2008, the banking agencies collaboratively began to phase-in capital standards based on a second capital accord, referred to as “Basel II,” for large or “core” international banks (generally defined for U.S. purposes as having total assets of $250 billion or more, or consolidated foreign exposures of $10 billion or more). Basel II emphasized internal assessment of credit, market and operational risk, as well as supervisory assessment and market discipline in determining minimum capital requirements.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on a strengthened set of capital requirements for banking organizations around the world, known as Basel III, to address deficiencies recognized in connection with the global financial crisis. Basel III requires, among other things:

- a new required ratio of minimum common equity equal to 4.5% of risk-weighted assets,
- an increase in the minimum required amount of Tier 1 capital from the current level of 4% of total assets to 6% of risk-weighted assets, and
- a continuation of the current minimum required amount of total capital at 8% of risk-weighted assets.

In addition, institutions that seek the freedom to make capital distributions (including for dividends and repurchases of stock) and pay discretionary bonuses to executive officers without restriction must also maintain 2.5% in common equity attributable to a capital conservation buffer to be phased in over three years. The purpose of the conservation buffer is to ensure that banks maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. Factoring in the conservation buffer increases the ratios depicted above to 7% for common equity, 8.5% for Tier 1 capital and 10.5% for total capital.

On June 12, 2012, the federal banking regulators (the Office of the Comptroller of the Currency, the Federal Reserve and the FDIC) (the “Agencies”) formally proposed for comment, in three separate but related proposals, rules to implement Basel III in the United States. The proposals are: (i) the “Basel III Proposal,” which applies the Basel III capital framework to almost all U.S. banking organizations; (ii) the “Standardized Approach Proposal,” which applies certain elements of the Basel II standardized approach for credit risk weightings to almost all U.S. banking organizations; and (iii) the “Advanced Approaches Proposal,” which applies changes made to Basel II and Basel III in the past few years to large U.S. banking organizations subject to the advanced Basel II capital framework. The comment period for these notices of proposed rulemaking ended October 22, 2012.

The Basel III Proposal and the Standardized Approach Proposal are expected to have a direct impact on FBFS and the Banks. The Basel III Proposal is applicable to all U.S. banks that are subject to minimum capital requirements, including federal and state banks, as well as to bank and savings and loan holding companies other than “small bank holding companies” (generally bank holding companies with consolidated assets of less than $500 million). There will be separate phase-in/phase-out periods for: (i) minimum capital ratios; (ii) regulatory capital adjustments and deductions; (iii) nonqualifying capital instruments; (iv) capital conservation and countercyclical capital buffers; (v) a supplemental leverage ratio for advanced approaches banks; and (vi) changes to the FDIC's prompt corrective action rules.

The criteria in the U.S. proposal for common equity and additional Tier 1 capital instruments, as well as Tier 2 capital instruments, are broadly consistent with the Basel III criteria. A number of instruments that now qualify as Tier 1 capital will not qualify, or their qualification will change, if the Basel III Proposal becomes final. For example, cumulative preferred stock and certain hybrid capital instruments, including trust preferred securities, which FBFS may retain under the Dodd-Frank Act,

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will no longer qualify as Tier 1 capital of any kind. Noncumulative perpetual preferred stock, which now qualifies as simple Tier 1 capital, would not qualify as common equity Tier 1 capital, but would qualify as additional Tier 1 capital.

In addition to the changes in capital requirements included within the Basel III Proposal, the Standardized Approach Proposal revises a large number of the risk weightings (or their methodologies) for bank assets that are used to determine the capital ratios. For nearly every class of assets, the proposal requires a more complex, detailed and calibrated assessment of credit risk and calculation of risk weightings. For example, under the current risk-weighting rules, residential mortgages have a risk weighting of 50%. Under the proposed new rules, two categories of residential mortgage lending would be created: (i) traditional lending would be category 1, where the risk weightings range from 35 to 100%; and (ii) nontraditional loans would fall within category 2, where the risk weightings would range from 50 to 150%. There is concern in the U.S. that the proposed methodology for risk weighting residential mortgage exposures and the higher risk weightings for certain types of mortgage products will increase costs to consumers and reduce their access to mortgage credit.

In addition, there is significant concern noted by the financial industry in connection with the Basel III rulemaking as to the proposed treatment of accumulated other comprehensive income (“AOCI”). The proposed treatment of AOCI would require unrealized gains and losses on available-for-sale securities to flow through to regulatory capital as opposed to the current treatment, which neutralizes such effects. There is concern that this treatment would introduce capital volatility, due not only to credit risk but also to interest rate risk, and affect the composition of firms' securities holdings.

While the Basel III accord called for national jurisdictions to implement the new requirements beginning January 1, 2013, in light of the volume of comments received by the Agencies and the concerns expressed above, the Agencies have indicated that the commencement date for the proposed Basel III rules has been delayed and it is unclear when the Basel III regime, as it may be implemented by final rules, will become effective in the United States.

The Corporation

General. We are a bank holding company registered under the Bank Holding Company Act of 1956, as amended (“BHCA”), and are subject to regulation, supervision, and examination by the Federal Reserve. We are required to file an annual report with the Federal Reserve and such other reports as the Federal Reserve may require. In accordance with Federal Reserve policy, and as now codified by the Dodd-Frank Act, we are legally obligated to act as a source of financial strength to the Banks and to commit resources to support the Banks in circumstances where we might not otherwise do so. Under the BHCA, we are subject to periodic examination by the Federal Reserve.

Acquisitions, Activities and Change in Control. The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company of another bank or bank holding company. Subject to certain conditions (including deposit concentration limits established by the BHCA and the Dodd-Frank Act), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its insured depository institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state depository institutions or their holding companies) and state laws that require that the target bank has been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company. Furthermore, in accordance with the Dodd-Frank Act, bank holding companies must be well-capitalized and well-managed in order to effect interstate mergers or acquisitions. For a discussion of the capital requirements, see “-The Increasing Regulatory Emphasis on Capital” above.

The BHCA limits the amount of our investment in any company that is not a bank and our ability to engage in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This limitation is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve prior to November 11, 1999 to be “so closely related to banking . . . as to be a proper incident thereto.” This authority would permit us to engage in a variety of banking-related businesses, including the ownership and operation of a thrift, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development) and mortgage banking and brokerage. The BHCA generally does not place territorial restrictions on the domestic activities of nonbank subsidiaries of bank holding companies.

Federal law also prohibits any person or company from acquiring "control" of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. "Control" is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 10% and 24.99% ownership.

Financial Holding Company Regulation. Bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature, incidental to any such financial activity or complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. We have not elected to operate as a financial holding company.

Capital Requirements. Bank holding companies are required to maintain minimum levels of capital in accordance with Federal Reserve capital adequacy guidelines, as affected by the Dodd-Frank Act and Basel III. For a discussion of capital requirements, see "-The Increasing Regulatory Emphasis on Capital" above. If capital levels fall below the minimum required levels, a bank holding company, among other things, may be denied approval to acquire or establish additional banks or nonbank businesses.

U.S. Government Investment in Bank Holding Companies. Events in the U.S. and global financial markets in 2008 and 2009, including the deterioration of the worldwide credit markets, created significant challenges for financial institutions throughout the country. In response to this crisis affecting the U.S. banking system and financial markets, on October 3, 2008, the U.S. Congress passed, and the President signed into law, the Emergency Economic Stabilization Act of 2008 (the "EESA"). The EESA authorized the Secretary of the Treasury to implement various temporary emergency programs designed to strengthen the capital positions of financial institutions and stimulate the availability of credit within the U.S. financial system. Financial institutions participating in certain of the programs established under the EESA are required to adopt the Treasury's standards for executive compensation and corporate governance. On October 14, 2008, the Treasury announced that it would provide Tier 1 capital (in the form of perpetual preferred stock) to eligible financial institutions. This program, known as the TARP Capital Purchase Program (the "CPP"), allocated $250 billion from the $700 billion authorized by the EESA to the Treasury for the purchase of senior preferred shares from qualifying financial companies. We did not participate in the CPP.

Dividend Payments. Our ability to pay dividends to our stockholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. As a Wisconsin corporation, we are subject to the limitations of the Wisconsin Business Corporation Law, which prohibit us from paying dividends if such payment would: (i) render us unable to pay our debts as they become due in the usual course of business, or (ii) result in our assets being less than the sum of our total liabilities plus the amount needed to satisfy the preferential rights upon dissolution of any stockholders with preferential rights superior to those stockholders receiving the dividend.

As a general matter, the Federal Reserve indicates that the board of directors of a bank holding company should eliminate, defer or significantly reduce the dividends if: (i) FBFS's net income available to stockholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the prospective rate of earnings retention is inconsistent with FBFS's capital needs and overall current and prospective financial condition; or (iii) FBFS will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. The Federal Reserve also possesses enforcement powers over bank holding companies and their nonbank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies.

Corporate Governance. The Dodd-Frank Act addresses many investor protection, corporate governance and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act will increase stockholder influence over boards of directors by requiring companies to give stockholders a nonbinding vote on executive compensation and so-called "golden parachute" payments, and authorizing the SEC to promulgate rules that would allow stockholders to nominate and solicit voters for their own candidates using a company's proxy materials. The legislation also directs the Federal Reserve to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether FBFS is publicly traded.

The Banks

General. The Banks are Wisconsin-chartered banks, the deposit accounts of which are insured by the FDIC's Deposit Insurance Fund (“DIF”) to the maximum extent provided under federal law and FDIC regulations. As Wisconsin-chartered FDIC-insured banks, the Banks are subject to the examination, supervision, reporting and enforcement requirements of the WDFI, the chartering authority for Wisconsin banks, and the FDIC, designated by federal law as the primary federal regulator of insured state banks that, like the Banks, are not members of the Federal Reserve System ("non-member banks"). The Banks are members of the Federal Home Loan Bank System, which provides a central credit facility primarily for member institutions.

As of January 1, 2012, FBB had reached total assets of greater than $1 billion, and as a result is now subject to further reporting requirements under FDIC rules, specifically 12 C.F.R. Part 363 ("Annual Independent Audits and Reporting Requirements"). Pursuant to these rules, management will prepare a report that contains an assessment by management of the Corporation's effectiveness of internal control structure and procedures for financial reporting as of the end of the fiscal year. FBB will also be required to obtain an independent public accountant's attestation report concerning its internal control structure over financial reporting that includes the Reports of Condition and Income (a so-called "Call Report") and/or our FR Y-9C report. In accordance with FDIC rules, the Corporation will satisfy these requirements on behalf of FBB.

Deposit Insurance. As FDIC-insured institutions, the Banks are required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured depository institutions pay insurance premiums at rates based on their risk classification. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators.

On November 12, 2009, the FDIC adopted a final rule that required insured depository institutions to prepay on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011, and 2012. As such, on December 31, 2009, the Banks prepaid their FDIC assessments based on their respective: (i) actual September 30, 2009 assessment base, increased quarterly by a 5% annual growth rate through the fourth quarter of 2012; and (ii) total base assessment rate in effect on September 30, 2009, increased by an annualized three basis points beginning in 2011. The FDIC began to offset prepaid assessments on March 30, 2010, representing payment of the regular quarterly risk-based deposit insurance assessment for the fourth quarter of 2009. Any prepaid assessment not exhausted after collection of the amount due on June 30, 2013, will be returned to the Banks.

Amendments to the Federal Deposit Insurance Act also revise the assessment base against which an insured depository institution's deposit insurance premiums paid to the DIF will be calculated. Under the amendments, the assessment base will no longer be the institution's deposit base, but rather its average consolidated total assets less its average tangible equity. This may shift the burden of deposit insurance premiums toward those large depository institutions that rely on funding sources other than U.S. deposits. Additionally, the Dodd-Frank Act made changes to the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15% to 1.35% of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. The FDIC is given until September 3, 2020 to meet the 1.35% reserve ratio target. Several of these provisions could increase the Banks' FDIC deposit insurance premiums.

The Dodd-Frank Act permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per insured depositor, retroactive to January 1, 2009. Although the legislation provided that non-interest-bearing transaction accounts had unlimited deposit insurance coverage, that program ended on December 31, 2012.

FICO Assessments. The Financing Corporation ("FICO") is a mixed-ownership governmental corporation chartered by the former Federal Home Loan Bank Board pursuant to the Competitive Equality Banking Act of 1987 to function as a financing vehicle for the recapitalization of the former Federal Savings and Loan Insurance Corporation. FICO issued 30-year noncallable bonds of approximately $8.1 billion that mature in 2017 through 2019. FICO's authority to issue bonds ended on December 12, 1991. Since 1996, federal legislation has required that all FDIC-insured depository institutions pay assessments to cover interest payments on FICO's outstanding obligations. These FICO assessments are in addition to amounts assessed by the FDIC for deposit insurance. During the year ended December 31, 2012, the FICO assessment rate was approximately 0.0066%, which reflects the change from an assessment base computed on deposits to an assessment base computed on assets as required by the Dodd-Frank Act.

Supervisory Assessments. All Wisconsin banks are required to pay supervisory assessments to the WDFI to fund the operations of the WDFI. The amount of the assessment is calculated on the basis of total assets. During the year ended December 31, 2012, FBB and FBB - Milwaukee paid supervisory assessments to the DFI totaling $43,000 and $7,600, respectively.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. For a discussion of capital requirements, see “-The Increasing Regulatory Emphasis on Capital” above.

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Dividend Payments. Under Wisconsin banking law, the Banks generally may not pay dividends in excess of their respective undivided profits, and if dividends declared and paid in either of the two immediately preceding years exceeded net income for either of those two years respectively, the Banks may not declare or pay any dividend in the current year that exceeds year-to-date net income. The various bank regulatory agencies have authority to prohibit banks under their jurisdiction from engaging in an unsafe or unsound practice. Under certain circumstances, the payment of a dividend by the Banks could be considered an unsafe or unsound practice. In the event that: (i) the FDIC or the WDFI increase minimum required levels of capital; (ii) the total assets of the Banks increase significantly; (iii) the income of the Banks decrease significantly; or (iv) any combination of the foregoing occurs, then the boards of directors of the Banks may decide or be required by the FDIC or the WDFI to retain a greater portion of the Banks' earnings, thereby reducing or eliminating dividends.

The payment of dividends by any financial institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, each of the Banks exceeded its minimum capital requirements under applicable guidelines as of December 31, 2012. As of December 31, 2012, approximately $64.7 million was available to be paid as dividends by FBB. FBB - Milwaukee did not have any capacity to pay dividends at that time. Notwithstanding the availability of funds for dividends, however, the FDIC may prohibit the payment of any dividends by the Banks if the FDIC determines such payment would constitute an unsafe or unsound practice.

Insider Transactions. The Banks are subject to certain restrictions imposed by federal law on “covered transactions” between the Banks and their affiliates. We are an affiliate of each of the Banks for purposes of these restrictions, and covered transactions subject to the restrictions include extensions of credit to us, investments in our stock or other securities and the acceptance of our stock or other securities as collateral for loans made by the Banks. The Dodd-Frank Act enhances the requirements for certain transactions with affiliates as of July 21, 2011, including an expansion of the definition of “covered transactions” and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained.

Certain limitations and reporting requirements are also placed on extensions of credit by the Banks to their respective directors and officers, to our directors and officers, to our principal stockholders and to “related interests” of such directors, officers and principal stockholders. In addition, federal law and regulations may affect the terms upon which any person who is a director or officer of FBFS or the Banks, or a principal stockholder of ours, may obtain credit from banks with which the Banks maintain correspondent relationships.

Safety and Soundness Standards. The federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the institution's rate of growth, require the institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal banking regulators, including cease and desist orders and civil money penalty assessments.

Branching Authority. The Banks have the authority under Wisconsin law to establish branches anywhere in the State of Wisconsin, subject to receipt of all required regulatory approvals.

Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger. The establishment of new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) has historically been permitted only in those states the laws of which expressly authorize such expansion. However, the Dodd-Frank Act permits well-capitalized and well-managed banks to establish new branches across state lines without these impediments.

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State Bank Investments and Activities. The Banks are permitted to make investments and engage in activities directly or through subsidiaries as authorized by Wisconsin law. However, under federal law and FDIC regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law and FDIC regulations also prohibit FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines that the activity would not pose a significant risk to the DIF. These restrictions have not had, and are not currently expected to have, a material impact on the operations of the Banks.

Transaction Account Reserves. Federal Reserve regulations require depository institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2013: (i) the first $12.4 million of otherwise reservable balances are exempt from the reserve requirements; (ii) for transaction accounts aggregating more than $12.4 million to $79.5 million, the reserve requirement is 3% of total transaction accounts; and (iii) for net transaction accounts in excess of $79.5 million, the reserve requirement is $2,013,000 plus 10% of the aggregate amount of total transaction accounts in excess of $79.5 million. These reserve requirements are subject to annual adjustment by the Federal Reserve. The Banks are in compliance with the foregoing requirements.

Federal Home Loan Bank System. The Banks are members of the Federal Home Loan Bank of Chicago (the “FHLB”), which serves as a central credit facility for its members. The FHLB is funded primarily from proceeds from the sale of obligations of the FHLB system. It makes loans to member banks in the form of FHLB advances. All advances from the FHLB are required to be fully collateralized as determined by the FHLB.

As a member, each of the Banks is required to own shares of capital stock in the FHLB in an amount equal to the greatest of $500, 1% of its aggregate unpaid residential mortgage loans, home purchase contracts or similar obligations at the beginning of each year or 20% of its outstanding advances. The FHLB also imposes various limitations on advances relating to the amount and type of collateral, the amount of advances and other items. As of December 31, 2012, the Banks owned a total of $1.1 million in FHLB stock and they were both in compliance with FHLB requirements. The Banks received a modest dividend from the FHLB in 2012 and 2011 and no dividend in the year 2010. The Banks do not expect dividend income from their holdings of FHLB stock to be a significant source of income for the foreseeable future. Outstanding FHLB advances as of December 31, 2012 amounted to $469,000.

Community Reinvestment Act Requirements. The Community Reinvestment Act requires each Bank to have a continuing and affirmative obligation in a safe and sound manner to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. Federal regulators regularly assess the Banks' record of meeting the credit needs of their respective communities. Applications for additional acquisitions would be affected by the evaluation of the Banks' effectiveness in meeting their Community Reinvestment Act requirements.

Anti-Money Laundering. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “Patriot Act”) is designed to deny terrorists and criminals the ability to obtain access to the U.S. financial system and has significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The Patriot Act mandates financial services companies to have policies and procedures with respect to measures designed to address any or all of the following matters: (i) customer identification programs; (ii) money laundering; (iii) terrorist financing; (iv) identifying and reporting suspicious activities and currency transactions; (v) currency crimes; and (vi) cooperation between financial institutions and law enforcement authorities.

Commercial Real Estate Guidance. The interagency Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices guidance (“CRE Guidance”) provides supervisory criteria, including the following numerical indicators, to assist bank examiners in identifying banks with potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny: (i) commercial real estate loans exceeding 300% of capital and increasing 50% or more in the preceding three years; or (ii) construction and land development loans exceeding 100% of capital. The CRE Guidance does not limit banks' levels of commercial real estate lending activities but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. Based on our current loan portfolio, the Banks do not exceed these guidelines. Even though the Banks do not exceed these regulatory guidelines, we believe that we have taken appropriate precautions to address the risks associated with our concentrations in commercial real estate lending. We do not expect the CRE Guidance to adversely affect our operations or our ability to execute our growth strategy.

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Monetary Policy

The monetary policy of the Federal Reserve has a significant effect on the operating results of financial or bank holding companies and their subsidiaries. Among the means available to the Federal Reserve to affect the money supply are open market transactions in U.S. government securities, changes in the discount rate on member bank borrowings and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

Consumer Financial Services

There are numerous developments in federal and state laws regarding consumer financial products and services that impact each Bank's business. Importantly, the current structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011, when the CFPB commenced operations to supervise and enforce consumer protection laws. The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including the Banks, as well as the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over providers with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets, like the Banks, will continue to be examined by their applicable bank regulators. Below are additional recent regulatory developments relating to consumer mortgage lending activities. Due to our limited consumer mortgage portfolio, we do not currently expect these provisions to have a significant impact on our operations; however, additional compliance resources will be needed to monitor changes.

Ability-to-Repay Requirement and Qualified Mortgage Rule. The Dodd-Frank Act contains additional provisions that affect consumer mortgage lending. First, it significantly expands underwriting requirements applicable to loans secured by 1-4 family residential real property and augments federal law combating predatory lending practices. In addition to numerous new disclosure requirements, the Dodd-Frank Act imposes new standards for mortgage loan originations on all lenders, including banks and savings associations, in an effort to strongly encourage lenders to verify a borrower's ability to repay, while also establishing a presumption of compliance for certain "qualified mortgages." Most significantly, the new standards limit the total points and fees that the Banks and/or a broker may charge on conforming and jumbo loans to 3% of the total loan amount. In addition, the Dodd-Frank Act generally requires lenders or securitizers to retain an economic interest in the credit risk relating to loans that the lender sells and other asset backed securities that the securitizer issues if the loans have not complied with the ability to-repay standards. The risk retention requirement generally will be 5%, but could be increased or decreased by regulation.

On January 10, 2013, the CFPB issued a final rule, effective January 10, 2014, which implements the Dodd-Frank Act's ability-to-repay requirements, and clarifies the presumption of compliance for "qualified mortgages." In assessing a borrower's ability to repay a mortgage-related obligation, lenders generally must consider eight underwriting factors: (i) current or reasonably expected income or assets; (ii) current employment status; (iii) monthly payment on the subject transaction; (iv) monthly payment on any simultaneous loan; (v) monthly payment for all mortgage-related obligations; (vi) current debt obligations, alimony, and child support; (vii) monthly debt-to-income ratio or residual income; and (viii) credit history. The final rule also includes guidance regarding the application of, and methodology for evaluating, these factors.

Further, the final rule also clarifies that qualified mortgages do not include "no-doc" loans and loans with negative amortization, interest-only payments, balloon payments, terms in excess of 30 years, or points and fees paid by the borrower that exceed 3% of the loan amount, subject to certain exceptions. In addition, for qualified mortgages, the monthly payment must be calculated on the highest payment that will occur in the first five years of the loan, and the borrower's total debt-to-income ratio generally may not be more than 43%. The final rule also provides that certain mortgages that satisfy the general product feature requirements for qualified mortgages and that also satisfy the underwriting requirements of Fannie Mae and Freddie Mac (while they operate under federal conservatorship or receivership) or the U.S. Department of Housing and Urban Development, Department of Veterans Affairs, or Department of Agriculture or Rural Housing Service are also considered to be qualified mortgages. This second category of qualified mortgages will phase out as the aforementioned federal agencies issue their own rules regarding qualified mortgages, the conservatorship of Fannie Mae and Freddie Mac ends, and, in any event, after seven years.

As set forth in the Dodd-Frank Act, subprime (or higher-priced) mortgage loans are subject to the ability-to-repay requirement, and the final rule provides for a rebuttable presumption of lender compliance for those loans. The final rule also applies the ability-to-repay requirement to prime loans, while also providing a conclusive presumption of compliance (i.e., a safe harbor) for prime loans that are also qualified mortgages. Additionally, the final rule generally prohibits prepayment penalties (subject to certain exceptions) and sets forth a 3-year record retention period with respect to documenting and demonstrating the ability-to-repay requirement and other provisions.

Changes to Mortgage Loan Originator Compensation. Effective April 2, 2011, previously existing regulations concerning the compensation of mortgage loan originators were amended. As a result of these amendments, mortgage loan originators may not receive compensation based on a mortgage transaction's terms or conditions other than the amount of credit extended under the mortgage loan. Further, the new standards limit the total points and fees that a bank and/or a broker may charge on conforming and jumbo loans to 3% of the total loan amount. Mortgage loan originators may receive compensation from a consumer or from a lender, but not both. These rules contain requirements designed to prohibit mortgage loan originators from “steering” consumers to loans that provide mortgage loan originators with greater compensation. In addition, the rules contain other requirements concerning recordkeeping.

Foreclosure and Loan Modifications. Federal and state laws further impact foreclosures and loan modifications, many of which laws have the effect of delaying or impeding the foreclosure process on real estate secured loans in default. Mortgages on commercial property can be modified, such as by reducing the principal amount of the loan or the interest rate, or by extending the term of the loan, through plans confirmed under Chapter 11 of the U.S. Bankruptcy Code. In recent years, legislation has been introduced in the U.S. Congress that would amend the Bankruptcy Code to permit the modification of mortgages secured by residences, although at this time the enactment of such legislation is not presently proposed. The scope, duration and terms of potential future legislation with similar effect continue to be discussed. We cannot predict whether any such legislation will be passed or the impact, if any, it would have on our business.

Item 1A. Risk Factors

You should carefully read and consider the following risks and uncertainties. We may encounter risks in addition to those described below, including risks and uncertainties not currently known to us or that we currently deem to be immaterial. The risks described below, as well as such additional risks and uncertainties, may impair or materially and adversely affect our business, results of operations and financial condition.

Risks Related to Our Business

If we do not effectively manage our credit risk, we may experience increased levels of delinquencies, nonperforming loans, and charge-offs, which would require additional increases in our provision for loan and lease losses.

There are risks inherent in making any loan or lease, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and cash flows available to service debt and risks resulting from changes in economic and market conditions. We cannot assure you that our credit risk approval and monitoring procedures will reduce these credit risks, and they cannot be expected to completely eliminate our credit risks. If the overall economic climate in the United States, generally, or our market areas, specifically, fails to meaningfully improve, or even if it does meaningfully improve, our borrowers may experience difficulties in repaying their loans and leases, and the level of nonperforming loans and leases, charge-offs and delinquencies could rise and require further increases in the provision for loan and lease losses, which would cause our net income and return on equity to decrease.

Our allowance for loan and lease losses may not be adequate to cover actual losses.

We establish our allowance for loan and lease losses and maintain it at a level considered appropriate by management based on an analysis of our portfolio and market environment. The allowance for loan and lease losses represents our estimate of probable losses inherent in the portfolio at each balance sheet date and is based upon relevant information available to us. The allowance contains provisions for probable losses that have been identified relating to specific relationships, as well as probable losses inherent in our loan and lease portfolio and credit undertakings that are not specifically identified. Additions to the allowance for loan and lease losses, which are charged to earnings through the provision for loan and lease losses, are determined based on a variety of factors, including an analysis of our loan and lease portfolio by segment, historical loss experience and an evaluation of current economic conditions in our market areas. The actual amount of loan and lease losses is affected by changes in economic, operating and other conditions within our markets, which may be beyond our control, and such losses may exceed current estimates.

At December 31, 2012, our allowance for loan and lease losses as a percentage of total loans and leases was 1.69% and as a percentage of total nonperforming loans and leases was 109.05%. Although management believes that the allowance for loan and lease losses is appropriate, we may be required to take additional provisions for losses in the future to further supplement the allowance, either due to management's decision to do so or requirements by our banking regulators. In addition,

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bank regulatory agencies will periodically review our allowance for loan and lease losses and the value attributed to nonaccrual loans or to properties acquired through foreclosure. Such regulatory agencies may require us to adjust our determination of the value for these items. Any significant increases to the allowance for loan and lease losses may materially decrease our net income, which may adversely affect our business, financial condition and results of operations.

A significant portion of our loan and lease portfolio is comprised of commercial real estate loans, which involve risks specific to real estate values and the real estate markets in general, all of which have experienced significant weakness in the past several years.

At December 31, 2012 we had $624.0 million of commercial real estate loans, which represented 68.37% of our total loan portfolio. Because payments on such loans are often dependent on the successful operation or development of the property or business involved, repayment of such loans is often more sensitive than other types of loans to adverse conditions in the real estate market or the general economy, which are outside the borrower's control. In the event that the cash flow from the property is reduced, the borrower's ability to repay the loan could be negatively impacted. The deterioration of one or a few of these loans could cause a material increase in our level of nonperforming loans, which would result in a loss of revenue from these loans and could result in an increase in the provision for loan and lease losses and an increase in charge-offs, all of which could have a material adverse impact on our net income. Additionally, many of these loans have real estate as a primary or secondary component of collateral. The market value of real estate can fluctuate significantly in a short period of time as a result of economic conditions. Adverse developments affecting real estate values in one or more of our markets could impact collateral coverage associated with the commercial real estate segment of our portfolio, possibly leading to increased specific reserves or charge-offs, which would adversely affect profitability.

A large portion of our loan and lease portfolio is comprised of commercial loans secured by equipment or other collateral, the deterioration in value of which could increase our exposure to future probable losses.

At December 31, 2012, approximately 28.10%, or $256.5 million, of our loan and lease portfolio was comprised of commercial loans to businesses collateralized by general business assets including accounts receivable, inventory, and equipment. Our commercial loans are typically larger in amount than loans to individual consumers and, therefore, have the potential for larger losses on an individual loan basis. Additionally, asset based borrowers are usually highly leveraged and/or have inconsistent historical earnings. Significant adverse changes in various industries could cause rapid declines in values and collectability associated with those business assets resulting in inadequate collateral coverage that may expose us to future losses. An increase in specific reserves and charge-offs may have a material adverse impact on our results of operations.

Nonperforming assets take significant time to resolve and adversely affect our results of operations and financial condition, and could result in further losses in the future.

At December 31, 2012, our nonperforming loans totaled $14.1 million, or 1.55% of our loan and lease portfolio, and our nonperforming assets (which include nonperforming loans and foreclosed properties) totaled $15.7 million, or 1.28% of total assets. In addition, we had $210,000 in accruing loans that were 30-89 days delinquent as of December 31, 2012.

Our nonperforming assets adversely affect our net income in various ways. We do not record interest income on nonaccrual loans or foreclosed properties, thereby adversely affecting our net income and returns on assets and equity, increasing our loan administration costs and adversely affecting our efficiency ratio. When we take collateral in foreclosure and similar proceedings, we are required to mark the collateral to its then fair market value, less estimated selling costs, which may result in a loss. These nonperforming loans and foreclosed properties also increase our risk profile and the capital our regulators believe is appropriate in light of such risks. The resolution of nonperforming assets requires significant time commitments from management and can be detrimental to the performance of their other responsibilities. If we experience increases in nonperforming loans and nonperforming assets, our net interest income may be negatively impacted and our loan administration costs could increase, each of which could have an adverse effect on our net income and related ratios, such as return on assets and equity.

Real estate construction and land development loans are based upon estimates of costs and values associated with the complete project. These estimates may be inaccurate, and we may be exposed to significant losses on loans for these projects.

Real estate construction and land development loans comprised approximately 7.12% of our total loan and lease portfolio as of December 31, 2012, and such lending involves additional risks because funds are advanced upon the as-completed value of the project, which is uncertain prior to its completion, and costs may exceed realizable values in declining real estate markets. Because of the uncertainties inherent in estimating construction costs and the realizable market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated or market values or rental rates decline, we may have inadequate security for the repayment of the loan upon completion of construction of the project. If we are forced to foreclose on a project prior to or at completion due to a default, we may not be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs. In addition, we may be required to fund additional amounts to complete the project and may have to hold the property for an unspecified period of time while we attempt to dispose of it.

Our business has been and may continue to be adversely affected by conditions in the financial markets and economic conditions generally.

Although it has recently shown certain signs of improvement, since late 2007, the U.S. economy has generally experienced challenging economic conditions. Business activity across a range of industries and regions remains reduced from historical levels under more favorable economic conditions. Likewise, many local governments have been experiencing certain difficulties, including lower tax revenues, which have impacted their ability to cover costs. Unemployment also remains at elevated levels. For the past few years, the financial services industry has generally been affected by declines in the values of many significant asset classes, reduced levels of liquidity and the lack of opportunities to originate new loans. While these challenges are generally less severe than in recent years, their impact continues to be felt.

As a result of these economic conditions, many lending institutions, including the Banks, have experienced declines in the performance of their loans from historical norms. Moreover, competition among depository institutions for deposits and quality loans has increased significantly. In addition, the values of real estate collateral supporting many loans remain depressed and may decline in the future. Bank and bank holding company stock prices have generally been negatively affected over this time period, and the ability of banks and bank holding companies to raise capital or borrow in the debt markets has generally been more difficult than it had been prior to 2007. There have been significant new laws and regulations regarding lending and funding practices and liquidity standards, with a potential for further regulation in the future, and bank regulatory agencies in general have been diligent in responding to concerns and trends identified in examinations, including through formal or informal enforcement actions or orders. The impact of new legislation in response to these developments may negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance or our stock price.

In addition, if the overall economic climate in the United States, generally, or our market areas, specifically, fails to continue to improve, this may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates, which may impact our charge-offs and provisions for credit losses. A worsening of these conditions likely would exacerbate the adverse effects of the recent market conditions on us and others in the financial services industry.

Our business is concentrated in and largely dependent upon the continued growth and welfare of the general geographical markets in which we operate.

Our operations are heavily concentrated in the South Central region of Wisconsin and to a lesser extent the Southeastern and Northeastern regions of Wisconsin, and, as a result, our financial condition, results of operations and cash flows are significantly impacted by changes in the economic conditions in those areas. Our success depends to a significant extent upon the business activity, population, income levels, deposits and real estate activity in these markets. Although our customers' business and financial interests may extend well beyond these market areas, adverse economic conditions that affect these market areas could reduce our growth rate, affect the ability of our customers to repay their loans to us, affect the value of collateral underlying loans and generally affect our financial condition and results of operations. Because of our geographic concentration, we are less able than other regional or national financial institutions to diversify our credit risks across multiple markets. Although, in general, the Wisconsin economy and real estate market have not been affected as severely as other areas of the United States in recent years, they are not immune to challenging economic conditions that affect the United States and world economies.

Our financial condition and results of operations could be negatively affected if we fail to effectively execute our strategic plan or manage the growth called for in our strategic plan.

Among other things, our strategic plan currently calls for reducing the amount of our nonperforming assets, generating in-market core deposits to improve our net interest margin and increasing fee income. Our ability to increase profitability in accordance with this plan will depend on a variety of factors including the identification of desirable business opportunities, competitive responses from financial institutions in our market areas and our ability to manage liquidity and funding sources. While we believe we have the management resources and internal systems in place to successfully manage our strategic plan, we cannot guarantee that opportunities will be available and that the strategic plan will be successful or effectively managed.

Although we do not have any current definitive plans to do so, in implementing our strategic plan we may expand into additional communities or attempt to strengthen our position in our current markets through opportunistic acquisitions of similar or complementary financial services organizations. To the extent that we open new offices or undertake acquisitions, we are likely to experience the effects of higher operating expenses relative to operating income from the new operations, which may have an adverse effect on our levels of reported net income, return on average equity and return on average assets. Other effects of engaging in such growth strategies may include potential diversion of our management's time and attention and general disruption to our business.

To the extent that we grow through additional office openings, we cannot assure you that we will be able to adequately and profitably manage this growth. Acquiring other banks and businesses will involve similar risks to those commonly associated with branching, but may also involve additional risks, including potential exposure to unknown or contingent liabilities of banks and businesses we acquire and exposure to potential asset quality issues of the acquired bank or related business.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U.S. government securities, adjustments of the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.

We operate in a highly regulated industry and the laws and regulations that govern our operations, corporate governance, executive compensation and accounting principles, or changes in them, or our failure to comply with them, may adversely affect us.

We are subject to extensive regulation and supervision that govern almost all aspects of our operations. Intended to protect customers, depositors and deposit insurance funds, these laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on our business activities, limit the dividends or distributions that we can pay, restrict the ability of institutions to guarantee our debt and impose certain specific accounting requirements that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than generally accepted accounting principles. Compliance with laws and regulations can be difficult and costly and changes to laws and regulations often impose additional compliance costs. Further, our failure to comply with these laws and regulations, even if the failure was inadvertent or reflects a difference in interpretation, could subject us to restrictions on our business activities, fines and other penalties, any of which could adversely affect our results of operations, capital base and the price of our securities.

Recent legislative and regulatory reforms applicable to the financial services industry may have a significant impact on our business, financial condition and results of operations.

In the wake of the global financial crisis of 2008-2009, Congress enacted the Dodd-Frank Act, which significantly changed the regulation of financial institutions and the financial services industry. The Dodd-Frank Act, together with the regulations developed and to be developed thereunder, includes provisions affecting large and small financial institutions alike, including several provisions that will affect how community banks, thrifts and small bank and thrift holding companies will be regulated in the future.

Among other things, the Dodd-Frank Act changes deposit insurance coverage and assessments and impacts the products and services offered by financial institutions. It changes the base for FDIC insurance assessments to a bank's average consolidated total assets minus average tangible equity, rather than its deposit base, permanently raises the current standard deposit insurance limit to $250,000, and expands the FDIC's authority to raise insurance premiums. The legislation also calls for the FDIC to raise the ratio of reserves to deposits from 1.15% to 1.35% for deposit insurance purposes by September 30, 2020 and to "offset the effect" of increased assessments on insured depository institutions with assets of less than $10 billion. The Dodd-Frank Act limits interchange fees payable on debit card transactions for larger banks, allows financial institutions to pay interest on business checking accounts, contains provisions on mortgage related matters (such as steering incentives, determinations as to a borrower's ability to repay and prepayment penalties) and establishes the CFPB as an independent entity within the Federal Reserve. This entity will have broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards. Moreover, the Dodd-Frank Act includes provisions that affect corporate governance and executive compensation at all publicly traded companies.

In addition, the Dodd-Frank Act, together with initiatives of the Basel Committee on Banking Supervision discussed below, is raising the capital levels required to be maintained by bank and thrift holding companies and financial institutions and is changing the rules with respect to the kinds of capital instruments that must be held. The Collins Amendment to the Dodd-Frank Act requires bank holding companies to maintain capital on the same basis as banks and, because banks may not hold capital in the form of trust preferred securities, eliminates trust preferred securities from Tier 1 capital, except that certain trust preferred securities issued prior to May 19, 2010 by bank holding companies with total consolidated assets of $15 billion or less may continue to be includible in Tier 1 capital.

The Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, adopted Basel III in September 2010, which constitutes a strengthened set of capital requirements for banking organizations in the United States and around the world. Basel III is currently the subject of notices of proposed rulemakings released in June of 2012 by the respective U.S. federal banking agencies. The comment period for these notices of proposed rulemakings ended on October 22, 2012, but final regulations have not yet been released. Basel III was intended to be implemented beginning January 1, 2013 and to be fully phased in on a global basis on January 1, 2019. However, on November 9, 2012, the U.S. Federal bank regulatory agencies announced that the implementation of the proposed rules to effect Basel III in the United States was indefinitely delayed. Basel III would require capital to be held in the form of tangible common equity, generally increase the required capital ratios, phase out certain kinds of intangibles treated as capital and certain types of instruments, like trust preferred securities, and change the risk weightings of assets used to determine required capital ratios.

These provisions, as well as any other aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, will impact the profitability of our business activities and may change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans, and achieve satisfactory interest spreads, and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations in order to comply, and could therefore also materially and adversely affect our business, financial condition and results of operations. Our management is actively reviewing the provisions of the Dodd-Frank Act and Basel III, many of which are to be phased-in over the next several months and years, and assessing the probable impact on our operations. However, the ultimate effect of these changes on the financial services industry in general, and us in particular, is uncertain at this time.

We are periodically subject to examination and scrutiny by a number of banking agencies and, depending upon the findings and determinations of these agencies, we may be required to make adjustments to our business that could adversely affect us.

Federal and state banking agencies periodically conduct examinations of our business, including compliance with applicable laws and regulations. If, as a result of an examination, a federal banking agency was to determine that the financial condition, capital resources, asset quality, asset concentration, earnings prospects, management, liquidity, sensitivity to market risk or other aspects of any of our operations has become unsatisfactory, or that we or our management is in violation of any law or regulation, it could take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to change the asset composition of our portfolio or balance sheet, to assess civil monetary penalties against our officers

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or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance. If we become subject to such regulatory actions, our business, results of operations and reputation may be negatively impacted.

The repeal of federal prohibitions on payment of interest on demand deposits could increase our interest expense.

On July 21, 2011, all federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the Dodd-Frank Act. As a result, some financial institutions have commenced offering interest on these demand deposits to compete for customers. If competitive pressures require us to pay interest on these demand deposits to attract and retain business customers, our interest expense would increase and our net interest margin would decrease. This could have a material adverse effect on our business, financial condition and results of operations. Further, the effect of the repeal of the prohibition could be more significant in a higher interest rate environment, as business customers would have a greater incentive to seek interest on demand deposits.

Liquidity risks could affect operations and jeopardize our business, financial condition, and results of operations.

Our ability to implement our business strategy will depend on our liquidity and ability to obtain funding for loan originations, working capital and other general purposes. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our preferred source of funds consists of customer deposits, which we supplement with other sources such as brokered deposits. Such account and deposit balances can decrease when customers perceive alternative investments as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments, we may increase our utilization of brokered deposits, FHLB advances and other wholesale funding sources necessary to fund desired growth levels. Because these funds generally are more sensitive to interest rate changes than our core deposits, they are more likely to move to the highest rate available. In addition, the use of brokered deposits without regulatory approval is limited to banks that are “well capitalized” according to regulation. As of December 31, 2012, 39.9% of FBB's total deposits and 8.9% of FBB-Milwaukee's total deposits were brokered deposits. If the Banks are unable to maintain their capital levels at “well capitalized” minimums, we could lose a significant source of funding, which would force us to utilize additional wholesale funding or potentially sell assets at a time when pricing may be unfavorable, increasing our funding costs and reducing our net interest income and net income.

Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. Regional and community banks generally have less access to the capital markets than do national and super regional banks because of their smaller size and limited analyst coverage. Since mid-2007, the financial services industry and the credit markets generally have been materially and adversely affected by declines in asset values and by diminished liquidity. The liquidity issues have been particularly acute for regional and community banks, as many of the larger financial institutions significantly curtailed their lending to regional and community banks to reduce their exposure to the risks of other banks. In addition, many of the larger correspondent lenders reduced or even eliminated federal funds lines for their correspondent customers.

As a result, we rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans and investment securities, respectively, to ensure that we have adequate liquidity to fund our operations. Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, pay dividends to our stockholders or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

The expiration of the FDIC's Transaction Account Guarantee Program could negatively impact the Banks' liquidity and cost of funds.

Under the FDIC's Transaction Account Guarantee Program, certain non-interest bearing transaction accounts, including those of consumers and businesses, were insured by the FDIC over and above the customary $250,000 limit through December 31, 2012, the expiration date of the program. The expiration of this program could cause depositors of the Banks to withdraw deposits in excess of FDIC-insured levels. The withdrawal of these deposits could negatively impact the Banks' liquidity. Furthermore, the withdrawal of these deposits could negatively impact the

Banks' cost of funds by potentially reducing their levels of core deposits and increasing their need to rely on wholesale funding sources, which typically represent higher cost funds.

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We rely on our management, and the loss of one or more of those managers may harm our business.
Our success has been and will be greatly influenced by our continuing ability to retain the services of our existing senior management and, if we expand, to attract and retain additional qualified senior and middle management. The unexpected loss of key management personnel or the inability to recruit and retain qualified personnel in the future could have an adverse effect on our business and financial results. In addition, our failure to develop and/or maintain an effective succession plan will impede our ability to quickly and effectively react to unexpected loss of key management and in turn may have an adverse effect on our business.
Interest rate shifts may reduce net interest income and otherwise negatively impact our financial condition and results of operations.
Shifts in short-term interest rates may reduce net interest income, which is the principal component of our earnings. Net interest income is the difference between the amounts received by us on our interest earning assets and the interest paid by us on our interest bearing liabilities. In certain scenarios, when interest rates rise, the rate of interest we pay on our liabilities may rise more quickly than the rate of interest that we receive on our interest bearing assets, which could cause our profits to decrease. Currently, because of the continuing period of low interest rates, we have structured our balance sheet so that the interest we receive on our interest earning assets will increase more quickly than the interest we pay on our interest bearing liabilities. However, the structure of our balance sheet and resultant sensitivity to interest rates in various scenarios may change in the future.
Additionally, interest rate increases often result in larger payment requirements for our borrowers, which increases the potential for default. At the same time, the marketability of underlying collateral may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on certain loans as borrowers refinance at lower rates.
Changes in interest rates also can affect the value of loans. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. Subsequently, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income.
Rising interest rates may also result in a decline in value of our fixed-rate debt securities. The unrealized losses resulting from holding these securities would be recognized in other comprehensive income and reduce total stockholders' equity. If debt securities in an unrealized loss position are sold, such losses become realized and will reduce our regulatory capital ratios.
If short-term interest rates remain at their historically low levels for a prolonged period, and assuming longer term interest rates fall further, we could experience net interest margin compression if our interest earning assets reprice downward while our interest bearing liability rates fail to decline in tandem. This may have a material adverse effect on our net interest income and our results of operations.
We could recognize losses on securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.
As of December 31, 2012, the fair value of our securities portfolio was approximately $200.6 million. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. For example, fixed-rate securities acquired by us are generally subject to decreases in market value when interest rates rise. Additional factors include, but are not limited to, rating agency downgrades of the securities, defaults by the issuer or individual mortgagors with respect to the underlying securities, and continued instability in the credit markets. Any of the foregoing factors could cause an other-than-temporary impairment in future periods and result in realized losses. The process for determining whether impairment is other-than-temporary usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, we may recognize

realized and/or unrealized losses in future periods, which could have an adverse effect on our financial condition and results of operations.

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The Company is a bank holding company and its sources of funds necessary to meet its obligations are limited.

The Company is a bank holding company, and its operations are primarily conducted by the Banks, which are subject to significant federal and state regulation. Cash available to pay dividends to our stockholders, pay our obligations and meet our debt service requirements is derived primarily from our existing cash flow sources, our third party line of credit, dividends received from the Banks, or a combination thereof. Future dividend payments by the Banks to us will require generation of future earnings by the Banks and are subject to certain regulatory guidelines. If the Banks are unable to pay dividends to us, we may not have the resources or cash flow to pay or meet all of our obligations.

Competition from other financial institutions could adversely affect our profitability.

We encounter heavy competition in attracting commercial loan, equipment finance and deposit clients as well as trust and investment clients. We believe the principal factors that are used to attract core deposit accounts and that distinguish one financial institution from another include value added relationships, rates of return, types of accounts, service fees, convenience of office locations and hours and quality of service to the depositors. We believe the primary factors in competing for commercial loans are value added relationships, interest rates, loan fee charges, loan structure and timeliness and quality of service to the borrower.

Our competition includes banks, savings institutions, mortgage banking companies, credit unions, finance companies, equipment finance companies, mutual funds, insurance companies, brokerage firms and investment banking firms. We also compete with regional and national financial institutions that have a substantial presence in our market areas, many of which have greater liquidity, higher lending limits, greater access to capital, more established market recognition and more resources and collective experience than us. In addition, some larger financial institutions that have not historically competed with us directly have substantial excess liquidity and have sought, and may continue to seek, smaller lending relationships in our target markets. Furthermore, tax-exempt credit unions operate in most of our market areas and aggressively price their products and services to a large portion of the market. Our profitability depends, in part, upon our ability to successfully maintain and increase market share.

We may be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. Any such losses could have a material adverse effect on our financial condition and results of operations.

Our framework for managing risks may not be effective in mitigating risk and loss to us.

Our risk management framework seeks to mitigate risk and loss to us. We have established processes and procedures intended to identify, measure, monitor, report and analyze the types of risk to which we are subject, including liquidity risk, credit risk, market risk, interest rate risk, operational risk, compensation risk, legal and compliance risk, and reputational risk, among others. However, as with any risk management framework, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. Our ability to successfully identify and manage risks facing us is an important factor that can significantly impact our results. If our risk management framework proves ineffective, we could suffer unexpected losses and could be materially adversely affected.

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors or misconduct could also subject us to financial claims for negligence.

We maintain a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. If our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

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If we are unable to keep pace with technological advances in our industry, our ability to attract and retain clients could be adversely affected.

The banking industry is constantly subject to technological changes with frequent introductions of new technology driven products and services. In addition to better serving clients, the effective use of technology increases our efficiency and enables us to reduce costs. Our future success will depend in part on our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience as well as create additional efficiencies in our operations. A number of our competitors have substantially greater resources to invest in technological improvements, as well as significant economies of scale. There can be no assurance that we will be able to implement and offer new technology driven products and services to our clients. If we fail to do so, our ability to attract and retain clients may be adversely affected.

A breach in security of our systems or our third party service providers' communications and information technologies, including with respect to our internet banking activities, could have a material adverse effect on our business.

We rely heavily on communications and information technology to conduct our business and internet banking activities. Any failure or interruption due to a breach in security, denial of service attack, virus, worm, “phishing” scheme or other disruptive activity by hackers could result in failures or disruptions in our general ledger, deposit, loan, investment management, electronic banking and other systems or those of our internet banking customers. In addition, advances in computer capabilities or other developments could result in a breach of our systems designed to protect client data. We have policies and procedures designed to prevent or limit the effect of such a failure or interruption due to a security breach of our information systems; however, there can be no assurance that any such events will not occur or, if they do, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of our or our internet banking clients' information systems could damage our reputation, result in a loss of clients, subject us to additional regulatory scrutiny, or expose us to litigation and possible financial liability which could have an adverse effect on our operating results and financial condition. Failure in any of these situations subjects us to risks that may vary in size and scope.

In addition, we rely on third party service providers for a substantial portion of our communications, information, operating and financial control systems technology. While we have selected these third party vendors carefully, we do not control their actions. If any of these third party service providers experience financial, operational or technological difficulties, security breaches, or if there is any disruption in our relationships with them, we may be required to locate alternative sources for these services. There can be no assurance that we could negotiate terms as favorable to us or obtain services with similar functionality as we currently have without the expenditure of substantial resources. Any of these circumstances could have a material adverse effect on our business.

Our business continuity plans could prove to be inadequate, resulting in a material interruption in or disruption to, our business and a negative impact on our results of operations.

We rely heavily on communications and information systems to conduct our business, and our operations are dependent on our ability to protect our systems against damage from fire, power loss or telecommunication failure. The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. These problems may arise in both our internally developed systems and the systems of our third party service providers. Any failure or interruption of these systems, whether due to severe weather, natural disasters, acts of war or terrorism, criminal activity or other factors, could result in failures or disruptions in general ledger, deposit, loan, client relationship management and other systems. While we have a business continuity plan and other policies and procedures designed to prevent or limit the effect of a failure, interruption or security breach of our information systems, there can be no assurance that any such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures or interruptions of our information systems could damage our reputation, result in a loss of clients, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our results of operations.

Our trust and investment services operations may be negatively impacted by changes in economic and market conditions.

Our trust and investment services operations may be negatively impacted by changes in general economic conditions and the conditions in the financial and securities markets, including the values of assets held under management. Our management contracts generally provide for fees payable for services based on the market value of assets under management. Because most of our contracts provide for a fee based on market values of securities, fluctuations in securities prices will have an adverse effect on our results of operations from this business. If the financial and securities markets were to experience a

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significant decline, the values of the assets that we manage generally would decline and result in a corresponding decline in the performance of our customers' portfolios. Market declines and reductions in the value of our customers' trust and investment services accounts could result in us losing trust and investment services customers, including those who are also banking customers.

We are subject to claims and litigation pertaining to our fiduciary responsibilities.

Some of the services we provide, such as trust and investment services, require us to act as fiduciaries for our customers and others. From time to time, third parties make claims and take legal action against us pertaining to the performance of our fiduciary responsibilities. If fiduciary investment decisions are not appropriately documented to justify action taken or trades are placed incorrectly, among other possible claims, and if these claims and legal actions are not resolved in a manner favorable to us, we may be exposed to significant financial liability and/or our reputation could be damaged. Either of these results may adversely impact demand for our products and services or otherwise have a harmful effect on our business and, in turn, on our financial condition and results of operations.

Negative publicity could damage our reputation and adversely impact our business and financial results.

Reputation risk, or the risk to our earnings and capital due to negative publicity, is inherent in our business. Negative publicity can result from our actual or alleged conduct in a number of activities, including lending practices, corporate governance, and actions taken by government regulators and community organizations in response to those activities. Negative publicity can adversely affect our ability to keep and attract customers, and can expose us to the litigation and regulatory action, all of which could have a material adverse effect on our business, financial condition and results of operations.

Potential acquisitions may disrupt our business and dilute stockholder value

While we remain committed to organic growth, we also may consider acquisition opportunities involving complementary financial service organizations if the right situation were to arise. Various risks commonly associated with acquisitions, include, among other things:

- Potential exposure to unknown or contingent liabilities of the target company.
- Exposure to potential asset quality issues of the target company.
- Potential disruption to our business.
- Potential diversion of our management's time and attention.
- Possible loss of key employees and customers of the target company.
- Difficulty in estimating the value of the target company.
- Potential changes in banking or tax laws or regulations that may affect the target company.

Acquisitions may involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Investing in Our Common Stock

Our stock is thinly traded and our stock price can fluctuate.

Low volume of trading activity and volatility in the price of our common stock and the NASDAQ Global Market, where our common stock is listed, may make it difficult for our shareholders to sell common stock when desired and at prices they find attractive. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in our quarterly results of operations;
- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to us;
-

news reports relating to trends, concerns and other issues in the financial services industry, including the failures of other financial institutions in the current economic downturn;

- perceptions in the marketplace regarding us or our competitors and other financial services companies;
- new technology used, or services offered, by competitors; and

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• changes in government regulations.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of our operating results,

To maintain adequate capital levels, we may be required to raise additional capital in the future, but that capital may not be available when it is needed and could be dilutive to our existing stockholders.

We are required by regulatory authorities to maintain adequate levels of capital to support our operations. In order to ensure our ability to support the operations of the Banks we may need to limit or terminate cash dividends that can be paid to our stockholders. In addition, we may need to raise capital in the future. Our ability to raise capital, if needed, will depend in part on our financial performance and conditions in the capital markets at that time, and accordingly, we cannot guarantee our ability to raise capital on terms acceptable to us. In addition, if we decide to raise equity capital in the future, the interest of our stockholders could be diluted. Any issuance of common stock at prices below tangible book value would dilute the ownership of our current stockholders. In addition, the market price of our common stock could decrease as a result of the sale of a large number of shares or similar securities, or the perception that such sales could occur. If we cannot raise capital when needed, our ability to serve as a source of strength to the Banks, pay dividends, maintain adequate capital levels and liquidity, or further expand our operations could be materially impaired.

If equity research analysts publish research or reports about our business with unfavorable commentary or downgrade our common stock, the price and trading volume of our common stock could decline.

The trading market for our common stock could be affected by whether equity research analysts publish research or reports about us and our business and what is included in such research or reports. If equity analysts publish research reports about us containing unfavorable commentary, downgrade our stock or cease publishing reports about our business, the price of our stock could decline If any analyst electing to cover us downgrades our stock, our stock price would likely decline rapidly. If any analyst electing to cover us ceases coverage of us, we could lose visibility in the market, which in turn could cause our common stock price or trading volume to decline and our common stock to be less liquid.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The following table provides certain summary information with respect to the principal properties in which we conduct our operations, all of which were leased, as of December 31, 2012:

Location	Function	Expiration Date
401 Charmany Drive, Madison, WI	Full service banking location of FBB and office of FBFS	2028
18500 W. Corporate Drive, Brookfield, WI	Full service banking location of FBB - Milwaukee	2020
3913 West Prospect Avenue, Appleton, WI	Loan production office of FBB	2017
230 Ohio Street, Oshkosh, WI	Loan production office of FBB	2018
300 N. Broadway, Green Bay, WI	Loan production office of FBB	2014

FBB also conducts trust and investment business from a limited purpose branch located at 3500 University Avenue, Madison, Wisconsin. For the purpose of generating business development opportunities in asset-based lending and equipment financing, office space is also leased in the following metropolitan areas: Minneapolis, Minnesota; Cleveland, Ohio; St. Louis, Missouri; Detroit, Michigan; Denver, Colorado; Chicago, Illinois; and Kansas City, Kansas under shorter-term lease agreements, which generally have terms of less than one year.

Item 3. Legal Proceedings

We believe that no litigation is threatened or pending in which we face potential loss or exposure which could materially affect our consolidated financial position, consolidated results of operations or cash flows. Since our subsidiaries act as depositories of funds, lenders and trust agents, they are occasionally named as defendants in lawsuits involving claims to the ownership of funds in particular accounts. This and other litigation is incidental to our business.

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Item 4. Mine Safety Disclosures

Not applicable.

PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Holders, Price Range and Dividends Declared

The common stock of the Corporation is traded on the NASDAQ Global Market under the symbol “FBIZ." As of February 21, 2013, there were 410 registered shareholders of record of FBFS common stock. Certain of the Corporation’s shares are held in “nominee” or “street” name and the number of beneficial owners of such shares is approximately 525.

The following table presents the range of high and low closing sale prices of our common stock for each quarter within the two most recent fiscal years, according to information provided by NASDAQ, and cash dividends declared in such years.

	High	Low	Dividend Declared
2012			
1st Quarter	$19.00	$14.81	$0.07
2nd Quarter	23.50	16.20	0.07
3rd Quarter	24.51	20.00	0.07
4th Quarter	26.30	22.38	0.07
2011			
1st Quarter	$13.50	$11.19	$0.07
2nd Quarter	15.00	11.48	0.07
3rd Quarter	17.23	13.32	0.07
4th Quarter	17.24	13.76	0.07

Dividend Policy

It has been our practice to pay a dividend to common shareholders. Dividends historically have been paid in the month following the end of each calendar quarter. However, the timing and amount of future dividends are at the discretion of the Board of Directors of the Corporation (the "Board") and will depend upon the consolidated earnings, financial condition, liquidity and capital requirements of the Corporation and its subsidiaries, the amount of cash dividends paid to the Corporation by its subsidiaries, applicable government regulations and policies, supervisory actions and other factors considered relevant by the Board. Refer to Item 1 - Business—Supervision and Regulation for additional discussion regarding the limitations on dividends and other capital contributions by the Banks to the Corporation. The Board anticipates it will continue to declare dividends as appropriate based on the above factors.

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Equity Compensation Plan Information

The following table summarizes certain information with respect to compensation plans under which equity securities of the Corporation are authorized for issuance as of December 31, 2012.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	124,034	$ 22.43	218,115
Equity compensation plans not approved by security holders	—	—	—

Issuer Purchases of Securities

The following tables sets forth information about the Corporation's purchases of its common stock during the three months ended December 31, 2012.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2012 - October 31, 2012	—	$—	—	$—
November 1, 2012 - November 30, 2012	5,055	23.17	—	—
December 1, 2012 - December 31, 2012	—	—	—	—

(1) The shares in this column represent: (i) the 4,127 shares that were surrendered to us to satisfy income tax withholding obligations in connection with the vesting of restricted shares; and (ii) 928 shares used to exercise stock options as part of a cashless exercise.

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Item 6. Selected Financial Data

Five Year Comparison of Selected Consolidated Financial Data

	As of and for the Year Ended December 31,				
	2012	2011	2010	2009	2008
	(Dollars In Thousands, Except Share Data)				
INCOME STATEMENT:					
Interest income	$54,766	$56,217	$56,626	$56,356	$59,773
Interest expense	16,885	20,756	24,675	28,322	33,515
Net interest income	37,881	35,461	31,951	28,034	26,258
Provision for loan and lease losses	4,243	4,250	7,044	8,225	4,299
Non-interest income	8,699	7,060	6,743	6,450	5,105
Non-interest expense	28,076	25,977	25,465	23,810	20,841
Goodwill impairment	—	—	2,689	—	—
Loss on foreclosed properties	585	420	206	691	1,043
Income tax expense	4,750	3,449	2,349	717	2,056
Net income	$8,926	$8,425	$941	$1,041	$3,124
Yield on earning assets	4.86 %	5.22 %	5.39 %	5.57 %	6.39 %
Cost of funds	1.75 %	2.20 %	2.57 %	3.03 %	3.89 %
Interest rate spread	3.11 %	3.02 %	2.82 %	2.53 %	2.50 %
Net interest margin	3.36 %	3.29 %	3.04 %	2.77 %	2.81 %
Return on average assets	0.75 %	0.75 %	0.09 %	0.10 %	0.32 %
Return on average equity	12.65 %	14.03 %	1.67 %	1.90 %	6.11 %
ENDING BALANCE SHEET:					
Total assets	$1,226,108	$1,177,165	$1,107,057	$1,117,436	$1,010,786
Securities	200,596	170,386	153,379	122,286	109,124
Loans and leases, net	896,560	836,687	860,935	839,807	840,546
Deposits	1,092,254	1,051,312	988,298	984,374	838,874
FHLB advances and other borrowings	12,405	40,292	41,504	57,515	94,526
Junior subordinated notes	10,315	10,315	10,315	10,315	10,315
Stockholders’ equity	99,539	64,214	55,335	54,393	53,006
FINANCIAL CONDITION ANALYSIS:					
Allowance for loan and lease losses to year-end loans	1.69 %	1.66 %	1.85 %	1.65 %	1.39 %
Allowance to non-accrual loans and leases	109.05 %	65.03 %	42.37 %	50.76 %	72.74 %
Net charge-offs to average loans and leases	0.35 %	0.74 %	0.57 %	0.69 %	0.28 %
Non-accrual loans to gross loans and leases	1.55 %	2.56 %	4.37 %	3.26 %	1.91 %
Average equity to average assets	5.96 %	5.32 %	5.11 %	5.19 %	5.27 %
STOCKHOLDERS’ DATA:					
Basic earnings per common share[(1)]	$3.30	$3.23	$0.37	$0.41	1.24
	3.29	3.23	0.37	0.41	1.24

Diluted earnings per common share[1]					
Book value per share at end of period	25.41	24.46	21.30	21.42	20.82
Tangible book value per share at end of period	25.41	24.46	21.29	20.34	19.74
Dividend declared per share	0.28	0.28	0.28	0.28	0.28
Dividend payout ratio	8.50 %	8.67 %	75.68 %	68.29 %	22.58 %
Shares outstanding	3,916,667	2,625,569	2,597,820	2,539,306	2,545,546

(1) Basic and diluted earnings per share reflect earnings per common share as calculated under the two-class method due to the existence of participating securities.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

When used in this report, and in any oral statements made with the approval of an authorized executive officer, the words or phrases "may," "could," "should," "hope," "might," "believe," "expect," "plan," "assume," "intend," "estimate," "ant "likely," or similar expressions are intended to identify "forward-looking statements." Such statements are subject to risks and uncertainties, including, without limitation, changes in economic conditions in the market area of FBB or FBB – Milwaukee, changes in policies by regulatory agencies, fluctuation in interest rates, demand for loans in the market area of FBB or FBB – Milwaukee, borrowers defaulting in the repayment of loans and competition. These risks could cause actual results to differ materially from what the Corporation has anticipated or projected. These risk factors and uncertainties should be carefully considered by our shareholders and potential investors. See Item 1A—Risk Factors for discussion relating to risk factors impacting the Corporation. Investors should not place undue reliance on any such forward-looking statements, which speak only as of the date made. The factors described within this Form 10-K could affect the financial performance of FBFS and could cause actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods.

Where any such forward-looking statement includes a statement of the assumptions or bases underlying such forward-looking statement, FBFS cautions that, while its management believes such assumptions or bases are reasonable and are made in good faith, assumed facts or bases can vary from actual results, and the differences between assumed facts or bases and actual results can be material, depending on the circumstances. Where, in any forward-looking statement, an expectation or belief is expressed as to future results, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expected result will be achieved or accomplished.

FBFS does not intend to, and specifically disclaims any obligation to, update any forward-looking statements.

The following discussion and analysis is intended as a review of significant events and factors affecting the financial condition and results of operations of FBFS for the periods indicated. The discussion should be read in conjunction with the Consolidated Financial Statements and the Notes thereto and the Selected Consolidated Financial Data presented in this Form 10-K.

Overview

Our principal business is conducted by FBB and FBB – Milwaukee and certain subsidiaries of FBB and consists of a full range of commercial banking products and services tailored to meet the financial service needs of small- and medium-size businesses, business owners, executives, professionals, and high net worth individuals. Products include commercial lending, asset-based lending, equipment financing, factoring, trust and investment services, treasury management services and a broad range of deposit products. Our operating philosophy is focused on local decision making and local client service from each of our primary banking locations in Madison, Brookfield and Appleton, Wisconsin combined with the efficiency of centralized administrative functions such as support for information technology, loan support and deposit support, finance and accounting and human resources. We believe we have a unique niche business banking model and we consistently operate within this niche. This allows us to provide a great deal of expertise in offering financial solutions to our clients with an experienced staff who serve our clients on an ongoing basis.

Our profitability depends on our ability to execute our strategic plan. Our 2012 strategic plan emphasized improving the overall credit quality of our loan and lease portfolio, generating organic growth in our loan and lease portfolios, increasing our market share of in-market core deposits and increasing fee income. We have achieved success on all points of this strategic plan by posting record core earnings, experiencing substantial growth across each of our primary fee income sources and improving asset quality, while increasing the size of our overall loan and lease portfolio. We expect to continue our focus on improving our asset quality throughout 2013. We are also planning to grow our loan and lease portfolio more significantly than we have in the past few years. We believe that we can achieve meaningful growth as the economy continues to show signs of gradual improvement and as a result of the significant disruption in our competitors' businesses throughout our Wisconsin market areas. This change is providing us an opportunity to add new business development officers, obtain new commercial lending relationships, and expand banking relationships with our existing clients to continue to increase our in-market deposits and our fee income. We continue to believe there is significant opportunity for this type of organic growth in our commercial business lines, particularly within our Milwaukee and Northeast Wisconsin markets.

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Operational highlights

- The successful public offering of $29.1 million in common equity closed in December 2012 at $23.00 per share, nearly 40% higher than 2011's closing stock price of $16.50 per share.
- Net income for the full year ended December 31, 2012 was a record $8.9 million, 5.9% higher than the previous record of $8.4 million earned for the full year ended December 31, 2011. Net income for the full year 2011 had also included a substantial one-time tax benefit relating to a change in Wisconsin tax law.
- Diluted earnings per common share were $3.29 for the full year 2012 compared to $3.23 earned in the prior year. Diluted earnings per share for the full year 2011 had also included a substantial one-time tax benefit relating to a change in Wisconsin tax law.
- Return on average assets and return on average equity for the full year ended December 31, 2012 were 0.75% and 12.65% respectively, compared to 0.75% and 14.03% in 2011. Returns for the full year 2011 benefited from the substantial one-time tax benefit relating to a change in Wisconsin tax law.
- Top line revenue, which consists of net interest income and non-interest income, of $46.6 million for the full year 2012 grew 9.5% compared to $42.5 million for the full year 2011.
- Core earnings, defined as pre-tax income excluding the effects of provision for loan and lease losses, other identifiable costs of credit and other discrete items unrelated to the Company's core business activities, grew 11.8% to record core earnings of $18.5 million for the full year of 2012 as compared to $16.5 million for the full year of 2011.
- Net interest margin was 3.36% for the full year of 2012, improving seven basis points compared to the full year of 2011.
- Our total assets increased to $1.226 billion as of December 31, 2012, a 4.16% an increase, from $1.177 billion at December 31, 2011.
- Net loans and leases at December 31, 2012 increased $59.9 million, or 7.2%, to $896.6 million from $836.7 million as of December 31, 2011.
- Non-performing assets of $15.7 million at December 31, 2012 decreased by $8.3 million, or 35%, from December 31, 2011. Non-performing assets now measure 1.28% of total assets, compared to 2.04% at December 31, 2011.
- Net charge-offs as a percentage of average loans was 0.35% for the year ended December 31, 2012 compared to 0.74% for the year ended December 31, 2011.
- Average in-market deposits of $649.0 million for the full year 2012 grew 25.0%, increasing to 61.8% of total deposits, compared to $519.3 million, or 51.6% of total deposits, for the full year of 2011.

Results of Operations

Comparison of the Years Ended December 31, 2012 and 2011

Top Line Revenue. Top line revenue is comprised of net interest income and non-interest income. This measurement is also commonly referred to as operating revenue. In 2012, top line revenue grew by approximately 9.5% from the prior year. The components of top line revenue were as follows:

	For the Year Ended December 31,			
	2012	2011	Change	
	(Dollars In Thousands)			
Net interest income	$37,881	$35,461	6.8	%
Non-interest income	8,699	7,060	23.2	
Total top line revenue	$46,580	$42,521	9.5	

Core Earnings. Core earnings is comprised of our pre-tax income plus provision for loan and leases losses, other identifiable costs of credit and other discrete items that are unrelated to our core business activities. In our judgment, the presentation of core earnings allows our management team, investors and analysts to better assess the growth of our core business by removing the volatility that is associated with costs of credit and other discrete items that are unrelated to our core business and facilitates a more streamlined comparison of core growth to our benchmark peers. Core earnings is a non-GAAP financial measure that does not represent and should not be considered as an alternative to net income derived in accordance with U.S. generally accepted accounting principles ("GAAP").

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Our core earnings metric has improved by 11.8% when comparing the year ended December 31, 2012 to the year ended December 31, 2011.

	For the Year Ended December 31,			
	2012	2011	Change	
	(Dollars in Thousands)			
Net income before taxes	$13,676	$11,874	15.2	%
Add back:				
Provision for loan and lease losses	4,243	4,250	(0.2	)
Net loss on foreclosed properties	585	420	39.3	
Gain on sale of securities	—	—	—	
Core earnings	$18,504	$16,544	11.8	

Return on Average Assets and Return on Average Equity. Return on average assets remained flat for the year ended December 31, 2012 at 0.75% when compared to the year ended December 31, 2011. Despite earnings growth, we experienced 4.78% growth in average assets which, along with the 2011 substantial one-time tax benefit, caused our return on average assets to remain flat. We are pleased with the asset growth in 2012 given current economic conditions.

Return on average equity for the year ended December 31, 2012 was 12.65% compared to 14.03% for the year ended December 31, 2011. Although net income improved year over year, return on average equity decreased in 2012 primarily as a result of the effects of the common stock offering that occurred in December 2012. We successfully raised approximately $29.1 million through the issuance of 1,265,000 shares of common stock at a price of $23.00 per share. The net proceeds of the offering, approximately $27.1 million, were immediately used to repay a portion of subordinated debt. We view return on equity as an important measurement for monitoring profitability, and continue to focus on improving our return to our shareholders by enhancing the overall profitability of our client relationships, controlling our expenses and minimizing our costs of credit.

Net Interest Income. Net interest income is dependent on the amounts of and yields on interest-earning assets as compared to the amounts of and rates on interest-bearing liabilities. Net interest income is sensitive to changes in market rates of interest and the asset/liability management strategies used by management in responding to such changes.

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The table below provides information with respect to (1) the change in interest income attributable to changes in rate (changes in rate multiplied by prior volume), (2) the change in interest income attributable to changes in volume (changes in volume multiplied by prior rate) and (3) the change in rate/volume (changes in rate multiplied by changes in volume) for the year ended December 31, 2012 compared to the year ended December 31, 2011 and for the year ended December 31, 2011 compared to the year ended December 31, 2010.
Rate/Volume Analysis

	Increase (Decrease) for the Year Ended December 31,							
	2012 compared to 2011				2011 compared to 2010			
	Rate	Volume	Rate/ Volume	Net	Rate	Volume	Rate/ Volume	Net
	(In Thousands)							
Interest-Earning Assets								
Commercial real estate and other mortgage loans	$(165)	$(1,367)	$7	$(1,525)	$(876)	$593	$(15)	$(298)
Commercial and industrial loans	(935)	2,003	(111)	957	639	(117)	(4)	518
Direct financing leases	(89)	(67)	5	(151)	(53)	(410)	15	(448)
Other loans	(23)	(68)	3	(88)	101	57	10	168
Total loans and leases receivable	(1,212)	501	(96)	(807)	(189)	123	6	(60)
Mortgage-related securities	(1,140)	210	(58)	(988)	(974)	787	(170)	(357)
Investment securities	(4)	418	(175)	239	2	—	8	10
Federal Home Loan Bank Stock	4	(1)	(1)	2	2	—	—	2
Short-term investments	26	63	14	103	(1)	(3)	—	(4)
Total net change in income on interest-earning assets	(2,326)	1,191	(316)	(1,451)	(1,160)	907	(156)	(409)
Interest-Bearing Liabilities								
Interest-bearing transaction accounts	—	24	—	24	(54)	(172)	36	(190)
Money market	(672)	935	(211)	52	(250)	457	(41)	166
Certificates of deposit	(165)	29	(4)	(140)	(553)	(92)	30	(615)
Brokered certificates of deposit	(2,108)	(2,289)	372	(4,025)	(3,149)	195	(39)	(2,993)
Total deposits	(2,945)	(1,301)	157	(4,089)	(4,006)	388	(14)	(3,632)
FHLB advances	(28)	80	(58)	(6)	136	(610)	(129)	(603)
Other borrowings	366	(126)	(19)	221	167	138	11	316
Junior subordinated notes	3	—	—	3	—	—	—	—
Total net change in expense on interest-bearing liabilities	(2,604)	(1,347)	80	(3,871)	(3,703)	(84)	(132)	(3,919)
Net change in net interest income	$278	$2,538	$(396)	$2,420	$2,543	$991	$(24)	$3,510

The table on the next page shows our average balances, interest, average rates, net interest margin and the spread between combined average rates earned on our interest-earning assets and cost of interest-bearing liabilities for the periods indicated. The average balances are derived from average daily balances.

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	For the Year Ended December 31,								
	2012			2011			2010		
	Average balance	Interest	Average yield/ cost	Average balance	Interest	Average yield/ cost	Average balance	Interest	Average yield/ cost
	(Dollars In Thousands)								
Interest-Earning Assets									
Commercial real estate and other mortgage loans(1)	$583,594	$31,667	5.43 %	$608,665	$33,192	5.45 %	$598,068	$33,490	5.60 %
Commercial and industrial loans(1)	245,706	17,916	7.29 %	219,754	16,959	7.72 %	221,323	16,441	7.43 %
Direct financing leases(1)	15,873	888	5.59 %	16,974	1,039	6.12 %	23,429	1,487	6.35 %
Other loans(1)	16,899	654	3.87 %	18,591	742	3.99 %	16,914	574	3.39 %
Total loans and leases receivable(1)	862,072	51,125	5.93 %	863,984	51,932	6.01 %	859,734	51,992	6.05 %
Mortgage-related securities(2)	171,043	3,168	1.85 %	162,817	4,156	2.55 %	138,637	4,513	3.26 %
Investment securities(3)	17,532	249	1.42 %	410	10	2.36 %	—	—	— %
Federal Home Loan Bank stock	1,537	4	0.28 %	2,367	2	0.10 %	2,367	—	— %
Short-term investments	74,493	220	0.30 %	48,395	117	0.24 %	49,878	121	0.24 %
Total interest-earning assets	1,126,677	54,766	4.86 %	1,077,973	56,217	5.22 %	1,050,616	56,626	5.39 %
Non-interest-earning assets	56,313			51,078			48,813		
Total assets	$1,182,990			$1,129,051			$1,099,429		
Interest-Bearing Liabilities									
Interest-bearing transaction accounts	$34,180	94	0.28 %	$25,389	70	0.28 %	$74,784	260	0.35 %
Money market	395,259	3,023	0.76 %	300,652	2,971	0.99 %	258,569	2,805	1.08 %
Certificates of deposit	82,430	968	1.17 %	80,323	1,108	1.38 %	84,828	1,723	2.03 %
Brokered certificates of deposit	400,695	8,941	2.23 %	486,594	12,966	2.66 %	480,709	15,959	3.32 %
Total interest-bearing deposits	912,564	13,026	1.43 %	892,958	17,115	1.92 %	898,890	20,747	2.31 %
Federal Home Loan Bank advances	2,034	32	1.59 %	656	38	5.83 %	13,414	641	4.78 %
Other borrowings	39,384	2,712	6.89 %	41,488	2,491	6.00 %	39,010	2,175	5.58 %
	10,315	1,115	10.81 %	10,315	1,112	10.78 %	10,315	1,112	10.78 %

Junior subordinated notes												
Total interest-bearing liabilities	964,297	16,885	1.75	%	945,417	20,756	2.20	%	961,629	24,675	2.57	%
Demand deposits	137,117				112,899				68,430			
Non-interest-bearing liabilities	11,019				10,674				13,153			
Total liabilities	1,112,433				1,068,990				1,043,212			
Stockholders' equity	70,557				60,061				56,217			
Total liabilities and stockholders' equity	$1,182,990				$1,129,051				$1,099,429			
Net interest income		$37,881				$35,461				$31,951		
Net interest spread			3.11	%			3.02	%			2.82	%
Net interest-earning assets	$162,380				$132,556				88,987			
Net interest margin			3.36	%			3.29	%			3.04	%
Average interest-earning assets to average interest-bearing liabilities	116.84 %				114.02 %				109.25 %			
Return on average assets	0.75 %				0.75 %				0.09 %			
Return on average equity	12.65 %				14.03 %				1.67 %			
Average equity to average assets	5.96 %				5.32 %				5.11 %			
Non-interest expense to average assets	2.42 %				2.34 %				2.58 %			

(1) The average balances of loans and leases include non-performing loans and leases. Interest income related to non-performing loans and leases is recognized when collected.
(2) Includes amortized cost basis of assets held and available for sale.
(3) Yields on tax-exempt municipal obligations are not presented on a tax-equivalent basis in this table.

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Net interest income increased by $2.4 million, or 6.82%, during the year ended December 31, 2012 compared to the same period in 2011. Our success in growing in-market deposits and rebalancing our deposit portfolio in 2012 drove a reduction in the overall cost of funds which offset the effects of declines in the weighted average yield of the securities portfolio and our loan and lease portfolio.

The yield on average earning assets for the year ended December 31, 2012 was 4.86% compared to 5.22% for the year ended December 31, 2011. The yield on average earning assets was negatively affected by the declining interest rates associated with our investment portfolio. We have invested in collateralized mortgage obligations with structured cash flow payments. The cash flows generated from these expected prepayments are reinvested in additional collateralized mortgage obligations or tax-exempt municipal obligations. Given the continued low interest rate environment, the overall coupon on new security purchases has typically been lower than the rates on securities that experience prepayments. This has caused the mortgage related securities investment yield to decline by approximately 70 basis points. The total loans and leases receivable yield was 5.93% for the year ended December 31, 2012 compared to 6.01% for the year ended December 31, 2011. Lower average yields on commercial and industrial loans in 2012 reflected new originations booked at lower yields than exiting relationships.

The overall weighted average rate paid on interest-bearing liabilities was 1.75% for the year ended December 31, 2012, a decrease of 45 basis points from 2.20% for the year ended December 31, 2011. The decline in interest expense is primarily due to lower deposit funding costs caused by the continued success of the Company's initiative to attract in-market deposits through new business relationships and increase client deposit balances. In-market client deposits - comprised of all transaction accounts, money market accounts, and non-brokered certificates of deposit - grew 18.7% to $717.9 million at December 31, 2012 from $604.6 million at December 31, 2011. Correspondingly, the Company also continued to reduce its overall reliance on higher-cost brokered certificates of deposit by $72.3 million, or 16.2%, lowering balances to $374.4 million at December 31, 2012. The decline in interest expense is also partially influenced by the reduction of interest expense on other borrowings due to the substantial pay-down of subordinated debt from the common stock offering proceeds in December 2012. Subordinated debt was reduced from $39.0 million at December 31, 2011 to $11.9 million at December 31, 2012. This paydown will further reduce our funding costs in 2013.

Net interest margin increased seven basis points to 3.36% for the year ended December 31, 2012 from 3.29% for the year ended December 31, 2011. The improvement in net interest margin correlates with a nine basis point increase in the net interest rate spread coupled with an increase in the value of the net free funds. Average non-interest-bearing demand deposits increased $24.2 million to $137.1 million for the year ended December 31, 2012 compared to $112.9 million for the year ended December 31, 2011.

Provision for Loan and Lease Losses. The provision for loan and lease losses totaled $4.2 million and $4.3 million for the years ended December 31, 2012 and 2011, respectively. Our provision for loan and lease losses is dependent on credit quality and determined based upon the inherent credit risk and other subjective factors pursuant to our allowance for loan and lease loss methodology, the magnitude of net charge-offs recorded in the period and the amount of reserves established for impaired loans that present collateral shortfall positions. To establish the appropriate level of the allowance for loan and lease losses, we regularly review our historical charge-off migration analysis and an analysis of the current level and trend of several factors that we believe may indicate losses in the four primary segments of our loan and lease portfolio. These factors include delinquencies, volume, average size, average risk rating, technical defaults, unemployment rates, geographic concentrations, industry concentrations, loans and leases on internal monitoring reports, experience in the credit granting functions, changes in underwriting standards, and level of non-performing assets and related fair value of underlying collateral.

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During the years ended December 31, 2012 and 2011, the factors influencing the provision for loan and lease losses were the following:

	For the Year Ended December 31,	
	2012	2011
	(In Thousands)	
Changes in the provision for loan and lease losses associated with:		
Establishment/modification of specific reserves on impaired loans, net	$1,901	$(365)
Subjective factor changes	—	62
Charge-offs in excess of specific reserves	2,206	5,025
Recoveries	(481)	(864)
Change in inherent risk of the loan and lease portfolio	617	392
Total provision for loan and lease losses	$4,243	$4,250

The establishment/modification of specific reserves on impaired loans represents new specific reserves established on impaired loans where, although collateral shortfalls are present, we believe that we will be able to recover our principal and/or it represents the release of previously established reserves that are no longer required. Charge-offs in excess of specific reserves represents an additional provision for loan and lease losses required to maintain the allowance for loan and leases at a level deemed appropriate by management. This amount is net of the release of any specific reserve that may have already been provided. Charge-offs in excess of specific reserves can occur in situations where (1) a loan has previously been partially written down to its estimated fair value and continues to decline, (2) rapid deterioration of a credit requires an immediate partial or full charge-off, or (3) the specific reserve was not adequate to cover the amount of the required charge-off. Change in the inherent risk of the portfolio can be influenced by growth or migration in and out of an impaired loan classification where a specific evaluation of a particular credit may be required rather than the application of a general reserve ratio.

Non-Interest Income. Non-interest income, consisting primarily of fees earned for trust and investment services, service charges on deposits, loan fee income and income from bank-owned life insurance, increased by $1.6 million, or 23.2%, to $8.7 million for the year ended December 31, 2012, from $7.1 million for the year ended December 31, 2011.

Trust and investment services fee income increased by $395,000, or 15.6%, to $2.9 million for the year ended December 31, 2012 compared to $2.5 million for the year ended December 31, 2011. Trust and investment services fee income is driven by the amount of assets under management and administration and can be positively or negatively influenced by the timing and magnitude of volatility within the equity markets.

At December 31, 2012, our trust assets under management were $613.5 million, or 15.2% more than the trust assets under management of $532.6 million at December 31, 2011, while our assets under administration grew approximately 18.4%, to $170.7 million at December 31, 2012 from $129.7 million at December 31, 2011. The growth in the assets under management and administration is primarily due to improved market values, establishing new relationships and the addition of business development staff. In 2013, we expect to continue to increase our assets under management, but we also expect that assets under management and trust and investment services fee income will continue to be affected by market volatility for the foreseeable future.

Service charges on deposits increased by approximately $316,000, or 18.5%, to $2.0 million for the year ended December 31, 2012 from $1.7 million for the year ended December 31, 2011. The increase in service charges on deposits was directly related to continued success in acquiring new commercial relationships with increased deposit transaction volume creating additional service charge income.

Loan fees increased by approximately $545,000, or 36.8%, to $2.0 million for the year ended December 31, 2012 from $1.5 million for the year ended December 31, 2011. The Banks experienced improved pricing and volumes of letters of credit and other administrative loan fees during the year. In addition, we completed a large loan syndication during the fourth quarter of 2012 that contributed to the increase in loan fees.

Other non-interest income increased by $375,000, or 86.0%, to $811,000 for the year ended December 31, 2012 from $436,000 for the year ended December 31, 2011. The increase in other income is primarily due to an initial fair value recognition related to interest rate swaps.

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Non-Interest Expense. Non-interest expense increased by $2.3 million, or 8.6%, to $28.7 million for the year ended December 31, 2012 from $26.4 million for the comparable period of 2011 primarily due to increases in compensation related expenses, marketing expenses, loss on foreclosed properties, and other expenses, partially offset by decreases in FDIC insurance costs and collateral liquidation costs.

Compensation expense increased by $2.1 million, or 14.2%, to $17.0 million for the year ended December 31, 2012 from $14.9 million for the year ended December 31, 2011. The increase in compensation expense was primarily to support strategic investments in additional talent. From December 2011 to December 2012 the Company expanded its team of Business Development Officers by nearly 30%, to 44. Further, compensation expense increased due to annual salary merit increases, increased accruals associated with non-equity incentive compensation programs, and other ancillary benefits.

Marketing expense increased by $230,000, or 23.1%, to $1.2 million for the year ended December 31, 2012 from $1.0 million for the year ended December 31, 2011. The increase in marketing expense was a direct result of our efforts to further capitalize on market disruption in Wisconsin, the promotion of additional specialty lending products and the addition of business development talent.

During the year ended December 31, 2012, we recognized a net loss on foreclosed properties of $585,000 compared to a loss of $420,000 for the year ended December 31, 2011. In general, we believe that real estate values of properties within our portfolio have stabilized. However, we recorded impairment adjustments totaling $600,000 for the year ended December 31, 2012 primarily due to the decline in value on one particular property we own due to negotiations with willing buyers. Slightly offsetting the valuation adjustments for foreclosed properties is the recognition of gains totaling $15,000 on properties that we have sold to independent third parties. As of December 31, 2012, we believe that foreclosed properties are recorded at their estimated fair value, less estimated costs to sell. We are active in pursuing appropriate foreclosure actions to further protect our interest in identified impaired loans. We continue to expect an elevated level of foreclosed properties owned by us for the foreseeable future and the ultimate level of impairment adjustments or potential future losses on disposals of properties is uncertain.

Other non-interest expense increased by $493,000, or 22.0%, to $2.7 million for the year ended December 31, 2012 compared to $2.2 million for the same time period of 2011. Most notably the increase in other non-interest expense is due to real estate costs associated with the process of exiting certain foreclosed properties which increased by approximately $269,000, or 84.1% for the year ended December 31, 2012.

FDIC insurance expense decreased by $754,000, or 30.3%, to $1.7 million for the year ended December 31, 2012 compared to $2.5 million for the year ended December 31, 2011. Effective April 1, 2011, the FDIC amended the Federal Deposit Insurance Act to, among other changes, modify the definition of an institution's deposit insurance assessment base from a deposit-based calculation to an average assets less average tangible equity-based calculation and changing the assessment rate adjustments. Given that FDIC Insurance expense is based upon a formula that incorporates a variety of risk elements including the overall risk profile of the institution, a change in any one of these risk elements during the comparative reporting periods may cause the underlying assessment base rate to fluctuate and therefore influence the total expense accrued.

Collateral liquidation costs decreased by $131,000, or 16.7%, to $655,000 for the year ended December 31, 2012 from $786,000 for the year ended December 31, 2011. Collateral liquidation costs are expenses incurred by us to facilitate resolution of impaired commercial loans. The amount of collateral liquidation costs recorded in any particular period are influenced by the timing and level of effort required for each individual loan. Our ability to recoup these costs from our clients is uncertain and therefore expensed as incurred through our consolidated results of operations. To the extent we are successful in recouping these expenses from our clients, the recovery of expense is shown as a net reduction to this line item.

Income Taxes. Income tax expense was $4.8 million for the year ended December 31, 2012 compared to $3.4 million, for the year ended December 31, 2011. The overall increase in tax expense is primarily due to the increased level of pre-tax income in comparison to the prior year and the absence of significant discrete tax benefits, including a substantial one-time tax benefit, recorded in the year ended December 31, 2011. The effective tax rate for the year ended December 31, 2012 was 34.7% compared to 29.0% for the year ended December 31, 2011. The impact of discrete items recorded during the year ended December 31, 2011 provided a net benefit of approximately 5.9%. Discrete items primarily consist of the release of valuation allowance and additional state expense recognized as a result of the completed filings of our state income tax returns. In June 2011, FBB and FBCC entered into a confidential settlement with the Wisconsin Department of Revenue. This settlement did not result in a liability materially different than that which had been previously accrued. In addition, on June 26, 2011, the State of Wisconsin 2011-2013 Budget Bill, Assembly Bill 40, was signed into law. The bill provided that, starting with the first tax year beginning after December 31, 2011, and thereafter for the next 19 years, a combined group member that has pre-2009 net business loss carryforwards can, after first using such net business loss carryforwards to offset its own income for the taxable year and after using shared losses, use up to five percent of the pre-2009 net business loss carryforwards to offset the Wisconsin income of other group members on a proportionate basis. The net business losses can be used to the extent the income is attributable to the group's unitary business. If loss carryforwards equal to the five-percent threshold cannot be fully used in any tax year, the remainder can be added to the portion that may offset the Wisconsin income of all other combined group members in a subsequent year in the twenty-year period, until those carryforwards are completely used or expired. We evaluated the potential utilization of the outstanding Wisconsin net operating losses under the provisions of this new law and determined that it is more likely than not our net operating losses will be realized. As a result, in 2011 we released the valuation allowance previously associated with these net operating losses.

Financial Condition

December 31, 2012

General. At December 31, 2012 our total assets were $1.226 billion, an increase of $48.9 million, or 4.16%, from $1.177 billion at December 31, 2011.

Short-term investments. Short-term investments decreased by $49.4 million to $64.0 million at December 31, 2012 from $113.4 million at December 31, 2011. Our short-term investments primarily consist of interest-bearing deposits held at the Federal Reserve Bank ("FRB"), commercial paper and brokered certificates of deposits purchased from domestic financial institutions. The level of our short-term investments is influenced by the timing of deposit gathering, scheduled maturities of brokered deposits, funding of loan and lease growth when opportunities are presented, and the level of our available-for-sale securities portfolio. The overall decline in short-term investments was primarily due to reducing excess liquidity by allowing maturing brokered certificates of deposit to run off, increasing the size of our available-for-sale investment portfolio and supporting the growth in our loan and lease receivables portfolio. We value the safety and soundness provided by the FRB and therefore we incorporate short-term investments in our on-balance sheet liquidity program. Please refer to Liquidity and Capital Resources for further discussion.

Securities. Securities available-for-sale increased by $30.2 million to $200.6 million at December 31, 2012 from $170.4 million at December 31, 2011. During this time period, we reinvested cash flows received from our securities through purchases of additional securities. Our available-for-sale investment portfolio primarily consists of collateralized mortgage obligations and agency obligations and is used to provide a source of liquidity, including the ability to pledge securities for possible future cash advances, while contributing to the earnings potential of the Banks. We purchase investment securities intended to protect our net interest margin while maintaining an acceptable risk profile. In addition, we will purchase investments to utilize our cash position effectively within appropriate policy guidelines and estimates of future cash demands. While collateralized mortgage obligations present prepayment risk and extension risk, we believe the overall credit risk associated with these investments is minimal, as substantially all of the obligations we hold were guaranteed by the Government National Mortgage Association ("GNMA"), a U.S. government agency. Of the total available-for-sale mortgage securities we held at December 31, 2012, $151.6 million, or 75.6%, were guaranteed by GNMA. None of the securities within our portfolio are collateralized by sub-prime mortgages. We do not hold any Federal Home Loan Mortgage Corporation ("FHLMC") or Federal National Mortgage Association ("FNMA") preferred stock. If general interest rates decline, the mortgage-related securities portfolio would be subject to prepayments caused by borrowers seeking lower financing rates. Conversely, an increase in general interest rates could cause the mortgage-related securities portfolio to be subject to a longer term to maturity caused by borrowers being less likely to prepay their loans. Such a rate increase could also cause the fair value of the mortgage related securities portfolio to decline. We believe the estimated prepayment streams associated with this segment of the investment portfolio also allow us to better match our short-term liabilities, however, given the economic environment and current elevated foreclosure rates, prepayment activities have become less predictable. The Banks' investment policies allow for various types of investments, including tax-exempt municipal securities. The addition of tax-exempt municipal securities provides for further opportunity to improve the overall yield on our investment portfolio. We evaluate the credit risk of the municipal obligations prior to purchase and limit our exposure of obligations to general obligation issuances from municipalities primarily in Wisconsin.

As we continue to evaluate the level of on-balance-sheet liquidity, we have added U.S. Government agency obligations, primarily those obligations issued by FHLMC and FNMA to our investment portfolio. We have structured these purchases to have bullet maturities within two to four years from the issue date. Certain of the securities contain either quarterly or one-time call features. The maturity structure of our securities portfolio allows us to effectively manage the cash flows of these securities along with the collateralized mortgage obligations to be able to meet loan demand in the near future without the need to immediately borrow funds from our various funding sources and proactively adjust the portfolio if interest rates rise within the next two to four years. Our management deems these investments to be creditworthy and believes that

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these investments exhibit appropriate market yields for the risks assumed. As additional appropriate investment securities are available in the marketplace, we expect that additional investments will be purchased.

All of our securities are classified as available-for-sale and carried at fair value with unrealized gains and losses, net of tax, reported as a component of comprehensive income. We did not hold any securities designated as held-to-maturity or trading as of December 31, 2012 or 2011. During the year ended December 31, 2012, we recognized unrealized holding losses of $503,000 through other comprehensive income. The majority of the securities we hold have active trading markets, and we are not currently experiencing difficulties in pricing our securities. We use a third party pricing service as our primary source of market prices for our investment portfolio. On a quarterly basis, we validate the reasonableness of prices received from this source through independent verification on a representative sample of the portfolio, data integrity validation through comparison of current price to prior period prices, and overall analytical expectation of movement in prices based upon the changes in the related yield curves and other market factors. On a periodic basis, we review the third party pricing vendor's pricing methodology for pricing relevant securities and results of internal control assessments. Our portfolio is sensitive to fluctuations in the interest rate environment and has limited sensitivity to credit risk due to the nature of the issuers of our securities as previously discussed. If interest rates decline and the credit quality of the securities remains constant or improves, the market value of our debt securities portfolio would likely improve, thereby increasing our total comprehensive income. If interest rates increase or the credit quality of the securities decline, the market value of our debt securities portfolio would likely decline and therefore decrease our total comprehensive income. No securities within our portfolio were deemed to be other-than-temporarily impaired as of December 31, 2012. There were no sales of securities during the years ended December 31, 2012 and 2011.

At December 31, 2012, $23.1 million of our mortgage-related securities were pledged to secure our various obligations including outstanding advances with the FHLB and interest rate swap contracts or to secure unused borrowing capacity with the FHLB.

The table below sets forth information regarding the amortized cost and fair values of our investments and mortgage-related securities at the dates indicated.

	As of December 31,					
	2012		2011		2010	
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value
	(In Thousands)					
Securities available-for-sale						
U.S. Government agency obligations - government-sponsored enterprises	$19,667	$19,721	$—	$—	$—	$—
Municipal obligations	11,897	12,033	2,736	2,831	—	—
Collateralized mortgage obligations - government issued	148,369	151,645	161,443	165,401	149,948	152,776
Collateralized mortgage obligations - government-sponsored enterprises	17,128	17,197	2,169	2,154	591	603
	$197,061	$200,596	$166,348	$170,386	$150,539	$153,379

U.S. Government agency obligations - government-sponsored enterprises represent securities issued by the FHLMC and FNMA. Collateralized mortgage obligations - government issued represent securities guaranteed by GNMA. Collateralized mortgage obligations - government-sponsored enterprises include securities guaranteed by FHLMC and the FNMA. Municipal obligations include securities issued by various municipalities located primarily within the State of Wisconsin and are tax-exempt general obligation bonds. As of December 31, 2012, no issuer's securities exceeded 10% of our total stockholders' equity.

The following table sets forth the contractual maturity and weighted average yield characteristics of the fair value of our debt securities at December 31, 2012, classified by remaining contractual maturity. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay obligations without call or prepayment penalties. Yields on tax-exempt obligations have not been computed on tax equivalent basis.

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	Less than One Year		One to Five Years		Five to Ten Years		Over Ten Years		
	Balance	Weighted Average Yield	Balance	Weighted Average Yield	Balance	Weighted Average Yield	Balance	Weighted Average Yield	Total
	(Dollars In Thousands)								
Available-for-sale securities									
Agency obligations	$—	— %	$14,184	0.91 %	$5,537	0.96 %	$—	— %	$19,721
Municipal obligations	—	—	—	—	7,570	2.14	4,463	2.34	12,033
Collateralized mortgage obligations – government issued	5	5.14	—	—	6,283	2.96	145,357	2.41	151,645
Collateralized mortgage obligations – government sponsored enterprises	—	—	—	—	4,476	1.13	12,721	0.99	17,197
	$5		$14,184		$23,866		$162,541		$200,596

Derivative Activities. The Banks' investment policies allow the Banks to participate in hedging strategies or use financial futures, options or forward commitments or interest rate swaps with prior Board approval. The Banks utilize, from time to time, derivative instruments in the course of their asset/liability management. As of December 31, 2012 and 2011, the Banks did not hold any derivative instruments that were designated as cash flow or fair value hedges. The derivative portfolio consists of interest rate swaps offered directly to qualified commercial borrowers which allowed the Banks to provide a fixed rate alternative to their clients while mitigating interest rate risk by keeping a variable rate loan in their portfolios. The Banks economically hedge client derivative transactions by entering into equal and offsetting interest rate swap contracts executed with dealer counterparties. The economic hedge with the dealer counterparties allows the Banks to primarily offset the fixed rate interest rate risk. Derivative transactions executed through this program are not designated as accounting hedge relationships and are marked-to market through earnings each period.

As of December 31, 2012, the aggregate amortizing notional value of interest rate swaps with various commercial borrowers was approximately $64.9 million. We receive fixed rates and pay floating rates based upon LIBOR on the swaps with commercial borrowers. These swaps mature between February 2013 and February 2023. At December 31, 2012, the fair value of the swaps with commercial borrowers was approximately $3.1 million and was included in accrued interest receivable and other assets. On the offsetting swap contracts with dealer counterparties, we pay fixed rates and receive floating rates based upon LIBOR. These interest rate swaps also mature between February 2013 and February 2023. Dealer counterparty swaps were reported on our balance sheet as a net derivative liability of $3.1 million due to master netting and settlement contracts with dealer counterparties and is included in accrued interest payable and other liabilities as of December 31, 2012.

Loans and Leases Receivable. Loans and leases receivable, net of allowance for loan and lease losses, increased by $59.9 million, or 7.2%, to $896.6 million at December 31, 2012 from $836.7 million at December 31, 2011. We principally originate commercial and industrial loans and commercial real estate loans. The overall mix of our portfolio remained consistent in 2012 when compared to 2011 with approximately 68.4% of our loan and lease portfolio concentrated in commercial real estate loans primarily in our owner-occupied and non-owner-occupied classes. We successfully added new relationships to our portfolio and are beginning to see signs of increased demand for lending opportunities. The economic environment continues to present challenges and the growth percentage of our loan and lease portfolio is below historical growth levels. We have also experienced greater competition as banks operating in our primary geographic area attempt to deploy excess liquidity. We remain committed to our underwriting standards and will not deviate from those standards for the sole purpose of growing our loan and lease portfolio. Nonetheless, we expect our new loan and lease activity to be more than adequate to replace normal amortization and to continue to grow in future quarters.

Commercial real estate lending typically involves larger loan principal amounts than that for residential mortgage loans or consumer loans. The repayment of these loans generally is dependent on sufficient income from the properties securing the loans to cover operating expenses and debt service. Payments on loans secured by commercial real estate are often dependent upon the successful operation and management of the properties; therefore, repayment of these loans may be affected by factors outside the borrower’s control, including adverse conditions in the real estate market or the economy. In the event that the cash flow from the property is reduced, the borrower’s ability to repay the loan could be impacted. The deterioration of one or more of these loans could cause a significant increase in our percentage of non-performing loans. An increase in non-performing loans results in a loss of earnings from these loans and could result in an increase in the provision for loan and lease loss and an increase in charge-offs, all of which could have a material adverse impact on our net income.

The allowance for loan and lease losses as a percentage of gross loans and leases was 1.69% as of December 31, 2012 and 1.66% as of December 31, 2011. Non-accrual loans and leases as a percentage of gross loans and leases decreased to 1.55% at December 31, 2012 compared to 2.56% at December 31, 2011. Non-performing loans decreased $7.6 million, or 35.1%, to $14.1 million at December 31, 2012 compared to $21.8 million at December 31, 2011. As we are experiencing improvements

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in asset quality trends, our allowance for loan and lease loss reserves are measured more through general characteristics of our portfolio rather than through specific identification. As a result of this measurement and methodology, the allowance for loan and lease loss as a percentage of total loans and leases has remained relatively stable as compared to December 31, 2011. We continue to aggressively work through our problem loans and leases and are experiencing success in certain exit strategies; however, we continue to identify new loans or leases where we believe the borrowers do not have adequate liquidity to make their payments in accordance with the terms of the contractual arrangements, thus requiring a consistent level of allowance for loan loss reserve.

During the year ended December 31, 2012, we recorded net charge-offs on impaired loans and leases of approximately $3.0 million, comprised of $3.5 million of charge-offs and $481,000 of recoveries. During the year ended December 31, 2011, we recorded net charge-offs on impaired loans and leases of approximately $6.4 million, comprised of $7.2 million of charge-offs and $864,000 of recoveries. In 2012, the charge-offs recorded were primarily due to losses incurred through liquidation of collateral on one commercial and industrial client and to a lesser extent based upon a decline in real estate values in certain of our market areas. In 2011, the charge-offs recorded were primarily due to declining real estate values supporting our loans where the collateral was no longer sufficient to cover the outstanding principal and the borrowers did not have other means to repay the obligation. Based upon our internal methodology which actively monitors the asset quality and inherent risks within the loan and loss portfolio, management concluded that a loan and lease loss reserve of $15.4 million, or 1.69% of total loans and leases, was appropriate as of December 31, 2012. Refer to the Asset Quality section for more information.

Credit underwriting through a committee process is a key component of our operating philosophy. Business development officers have relatively low individual lending authority limits, and thus a significant portion of our new credit extensions require approval from a loan approval committee regardless of the type of loan or lease, amount of the credit, or the related complexities of each proposal. In addition, we make every effort to ensure that there is appropriate collateral at the time of origination to protect our interest in the related loan or lease. To monitor the ongoing credit quality of our loans and leases each credit is evaluated for proper risk rating using a nine grade risk rating system at the the time of origination, subsequent renewal, evaluation of updated financial information from our borrowers, or as other circumstances dictate.

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Loan Portfolio Composition. The following table presents information concerning the composition of the Banks' consolidated loans and leases held for investment at the dates indicated.

	As of December 31,									
	2012		2011		2010		2009		2008	
	(Dollars in Thousands)									
Commercial real estate loans										
Commercial real estate — owner occupied	$144,988	15.9 %	$150,528	17.7 %	$152,560	17.4 %	$168,215	19.7 %	$158,107	18.5 %
Commercial real estate — non-owner occupied	323,660	35.5	304,597	35.8	307,307	35.0	273,591	32.0	231,987	27.2
Construction and land development	64,966	7.1	38,124	4.5	61,645	7.0	64,194	7.5	84,778	9.9
Multi-family	58,454	6.4	43,905	5.2	43,012	4.9	43,959	5.1	42,514	5.0
1-4 family	31,943	3.5	43,513	5.1	53,849	6.1	56,131	6.6	51,542	6.0
Total commercial real estate loans	624,011	68.4	580,667	68.2	618,373	70.4	606,090	70.9	568,928	66.7
Commercial and industrial loans	256,458	28.1	237,099	27.8	225,921	25.7	199,661	23.4	232,350	27.2
Direct financing leases, net	15,926	1.7	17,128	2.0	19,288	2.2	27,607	3.2	29,722	3.5
Consumer and other										
Home equity loans and second mortgage loans	4,642	0.5	4,970	0.6	5,091	0.6	7,879	0.9	7,386	0.9
Other	11,671	1.3	11,682	1.4	9,315	1.1	13,260	1.6	14,445	1.7
Total consumer and other	16,313	1.8	16,652	2.0	14,406	1.6	21,139	2.5	21,831	2.6
Total gross loans and lease receivables	912,708	100.0%	851,546	100.0%	877,988	100.0%	854,497	100.0%	852,831	100.0%
Less:										
Allowance for loan and lease losses	15,400		14,155		16,271		14,124		11,846	
Deferred loan fees	748		704		782		566		439	
Loans and lease receivables, net	$896,560		$836,687		$860,935		$839,807		$840,546	

The following table shows the scheduled contractual maturities of the Banks' consolidated gross loans and leases held for investment, as well as the dollar amount of such loans and leases which are scheduled to mature after one year which have fixed or adjustable interest rates, as of December 31, 2012.

	Amounts Due				Interest terms on amounts due after one year	
	In One Year or Less	After One Year through Five Years	After Five Years	Total	Fixed Rate	Variable Rate
	(In Thousands)					
Commercial real estate						
Owner-occupied	$29,277	$83,758	$31,954	$144,989	$ 78,364	$ 37,348
Non-owner occupied	85,725	170,730	67,205	323,660	187,060	50,875
Construction and land development	29,291	25,872	9,803	64,966	11,823	23,852
Multi-family	18,264	32,369	7,821	58,454	28,122	12,068
1-4 family	12,266	15,773	3,904	31,943	17,715	1,962
Commercial and industrial	85,642	151,836	18,980	256,458	67,196	103,620
Direct Financing Leases	2,283	11,490	2,153	15,926	13,643	—
Other	5,867	9,744	701	16,312	9,495	950
	$268,615	$501,572	$142,521	$912,708	$ 413,418	$ 230,675

Commercial Real Estate Loans. The Banks originate owner-occupied and non-owner-occupied commercial real estate loans which have fixed or adjustable rates and generally terms of up to five years and amortizations of up to twenty-five years on existing commercial real estate and new construction. The Banks also originate loans to construct commercial properties and complete land development projects.

The Banks' construction loans generally have terms of six to 24 months with fixed or adjustable interest rates and fees that are due at the time of origination. Loan proceeds are disbursed in increments as construction progresses and as project inspections warrant. Multi-family loans are primarily secured by apartment buildings and are mostly located in Dane and Waukesha counties. One-to-four family first mortgage loans are generally secured by properties held for investment and primary and secondary residences of our clients.

Because payments on commercial real estate loans are often dependent on the successful operation or development of the property or business involved, repayment of such loans is often more sensitive than other types of loans to adverse conditions in the real estate market or the general economy, which are outside the borrower's control. In the event that the cash flow from the property is reduced, the borrower's ability to repay the loan could be negatively impacted. The deterioration of one or a few of these loans could cause a material increase in our level of nonperforming loans, which would result in a loss of revenue from these loans and could result in an increase in the provision for loan and lease losses and an increase in charge-offs, all of which could have a material adverse impact on our net income. Additionally, many of these loans have real estate as a primary or secondary component of collateral. The market value of real estate can fluctuate significantly in a short period of time as a result of economic conditions. Adverse developments affecting real estate values in one or more of our markets could impact collateral coverage associated with the commercial real estate segment of our portfolio, possibly leading to increased specific reserves or charge-offs, which would adversely affect profitability.

Commercial and Industrial Loans. The Banks' commercial and industrial loan portfolio is comprised of loans for a variety of purposes which principally are secured by inventory, accounts receivable, equipment, machinery and other corporate assets and are advanced within limits prescribed by our loan policy. The majority of such loans are secured and typically backed by personal guarantees of the owners of the borrowing business.

Of the $256.5 million of commercial and industrial loans, including asset based loans, outstanding as of December 31, 2012, $101.1 million were originated by FBCC, our asset-based lending subsidiary. These asset-based loans are typically secured by the borrower's accounts receivable and inventory. Therefore, these loans generally have higher interest rates, non-origination fees collected in lieu of interest and are accompanied by close monitoring of assets. Asset-based loans secured by owner-occupied real estate amounted to $15.4 million as of December 31, 2012 and are included in the owner-occupied commercial real estate loan portfolio.

Our commercial loans are typically larger in amount than loans to individual consumers and, therefore, have the potential for larger losses on an individual loan basis. Additionally, asset based borrowers are usually highly leveraged and/or have inconsistent historical earnings. Significant adverse changes in various industries could cause rapid declines in values and collectability associated with those business assets resulting in inadequate collateral coverage that may expose us to future losses. An increase in specific reserves and charge-offs may have a material adverse impact on our results of operations.

Leases. Leases initiated through FBEF are originated with a fixed rate and typically a term of seven years or less. It is customary in the leasing industry to provide 100% financing, however, FBEF will, from time-to-time, require a down payment or lease deposit to provide a credit enhancement. All equipment leases must have an additional insured endorsement and a loss payable clause in the interest of FBEF and must carry sufficient physical damage and liability insurance.

FBEF leases machinery and equipment to clients under leases which qualify as direct financing leases for financial reporting and as operating leases for income tax purposes. Under the direct financing method of accounting, the minimum lease payments to be received under the lease contract, together with the estimated unguaranteed residual value (approximating 3 to 20% of the cost of the related equipment), are recorded as lease receivables when the lease is signed and the lease property is delivered to the client. The excess of the minimum lease payments and residual values over the cost of the equipment is recorded as unearned lease income. Unearned lease income is recognized over the term of the lease on a basis which results in a level rate of return on the unrecovered lease investment. Lease payments are recorded when due under the lease contract. Residual value is the estimated fair market value of the equipment on lease at lease termination. In estimating the equipment's fair value, FBEF relies on historical experience by equipment type and manufacturer, published sources of used equipment pricing, internal evaluations and, when available, valuations by independent appraisers, adjusted for known trends.

Our commercial leases are typically larger in amount than leases to individual consumers and, therefore, have the potential for larger losses on an individual basis. Significant adverse changes in various industries could cause rapid declines in values of leased equipment resulting in inadequate collateral coverage that may expose us to future losses. An increase in specific reserves and charge-offs may have a material adverse impact on our results of operations.

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Consumer and Other Loans. The Banks originate a small amount of consumer loans consisting of home equity, second mortgage, credit card and other personal loans for professional and executive clients of the Banks.

Non-performing Assets. Our non-accrual loans and other non-performing assets consisted of the following as of the dates indicated.

	As of December 31,				
	2012	2011	2010	2009	2008
	(Dollars In Thousands)				
Non-accrual loans and leases					
Commercial real estate:					
Commercial real estate – owner occupied	$769	$2,972	$6,283	$7,996	$—
Commercial real estate – non-owner occupied	2,871	2,249	5,144	486	2,979
Construction and land development	4,946	7,229	9,275	3,317	5,279
Multi-family	46	2,009	4,186	1,760	—
1-4 family	1,006	3,506	4,237	3,015	2,082
Total non-accrual commercial real estate	9,638	17,965	29,125	16,574	10,340
Commercial and industrial	2,842	1,558	6,436	7,086	5,412
Direct financing leases, net	—	18	—	1	24
Other:					
Home equity and second mortgage	612	1,002	939	872	379
Other	1,030	1,223	1,906	3,292	130
Total non-accrual other loans	1,642	2,225	2,845	4,164	509
Total non-accrual loans and leases	14,122	21,766	38,406	27,825	16,285
Foreclosed properties, net	1,574	2,236	1,750	1,671	3,011
Total non-performing assets	$15,696	$24,002	$40,156	$29,496	$19,296
Performing troubled debt restructurings	$1,105	$111	$718	$—	$—
Total non-accrual loans and leases to gross loans and leases	1.55 %	2.56 %	4.37 %	3.26 %	1.91 %
Total non-performing assets to total assets	1.28 %	2.04 %	3.63 %	2.64 %	1.91 %
Allowance for loan and lease losses to gross loans and leases	1.69 %	1.66 %	1.85 %	1.65 %	1.39 %
Allowance for loan and lease losses to non-accrual loans and leases	109.05 %	65.03 %	42.37 %	50.76 %	72.74 %

As of December 31, 2012 and 2011, $8.8 million and $13.3 million of the non-accrual loans are considered troubled debt restructurings, respectively. As noted in the above table, non-performing assets consisted of non-accrual loans and leases and foreclosed properties totaling $15.7 million, or 1.28% of total assets, as of December 31, 2012, a decrease in non-performing assets of 34.6%, or $8.3 million, from December 31, 2011. We experienced a reduction in our non-accrual portfolio, which was the result of borrowers obtaining alternative sources of funds, borrower initiated sales of underlying collateral, continued payment collections that have been applied directly to principal, and recognition of further charge-offs given valuations of underlying collateral for collateral dependent loans.

A summary of our current period non-accrual loan and lease activity is as follows:

(In Thousands)	
Non-accrual loans and leases as of December 31, 2011	$21,766
Loans and leases transferred into non-accrual status	9,944
Non-accrual loans and leases returned to accrual status	(1,617)
Non-accrual loans and leases transferred to foreclosed properties	(1,511)
Non-accrual loans and leases partially or fully charged-off	(3,403)
Cash received and applied to principal of non-accrual loans and leases	(11,057)

Non-accrual loans and leases as of December 31, 2012	$14,122

We use a wide variety of available metrics to assess the overall asset quality of the portfolio and no one metric is used independently to make a final conclusion as to the asset quality of the portfolio. As of December 31, 2012, non-performing

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assets as a percentage of total assets declined to 1.28% from 2.04% at December 31, 2011. The exit strategies undertaken, including but not limited to foreclosure actions, charge-offs, and pay-offs, have outpaced the identification of new impaired loans and therefore we experienced a net reduction in our non-accrual loans and leases. As foreclosure is a viable exit strategy for us to pursue, we are seeing an overall reduction in our ratio of non-performing assets to total loans and leases and foreclosed properties. Total non-performing assets to total loans and leases and foreclosed properties as of December 31, 2012 and December 31, 2011 were 1.72% and 2.81%, respectively. We believe this ratio provides insight as to our success in working problem assets through the entire process and eliminating further losses.

We also monitor early stage delinquencies to provide insight into potential future problems. As of December 31, 2012, the payment performance did not point to any new areas of concern, as approximately 99.3% of the loan and lease portfolio was in a current payment status. This metric can change rapidly however, if factors unknown to us change. We also monitor our asset quality through our established categories as defined in Note 4 of our Consolidated Financial Statements. We are seeing a larger portion of our portfolio classified in the categories that would be considered to have adequate credit quality. Although we continue to see signs of asset quality improvement, we will continue to and will always actively monitor the credit quality of our loan and lease portfolio. Through this monitoring effort, we may identify additional loans and leases for which the borrowers or lessees are having difficulties making the required principal and interest payments based upon factors including, but not limited to, the inability to sell land, inadequate cash flow from the operations of the underlying businesses, liquidation events, or bankruptcy filings. Therefore, we expect to continue to experience new additions to non-accrual loans and leases. We believe current economic conditions will remain largely the same for the near term. As a result, we expect that we will continue to experience historically elevated levels of impaired loans and leases. We are proactively working with our impaired loan borrowers to find meaningful solutions to difficult situations that are in the best interests of the Banks. As we continue to have these discussions, we expect we will continue to see further reductions in our overall non-accrual portfolio as our clients' financial performance returns to profitable levels, collateral is liquidated to provide sufficient reductions in outstanding principal, or clients establish banking relationships with other non-related institutions.

In 2012, as well as in the previous four fiscal years, there were no loans over 90 days past due and still accruing interest. Loans and leases greater than 90 days past due are considered impaired and are placed on non-accrual status. Cash received while a loan or a lease is on non-accrual status is generally applied against the outstanding principal.

Impaired loans and leases exhibit weaknesses that inhibit repayment in compliance with the original terms of the note or lease. However, the measurement of impairment on loans and leases may not always result in a specific reserve included in the allowance for loan and lease losses. As part of the underwriting process, as well as our ongoing monitoring efforts, we try to ensure that we have appropriate collateral to protect our interest in the related loan or lease. As a result of this practice, a significant portion of our outstanding balance of non-performing loans or leases either does not require additional specific reserves or requires only a minimal amount of required specific reserve, as we believe the loans and leases are adequately collateralized as of the measurement period. In addition, management is proactive in recording charge-offs to bring loans to their net realizable value in situations where it is determined with certainty that we will not recover the entire amount of our principal. This practice may lead to a lower allowance for loan and lease loss to non-accrual loans and leases ratio as compared to our peers or industry expectations. As of December 31, 2012 and 2011, our allowance for loan and lease losses to total non-accrual loans and leases was 109.05% and 65.03%, respectively. As we begin to see improvements in asset quality, resulting in measurement of our loan and lease loss more through general characteristics of our portfolio rather than through specific identification, we will see this ratio continue to rise. Conversely, if we identify further impaired loans, this ratio could fall if the impaired loan is adequately collateralized and therefore no specific or general reserve need be provided. Given our business practices and evaluation of our existing loan and lease portfolio, we believe this coverage ratio is appropriate for the probable losses inherent in our loan and lease portfolio as of December 31, 2012.

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Additional information about impaired loans as of and for the years indicated was as follows:

	As of December 31,				
	2012	2011	2010	2009	2008
	(In Thousands)				
Impaired loans and leases with no impairment reserves	$11,006	$18,888	$19,749	$13,243	$9,986
Impaired loans and leases with impairment reserves required	4,221	2,989	19,375	14,582	6,299
Total impaired loans and leases	15,227	21,877	39,124	27,825	16,285
Less:					
Impairment reserve (included in allowance for loan and lease losses)	1,517	888	3,459	1,846	1,417
Net impaired loans and leases	$13,710	$20,989	$35,665	$25,979	$14,868
Average impaired loans and leases	$17,945	$33,793	$29,714	$20,395	$8,375

	For the years ended December 31,				
	2012	2011	2010	2009	2008
	(In Thousands)				
Interest income attributable to impaired loans and leases	$1,432	$2,682	$2,702	$1,758	$752
Less: Interest income recognized on impaired loans and leases	321	787	102	149	49
Net foregone interest income on impaired loans and leases	$1,111	$1,895	$2,600	$1,609	$703

In addition to all non-accrual loans and leases, impaired loans and leases as of December 31, 2012 and 2011 also included $1.1 million and $111,000 of loans that are performing troubled debt restructurings, and thus are not on non-accrual status, but are considered impaired, due to the concession in terms. Loans with no specific reserves required represent impaired loans where the collateral, based upon current information, is deemed to be sufficient or that have been partially charged-off to reflect our net realizable value of the loan. When analyzing the adequacy of collateral, we obtain external appraisals. Our policy regarding appraisals requires the utilization of appraisers from our approved list, the performance of independent internal reviews to monitor the quality of such appraisals and receipt of new appraisals for impaired loans at least annually, or more frequently as circumstances warrant. We make adjustments to the appraisals for appropriate selling costs. In addition, the ordering of appraisals and review of the appraisals are performed by individuals who are independent of the loan approval process. Based on the specific evaluation of the collateral of each impaired loan, we believe the reserve for impaired loans was adequate at December 31, 2012. However, we cannot provide assurance that the facts and circumstances surrounding each individual impaired loan will not change and that the specific reserve or current carrying value will not be different in the future which may require additional charge-offs or specific reserves to be recorded.

Foreclosed properties are recorded at the lower of cost or net realizable value. If, at the time of foreclosure, the fair value less cost to sell is lower than the carrying value of the loan, the difference, if any, is charged to the allowance for loan and lease losses prior to transfer to foreclosed property. The fair value is based on appraisals, discounted cash flow analysis (the majority of which is based on current occupancy and lease rates) or verifiable offers to purchase. After foreclosure, valuation allowances or future write-downs to net realizable value are charged directly to non-interest expense. Foreclosed properties were $1.6 million, a decrease of 29.6%, at December 31, 2012 from $2.2 million at December 31, 2011. The decrease in foreclosed properties is primarily attributable to disposition of properties and further valuation allowances taken to reflect the market values of the properties. We recorded impairment losses of $600,000 for the year ended December 31, 2012. Net gains on sales of existing foreclosed property inventory were $15,000 for the year ended December 31, 2012. We continue to evaluate possible exit strategies on our impaired loans when foreclosure action may be probable and we expect that our level of foreclosed assets may increase in the future. Loans are transferred to foreclosed properties when we claim legal title to the properties.

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A summary of foreclosed properties activity for the years ended December 31, 2012 and 2011 is as follows:

	For the Year Ended December 31,	
	2012	2011
	(In Thousands)	
Balance at the beginning of the period	$2,236	$1,750
Transfer of loans to foreclosed properties, at lower of cost or fair value	1,511	3,119
Payments to priority lien holders of foreclosed properties	367	—
Impairment adjustments	(600)	(621)
Net book value of properties sold	(1,940)	(2,012)
Balance at the end of the period	$1,574	$2,236

Allowance for Loan and Lease Losses. To determine the level and composition of the allowance for loan and lease losses, we break out the portfolio by segments and risk ratings. We first evaluate loans and leases for potential impairment classification. Once a loan or lease is determined to be impaired we then analyze the impaired loans and leases 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. In order to establish the level of the general portion of the allowance for loan and lease losses, we regularly review and update the calculations within our existing allowance methodology by incorporating historical charge-off migration analysis and an analysis of the current level and trend of several factors that we believe may indicate losses in the various segments of the loan and lease portfolio. These factors include delinquencies, volume and average size loan relationships, average risk rating, technical defaults, geographic concentrations, loans and leases on management attention watch lists, unemployment rates in our market areas, experience in the credit granting functions, changes in underwriting standards and level of non-performing assets and related fair value of underlying collateral. The historical charge-off migration analysis utilizes the most recent five years of net charge-offs and traces the migration of the risk rating from origination through charge-off. The historical percentage of the amounts charged-off for each risk rating is averaged for the five-year period giving greater weight in the calculation to the recent years. We then apply these percentages to the current loan and lease portfolio.

When it is determined that we will not receive our entire contractual principal or the loss is confirmed, we record a charge against the allowance for loan and lease loss reserve to bring the loan or lease to its net realizable value. Due to the current economic conditions, estimated proceeds from the sales of property securing collateral dependent loans have generally been deemed insufficient to repay the related debt, confirming our inability to receive our entire contractual principal on certain commercial real estate loans. Many of the impaired loans are collateral dependent. It is part of our routine process to obtain appraisals on all impaired loans at least annually, or more frequently as circumstances warrant. As we have completed new appraisals and/or market evaluations, we have found that in general real estate values have stabilized; however, in specific situations current fair values collateralizing certain impaired loans were inadequate to support the entire amount of the outstanding debt. Foreclosure actions may have been initiated on certain of these commercial real estate and other mortgage loans.

We continue to proactively monitor our loan and lease portfolio for further deterioration and apply our prescribed allowance for loan and lease loss reserve methodology. As a result of this review process, we have concluded that an appropriate allowance for loan and lease loss reserve for the existing loan and lease portfolio was $15.4 million or 1.69% of gross loans and leases, at December 31, 2012. Taking into consideration net charge-offs of $3.0 million, the required provision for loan and lease losses was $4.2 million for the year ended December 31, 2012. At December 31, 2011, the allowance for loan and lease losses was $14.2 million, or 1.66% of gross loans and leases, reflecting net charge-offs of $6.4 million and a provision for loan and lease losses of $4.3 million for the year ended December 31, 2011.

Given complexities with legal actions on certain of our large commercial real estate and commercial and industrial loans and current economic conditions, we continue to evaluate the best information available to us to determine the amount of the loans that are uncollectable. We believe the loans were recorded at the appropriate values at December 31, 2012; however, further charge-offs could be recorded if changes in facts and circumstances in the future lead us to a different conclusion.

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A summary of the activity in the allowance for loan and lease losses follows:

	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(Dollars In Thousands)				
Allowance at beginning of period	$14,155	$16,271	$14,124	$11,846	$9,854
Charge-offs:					
Commercial real estate					
Commercial real estate — owner occupied	(113)	(1,376)	(258)	—	—
Commercial real estate — non-owner occupied	—	(1,612)	—	—	—
Construction and land development	(47)	(2,091)	(2,110)	(2,681)	(815)
Multi-family	(130)	(312)	(1,059)	(424)	(102)
1-4 family	(322)	(942)	(596)	(542)	(243)
Commercial and industrial	(2,739)	(475)	(352)	(2,031)	(1,202)
Direct financing leases	—	—	—	(231)	—
Consumer and other					
Home equity and second mortgage	(72)	(113)	(142)	(157)	(33)
Other	(56)	(309)	(693)	(36)	(1)
Total charge-offs	(3,479)	(7,230)	(5,210)	(6,102)	(2,396)
Recoveries:					
Commercial real estate					
Commercial real estate — owner occupied	5	—	—	—	2
Commercial real estate — non-owner occupied	192	—	—	—	—
Construction and land development	101	13	23	—	—
Multi-family	—	289	—	—	84
1-4 family	77	—	16	—	—
Commercial and industrial	66	473	265	147	3
Direct financing leases	—	19	8	—	—
Consumer and other					
Home equity and second mortgage	11	68	1	8	—
Other	29	2	—	—	—
Total recoveries	481	864	313	155	89
Net charge-offs	(2,998)	(6,366)	(4,897)	(5,947)	(2,307)
Provision for loan and lease losses	4,243	4,250	7,044	8,225	4,299
Allowance at end of period	$15,400	$14,155	$16,271	$14,124	$11,846
Net charge-offs as a % of average gross loans and leases	0.35%	0.74%	0.57%	0.69%	0.28%

During the year ended December 31, 2012, we recorded net charge-offs on impaired loans and leases of approximately $3.0 million comprised of $3.5 million of charge-offs and $481,000 of recoveries. In 2012, the charge-offs recorded were primarily due to losses incurred through liquidation efforts on one commercial and industrial client and to a lesser extent based upon a decline in real estate values on various collateral dependent loans in certain of our market areas. The majority of the charge-offs in 2011 resulted from declining values of collateral associated with impaired loans and leases. Our charge-offs in 2011 were primarily concentrated in our commercial real estate portfolio, including construction and land development, as we continued to experience an elevated level of charge-offs, which is substantially related to land development projects. In addition, in 2011 we experienced losses in our owner-occupied and non-owner-occupied commercial real estate classes. These charge-offs were associated with declining collateral values.

We review our methodology and periodically adjust allocation percentages of allowance by segment, as reflected in the following table, based upon historical results. Within the specific categories, certain loans or leases have been identified for specific reserve allocations as well as the whole category of that loan type or lease being reviewed for a general reserve based on the foregoing analysis of trends and overall balance growth within that category.

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The table below shows our allocation of the allowance for loan and lease losses by loan portfolio segments at the dates indicated.

	As of December 31,									
	2012		2011		2010		2009		2008	
	Allowance for loan and lease losses	Percent of loans in each category to total loans	Allowance for loan and lease losses	Percent of loans in each category to total loans	Allowance for loan and lease losses	Percent of loans in each category to total loans	Allowance for loan and lease losses	Percent of loans in each category to total loans	Allowance for loan and lease losses	Percent of loans in each category to total loans
	(Dollars In Thousands)									
Loan segments:										
Commercial real estate	$10,693	68.37 %	$9,554	68.19 %	$11,267	70.43 %	$8,890	70.93 %	$7,187	66.71 %
Commercial and industrial	4,129	28.10 %	3,977	27.84 %	4,277	25.73 %	4,131	23.37 %	3,984	27.24 %
Direct financing leases, net	207	1.74 %	240	2.01 %	245	2.20 %	357	3.23 %	330	3.49 %
Consumer and other	371	1.79 %	384	1.96 %	482	1.64 %	746	2.47 %	345	2.56 %
Total	$15,400	100.00 %	$14,155	100.00 %	$16,271	100.00 %	$14,124	100.00 %	$11,846	100.00 %

Although we believe the allowance for loan and lease losses was appropriate based on the current level of loan delinquencies, non-accrual loans, trends in charge-offs, economic conditions and other factors as of December 31, 2012, there can be no assurance that future adjustments to the allowance will not be necessary. We adhere to high underwriting standards in order to maintain strong asset quality and continue to pursue practical and legal methods of collection, repossession and disposal of any such troubled assets.

Deposits. As of December 31, 2012, deposits increased by $40.9 million to $1.092 billion from $1.051 billion at December 31, 2011. Deposits are the primary source of the Banks' funds for lending and other investment activities. A variety of accounts are designed to attract both short- and long-term deposits. These accounts include non-interest-bearing transaction accounts, interest-bearing transaction accounts, money market accounts and time deposits. Deposit terms offered by the Banks vary according to the minimum balance required, the time period the funds must remain on deposit, the rates and products offered by marketplace competition and the interest rates charged on other sources of funds, among other factors. Attracting in-market deposits has been a renewed focus of the Banks' business development officers. With two separately chartered financial institutions within our organization, we have the ability to offer our clients additional FDIC insurance coverage by maintaining separate deposits with each Bank. With the change in the regulations regarding the interest limits on NOW accounts to qualify for unlimited FDIC insurance, we have seen a shift in our balances out of NOW accounts into non-interest-bearing transaction accounts. The ending balances within the various deposit types fluctuate based upon maturity of time deposits, client demands for the use of their cash coupled with servicing and maintaining client relationships. We focus on attracting and servicing deposit relationships, as compared to rate sensitive clients, and therefore we monitor the success of growth of in-market deposits based on the average balances of our deposit accounts. Rate sensitive clients may create an element of volatility to our deposit balances.

Our Banks' in-market deposits are obtained primarily from the South Central, Northeastern and Southeastern regions of Wisconsin. Of our total average deposits, approximately $649.0 million, or 61.8%, were considered in-market deposits for the year ended December 31, 2012. This compares to average in-market deposits of $519.3 million, or 51.6%, for the year ended December 31, 2011. Attracting client deposits and increasing overall deposit market share is affected by a competitive environment. We continue to remain focused on increasing our in-market deposit base and reducing our overall dependency on brokered certificates of deposits; however, as changes in regulation occur, specifically those affecting deposit insurance, we cannot be assured that our clients will maintain their balances solely with one institution. Our competition and the banking industry as a whole will also face this challenge of retaining existing deposits which we believe may create new opportunities to develop relationships and attract new money.

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The following table sets forth the amount and maturities of the Banks' certificates of deposit, including brokered deposits, at December 31, 2012.

Interest rate	Three months and less	Over three months through six months	Over six months through twelve months	Over twelve months	Total
	(In Thousands)				
0.00% to 0.99%	$14,322	$18,270	$25,836	$76,368	$134,796
1.00% to 1.99%	14,969	1,360	20,308	67,200	103,837
2.00% to 2.99%	16,576	29,545	49,751	90,313	186,185
3.00% to 3.99%	281	—	—	14,897	15,178
4.00% to 4.99%	13	—	485	2,490	2,988
5.00% and greater	—	—	—	—	—
	$46,161	$49,175	$96,380	$251,268	$442,984

At December 31, 2012, time deposits included $35.6 million of certificates of deposit in denominations greater than or equal to $100,000. Of these certificates, $9.0 million are scheduled to mature in three months or less, $6.5 million in greater than three through six months, $10.9 million in greater than six through twelve months and $9.2 million in greater than twelve months.
Of the total time deposits outstanding as of December 31, 2012, $191.7 million are scheduled to mature in 2013, $124.1 million in 2014, $65.9 million in 2015, $23.8 million in 2016, $5.1 million in 2017, and $32.3 million thereafter. As of December 31, 2012, we have $28.3 million of brokered certificates of deposit that the Banks have the right to call prior to the scheduled maturity. These certificates have original maturities ranging from 7-17 years with options to call after the first six months of holding the certificates and either semi-annually or monthly call options thereafter.

Borrowings. We had total borrowings of $22.7 million as of December 31, 2012, a decrease of $27.9 million, or 69.2%, from $50.6 million at December 31, 2011. In December 2012, we successfully raised approximately $29.1 million through the issuance of 1,265,000 shares of common stock at a price of $23.00. The net proceeds of the offering, approximately $27.1 million, were immediately used to repay a portion of our subordinated notes.

The following table sets forth the outstanding balances, weighted average balances and weighted average interest rates for our borrowings (short-term and long-term) as indicated.

	December 31, 2012			December 31, 2011			December 31, 2010		
	Balance	Weighted average balance	Weighted average rate	Balance	Weighted average balance	Weighted average rate	Balance	Weighted average balance	Weighted average rate
	(Dollars In Thousands)								
Federal funds purchased	$—	$237	0.8						