FIRST BUSINESS FINANCIAL SERVICES, INC.
Form 10-Q
November 03, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
þ Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2014
OR
¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission file number 001-34095
FIRST BUSINESS FINANCIAL SERVICES, INC.
(Exact name of registrant as specified in its charter)

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

(608) 238-8008
Registrant’s telephone number, including area code
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ
The number of shares outstanding of the registrant’s sole class of common stock, par value $0.01 per share, on October 23, 2014 was 3,973,179 shares.

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

	September 30, 2014 (unaudited)	December 31, 2013
	(In Thousands, Except Share Data)	
Assets		
Cash and due from banks	$13,905	$13,219
Short-term investments	160,593	68,067
Cash and cash equivalents	174,498	81,286
Securities available-for-sale, at fair value	142,427	180,118
Securities held-to-maturity, at amortized cost	42,522	—
Loans and leases receivable, net of allowance for loan and lease losses of $13,930 and $13,901, respectively	1,027,886	967,050
Leasehold improvements and equipment, net	1,198	1,155
Foreclosed properties	106	333
Cash surrender value of bank-owned life insurance	23,772	23,142
Investment in Federal Home Loan Bank stock, at cost	1,349	1,255
Accrued interest receivable and other assets	13,809	14,316
Total assets	$1,427,567	$1,268,655
Liabilities and Stockholders' Equity		
Deposits	$1,269,200	$1,129,855
Federal Home Loan Bank and other borrowings	22,936	11,936
Junior subordinated notes	10,315	10,315
Accrued interest payable and other liabilities	6,924	7,274
Total liabilities	1,309,375	1,159,380
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 2,500,000 shares authorized, none issued or outstanding	—	—
Common stock, $0.01 par value, 25,000,000 shares authorized, 4,131,470 and 4,106,084 shares issued, 3,959,115 and 3,943,997 shares outstanding at September 30, 2014 and December 31, 2013, respectively	41	41
Additional paid-in capital	56,894	56,002
Retained earnings	65,053	57,143
Accumulated other comprehensive income (loss)	233	(342)
Treasury stock, 172,355 and 162,087 shares at September 30, 2014 and December 31, 2013, respectively, at cost	(4,029)	(3,569)
Total stockholders' equity	118,192	109,275
Total liabilities and stockholders' equity	$1,427,567	$1,268,655

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In Thousands, Except Per Share Data)			
Interest income:				
Loans and leases	$12,968	$12,669	$38,094	$37,405
Securities income	821	841	2,543	2,460
Short-term investments	82	76	201	182
Total interest income	13,871	13,586	40,838	40,047
Interest expense:				
Deposits	2,405	2,398	6,911	7,450
Notes payable and other borrowings	251	209	561	645
Junior subordinated notes	280	280	831	831
Total interest expense	2,936	2,887	8,303	8,926
Net interest income	10,935	10,699	32,535	31,121
Provision for loan and lease losses	(89)	109	—	243
Net interest income after provision for loan and lease losses	11,024	10,590	32,535	30,878
Non-interest income:				
Trust and investment services fee income	1,137	976	3,315	2,773
Service charges on deposits	620	549	1,787	1,576
Loan fees	386	296	1,156	986
Increase in cash surrender value of bank-owned life insurance	215	215	630	634
Other	101	88	250	282
Total non-interest income	2,459	2,124	7,138	6,251
Non-interest expense:				
Compensation	5,193	4,586	14,991	13,819
Occupancy	324	314	963	954
Professional fees	674	500	2,201	1,506
Data processing	389	349	1,227	1,153
Marketing	409	344	1,120	981
Equipment	145	127	400	401
FDIC insurance	179	169	542	567
Collateral liquidation costs	32	108	276	167
Net (gain) loss on foreclosed properties	(9)	(48)	(5)	1
Other	711	698	1,933	2,266
Total non-interest expense	8,047	7,147	23,648	21,815
Income before income tax expense	5,436	5,567	16,025	15,314
Income tax expense	1,883	1,958	5,630	5,328
Net income	$3,553	$3,609	$10,395	$9,986
Earnings per common share:				
Basic	$0.90	$0.92	$2.63	$2.55
Diluted	0.89	0.91	2.62	2.54
Dividends declared per share	0.21	0.14	0.63	0.42

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In Thousands)			
Net income	$3,553	$3,609	$10,395	$9,986
Other comprehensive (loss) income, before tax				
Securities available-for-sale:				
Unrealized securities (losses) gains arising during the period	(431)	(477)	1,711	(3,488)
Securities held-to-maturity:				
Unrealized losses transferred to held-to-maturity	—	—	(874)	—
Amortization of net unrealized losses transferred during the period	75	—	100	—
Income tax benefit (expense)	137	185	(362)	1,334
Comprehensive income	$3,334	$3,317	$10,970	$7,832

See accompanying Notes to Unaudited Consolidated Financial Statements.

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First Business Financial Services, Inc.
Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

	Common shares outstanding	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
	(In Thousands, Except Share Data)						
Balance at December 31, 2012	3,916,667	$40	$53,504	$45,599	$ 2,183	$(1,787)	$99,539
Net income	—	—	—	9,986	—	—	9,986
Other comprehensive income	—	—	—	—	(2,154)	—	(2,154)
Exercise of stock options	51,700	1	1,137	—	—	—	1,138
Share-based compensation - restricted shares	25,030	—	464	—	—	—	464
Share-based compensation - tax benefits	—	—	123	—	—	—	123
Cash dividends ($0.42 per share)	—	—	—	(1,649)	—	—	(1,649)
Treasury stock purchased	(54,974)	—	—	—	—	(1,348)	(1,348)
Balance at September 30, 2013	3,938,423	$41	$55,228	$53,936	$ 29	$(3,135)	$106,099

	Common shares outstanding	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
	(In Thousands, Except Share Data)						
Balance at December 31, 2013	3,943,997	$41	$56,002	$57,143	$ (342)	$(3,569)	$109,275
Net income	—	—	—	10,395	—	—	10,395
Other comprehensive income	—	—	—	—	575	—	575
Exercise of stock options	2,000	—	48	—	—	—	48
Share-based compensation - restricted shares	23,386	—	618	—	—	—	618
Share-based compensation - tax benefits	—	—	226	—	—	—	226
Cash dividends ($0.63 per share)	—	—	—	(2,485)	—	—	(2,485)
Treasury stock purchased	(10,268)	—	—	—	—	(460)	(460)
Balance at September 30, 2014	3,959,115	$41	$56,894	$65,053	$ 233	$(4,029)	$118,192

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	For the Nine Months Ended September 30,	
	2014	2013
	(In Thousands)	
Operating activities		
Net income	$10,395	$9,986
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes, net	283	552
Provision for loan and lease losses	—	243
Depreciation, amortization and accretion, net	1,324	1,858
Share-based compensation	618	464
Increase in cash surrender value of bank-owned life insurance	(630)	(634)
Net (gain) loss on foreclosed properties, including impairment valuation	(5)	1
Excess tax benefit from share-based compensation	(226)	(123)
(Increase) decrease in accrued interest receivable and other assets	(396)	2,465
Decrease in accrued interest payable and other liabilities	(124)	(3,489)
Net cash provided by operating activities	11,239	11,323
Investing activities		
Proceeds from maturities of available-for-sale securities	34,185	52,266
Proceeds from maturities of held-to-maturity securities	1,231	—
Purchases of available-for-sale securities	(40,310)	(42,956)
Proceeds from sale of foreclosed properties	232	1,573
Net increase in loans and leases	(60,836)	(45,438)
Investment in limited partnerships	(500)	(500)
Distributions from limited partnerships	676	672
Investment in FHLB Stock	(467)	(1,185)
Proceeds from sale of FHLB Stock	373	1,074
Purchases of leasehold improvements and equipment, net	(285)	(450)
Net cash used in investing activities	(65,701)	(34,944)
Financing activities		
Net increase in deposits	139,345	36,077
Repayment of FHLB advances	—	(469)
Proceeds from issuance of subordinated notes payable	15,000	—
Repayment of subordinated notes payable	(4,000)	—
Excess tax benefit from share-based compensation	226	123
Cash dividends paid	(2,485)	(1,371)
Exercise of stock options	48	1,137
Purchase of treasury stock	(460)	(1,348)
Net cash provided by financing activities	147,674	34,149
Net increase in cash and cash equivalents	93,212	10,528
Cash and cash equivalents at the beginning of the period	81,286	85,586
Cash and cash equivalents at the end of the period	$174,498	$96,114
Supplementary cash flow information		
Cash paid during the period for:		
Interest paid on deposits and borrowings	$7,575	$8,854
Income taxes paid	5,128	5,775

Non-cash investing and financing activities:		
Transfer of securities from available-for-sale to held-to-maturity	44,587	—
Unrealized loss on transfer from available-for-sale to held-to-maturity	(874)	—
Transfer to foreclosed properties	—	595

See accompanying Notes to Unaudited Consolidated Financial Statements.

Notes to Unaudited Consolidated Financial Statements

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

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

Basis of Presentation. The accompanying unaudited Consolidated Financial Statements were prepared in accordance with GAAP and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Corporation's Consolidated Financial Statements and footnotes thereto included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2013. The unaudited Consolidated Financial Statements include the accounts of the Corporation and its wholly-owned subsidiaries. In accordance with the provisions of Accounting Standards Codification (“ASC”) Topic 810, the Corporation’s ownership interest in FBFS Statutory Trust II (“Trust II”) has not been consolidated into the financial statements. All significant intercompany balances and transactions have been eliminated in consolidation.

Management of the Corporation is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that could significantly change in the near-term include the value of foreclosed property, lease residuals, property under operating leases, securities, income taxes and the level of the allowance for loan and lease losses. The results of operations for the nine-month period ended September 30, 2014 are not necessarily indicative of results that may be expected for any other interim period or the entire fiscal year ending December 31, 2014. Certain amounts in prior periods may have been reclassified to conform to the current presentation. Subsequent events have been evaluated through the date of the issuance of the Consolidated Financial Statements. No significant subsequent events have occurred through this date requiring adjustment to the financial statements or disclosures.

The Corporation has not changed its significant accounting and reporting policies from those disclosed in the Corporation’s Form 10-K for the year ended December 31, 2013 except as described further below in this Note 1.

Recent Accounting Pronouncements.

In July 2013, the FASB issued ASU No. 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exits.” This ASU provides that an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use the deferred tax asset for such purpose. In these cases, the unrecognized tax benefit should be presented as a liability. This ASU became effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this standard did not have a material impact on the Corporation's consolidated financial position or results of operations.

In January 2014, the FASB issued ASU No. 2014-04, "Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)." This ASU clarifies that an in-substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar agreement. In addition, the amendments require interim and annual disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure in accordance with local requirements of the applicable jurisdiction. This amendment is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. An entity can elect to adopt the amendments using either a modified retrospective method or a prospective transition method. Early adoption is permitted. The Corporation is in the process of evaluating the impact of this standard but does not expect this standard to have a material impact on the Corporation's consolidated financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The ASU is a converged standard between the FASB and the IASB that provides a single comprehensive revenue recognition model for all contracts with customers across transactions and industries. The primary objective of the ASU is revenue recognition that represents the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU is effective for interim and annual reporting periods beginning after December 15, 2016. The Corporation is in the process of evaluating the impact of this standard but does not expect this standard to have a material impact on the Corporation's consolidated financial position or results of operations.

In June 2014, the FASB issued ASU No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." This ASU requires a reporting entity to treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. A reporting entity should apply FASB ASC Topic 718, Compensation-Stock Compensation, to awards with performance conditions that affect vesting. For all entities, ASU 2014-12 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. ASU 2014-12 may be adopted either prospectively for share-based payment awards granted or modified on or after the effective date, or retrospectively, using a modified retrospective approach. The modified retrospective approach would apply to share-based payment awards outstanding as of the beginning of the earliest annual period presented in the financial statements on adoption, and to all new or modified awards thereafter. While the Corporation does not have any performance-based awards outstanding as of the reporting date, the Corporation's equity incentive plan does allow for such awards. The Corporation is, therefore, in the process of evaluating the impact of this standard but does not expect this standard to have a material impact on the Corporation's consolidated financial position or results of operations.

In August 2014, the FASB issued ASU 2014-14, "Receivables - Troubled Debt Restructuring by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure." This ASU will require creditors to derecognize certain foreclosed government-guaranteed mortgage loans and to recognize a separate other receivable that is measured at the amount the creditor expects to recover from the guarantor, and to treat the guarantee and the receivable as a single unit of account. The ASU is effective for interim and annual periods beginning after December 15, 2014. An entity can elect a prospective or a modified retrospective transition method, but must use the same transition method that it elected under FASB ASU No. 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." Early adoption is permitted. The Corporation is in the process of evaluating the impact of this standard but does not expect this standard to have a material impact on the Corporation's consolidated financial position or results of operation.

In August 2014, the FASB issued ASU 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This ASU describes how an entity should assess its ability to meet obligations and sets rules for how this information should be disclosed in the financial statements. The standard provides accounting guidance that will be used along with existing auditing standards. The ASU is effective for interim and annual periods beginning after December 15, 2016. Early application is permitted. The Corporation is in the process of evaluating the impact of this standard but does not expect this standard to have a material impact on the Corporation's consolidated financial position or results of operation.

Note 2 — Business Combinations

Effective November 1, 2014, the Corporation completed its acquisition of Aslin Group, Inc. ("Aslin Group"), including Alterra Bank, Aslin Group's wholly-owned subsidiary ("Alterra"). On May 22, 2014, the Corporation entered into an Agreement and Plan of Merger (the "Merger Agreement") with Aslin Group and AGI Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of the Corporation (the "Merger Sub"). Under the terms of the Merger Agreement, the Merger Sub merged with and into Aslin Group (the "Merger"), with Aslin Group continuing as the surviving corporation of the Merger, and each outstanding share of common stock of Aslin Group (other than shares held in the treasury of Aslin Group, owned by the Corporation or any subsidiary of the Corporation, or subject to validly exercised appraisal rights) ceased to be outstanding and

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were converted into the right to receive a combination of shares of common stock of the Corporation and cash, as described in more detail below. Immediately following the Merger, Aslin Group merged with and into the Corporation in a second merger, with the Corporation continuing as the surviving corporation. As a result of the mergers, Alterra Bank has become a wholly-owned subsidiary of the Corporation. The separate corporate existence of Aslin Group ceased as of the effective time of the second merger. The acquisition of Aslin Group is not considered a significant business combination, as defined in accordance with Regulation S-X, and, accordingly, pro-forma financial information is not required.

The cash-and-stock transaction was valued at $30.1 million. Under the terms of the definitive agreement, each outstanding share of common stock of Aslin Group was converted into the right to receive merger consideration valued at $14,435.59, payable in $6,496.02 of cash and $7,939.57 of the Corporation’s common stock. The number of the Corporation’s common shares issued was calculated based on the Corporation’s 10-day volume-weighted average stock price (“VWAP”) as of the market close on the third business day prior to the effective date of the transaction. Based upon the VWAP of $45.9825, 360,081 shares will be issued to the Aslin Group shareholders. The cash portion of the consideration will be paid to Aslin Group shareholders with a portion of the proceeds received from $15.0 million of subordinated notes issued by the Corporation on August 26, 2014 upon entering into Subordinated Note Purchase Agreements with three accredited investors.

For the nine-months ended September 30, 2014, the Corporation incurred $424,000 in non-recurring transaction costs related to the merger with Aslin Group. These costs primarily consist of facilitative professional service fees incurred to complete the merger transaction.

Note 3 — Earnings Per Common Share

Earnings per common share are computed using the two-class method. Basic earnings per common share are computed by dividing net income allocated to common shares by the weighted average number of shares outstanding during the applicable period, excluding outstanding participating securities. Participating securities include unvested restricted shares. Unvested restricted shares are considered participating securities because holders of these securities receive non-forfeitable dividends at the same rate as holders of the Corporation’s common stock. Diluted earnings per share are computed by dividing net income allocated to common shares adjusted for reallocation of undistributed earnings of unvested restricted shares by the weighted average number of shares determined for the basic earnings per common share computation plus the dilutive effect of common stock equivalents using the treasury stock method.

For the three-month periods ended September 30, 2014 and 2013, there were no average anti-dilutive employee share-based awards. For the nine-month periods ended September 30, 2014 and 2013, average anti-dilutive employee share-based awards totaled 0 and 366, respectively.

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in Thousands, Except Per Share Data)			
Basic earnings per common share				
Net income	$3,553	$3,609	$10,395	$9,986
Less: earnings allocated to participating securities	75	89	222	242
Basic earnings allocated to common shareholders	$3,478	$3,520	$10,173	$9,744
Weighted-average common shares outstanding, excluding participating securities	3,867,835	3,831,227	3,862,504	3,826,809
Basic earnings per common share	$0.90	$0.92	$2.63	$2.55
Diluted earnings per common share				
Earnings allocated to common shareholders	$3,478	$3,520	$10,173	$9,744
Reallocation of undistributed earnings	—	—	1	1
Diluted earnings allocated to common shareholders	$3,478	$3,520	$10,174	$9,745
Weighted-average common shares outstanding, excluding participating securities	3,867,835	3,831,227	3,862,504	3,826,809
Dilutive effect of share-based awards	21,844	18,335	22,089	13,062
Weighted-average diluted common shares outstanding, excluding participating securities	3,889,679	3,849,562	3,884,593	3,839,871
Diluted earnings per common share	$0.89	$0.91	$2.62	$2.54

Note 4 — Share-Based Compensation

The Corporation adopted the 2012 Equity Incentive Plan (the “Plan”) during the quarter ended June 30, 2012. The Plan is administered by the Compensation Committee of the Board of Directors of the Corporation and provides for the grant of equity ownership opportunities through incentive stock options and nonqualified stock options (together, “Stock Options”), restricted stock, restricted stock units, dividend equivalent units, and any other type of award permitted by the Plan. As of September 30, 2014, 178,877 shares were available for future grants under the Plan. Shares covered by awards that expire, terminate or lapse will again be available for the grant of awards under the Plan. The Corporation may issue new shares and shares from treasury for shares delivered under the Plan.

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Stock Options

The Corporation may grant Stock Options to senior executives and other employees under the Plan. Stock Options generally have an exercise price that is equal to the fair value of the common shares on the date the option is awarded. Stock Options granted under the Plan are subject to graded vesting, generally ranging from 4 years to 8 years, and have a contractual term of 10 years. For any new awards issued, compensation expense is recognized over the requisite service period for the entire award on a straight-line basis. No Stock Options have been granted since the Corporation became a reporting company under the Securities Exchange Act of 1934, as amended, and no Stock Options have been modified, repurchased or cancelled since such time. For that reason, no stock-based compensation related to Stock Options was recognized in the Consolidated Financial Statements for the three and nine months ended September 30, 2014 and 2013. As of September 30, 2014, all Stock Options granted and not previously forfeited have vested. The benefits of tax deductions as a result of disqualifying dispositions upon exercise of stock options are recognized as a financing cash flow.

Stock Option activity for the year ended December 31, 2013 and nine months ended September 30, 2014 was as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Outstanding at December 31, 2012	124,034	$22.43	0.75
Granted	—	—	
Exercised	(69,684)	21.13	
Expired	(3,350)	22.00	
Forfeited	—	—	
Outstanding at December 31, 2013	51,000	$24.24	0.88
Exercisable at December 31, 2013	51,000	$24.24	0.88
Outstanding as of December 31, 2013	51,000	$24.24	0.88
Granted	—	—	
Exercised	(2,000)	24.00	
Expired	—	—	
Forfeited	—	—	
Outstanding as of September 30, 2014	49,000	$24.24	0.13
Exercisable at September 30, 2014	49,000	$24.24	0.13

Restricted Stock

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

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Restricted share activity for the year ended December 31, 2013 and the nine months ended September 30, 2014 was as follows:

	Number of Restricted Shares	Weighted Average Grant-Date Fair Value
Nonvested balance as of December 31, 2012	94,506	$18.19
Granted	25,030	33.00
Vested	(34,827)	16.88
Forfeited	—	—
Nonvested balance as of December 31, 2013	84,709	23.10
Granted	23,386	44.34
Vested	(23,596)	23.28
Forfeited	—	—
Nonvested balance as of September 30, 2014	84,499	$28.93

As of September 30, 2014, $2.1 million of deferred compensation expense was included in additional paid-in capital in the Consolidated Balance Sheets related to unvested restricted shares which the Corporation expects to recognize over a weighted-average period of approximately three years. As of September 30, 2014, all restricted shares that vested were delivered.

For the three and nine months ended September 30, 2014 and 2013, share-based compensation expense related to restricted stock included in the Consolidated Statements of Income was as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in Thousands)			
Share-based compensation expense	$229	$173	$618	$464

Note 5 — Securities

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

	As of September 30, 2014			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
	(In Thousands)			
Available-for-sale:				
U.S. Government agency obligations - government-sponsored enterprises	$7,250	$—	$(79)	$7,171
Asset-backed securities	1,515	—	(1)	1,514
Collateralized mortgage obligations - government issued	74,535	1,686	(336)	75,885
Collateralized mortgage obligations - government-sponsored enterprises	57,973	166	(282)	57,857
	$141,273	$1,852	$(698)	$142,427

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	As of December 31, 2013			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
	(In Thousands)			
Available-for-sale:				
U.S. Government agency obligations - government-sponsored enterprises	$16,380	$9	$(145)	$16,244
Municipal obligations	16,207	35	(753)	15,489
Asset-backed securities	1,517	$—	(23)	1,494
Collateralized mortgage obligations - government issued	111,010	2,238	(1,279)	111,969
Collateralized mortgage obligations - government-sponsored enterprises	35,561	57	(696)	34,922
	$180,675	$2,339	$(2,896)	$180,118

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

	As of September 30, 2014			
	Amortized cost	Gross unrecognized holding gains	Gross unrecognized holding losses	Estimated fair value
	(In Thousands)			
Held-to-maturity:				
U.S. Government agency obligations - government-sponsored enterprises	$1,487	$—	$(24)	$1,463
Municipal obligations	16,100	16	(65)	16,051
Collateralized mortgage obligations - government issued	15,145	5	(113)	15,037
Collateralized mortgage obligations - government-sponsored enterprises	9,790	—	(129)	9,661
	$42,522	$21	$(331)	$42,212

During the quarter ended June 30, 2014, the Corporation transferred securities with an amortized cost of $44.6 million, previously designated as available-for-sale, to held-to-maturity classification. The fair value of those securities as of the date of the transfer was $43.7 million, reflecting a net unrealized loss of $874,000. The fair value as of the transfer date became the new amortized cost over the life of the security. No gain or loss was recognized at the time of the transfer. This transfer was completed after consideration of the Corporation's ability and intent to hold these securities to maturity.

U.S. Government agency obligations - government-sponsored enterprises represent securities issued by the Federal Home Loan Mortgage Corporation ("FHLMC") and Federal National Mortgage Association ("FNMA"). Collateralized mortgage obligations - government issued represent securities guaranteed by the Government National Mortgage Association ("GNMA"). Collateralized mortgage obligations - government-sponsored enterprises include securities guaranteed by the FHLMC and the FNMA. Asset-backed securities represent securities issued by the Student Loan Marketing Association ("SLMA") and are 97% guaranteed by the U.S. government. Municipal obligations include securities issued by various municipalities located primarily within the State of Wisconsin and are primarily general obligation bonds that are tax-exempt in nature. There were no sales of securities available-for-sale for the three and nine months ended September 30, 2014 and 2013.

At September 30, 2014 and December 31, 2013, securities with a fair value of $35.0 million and $42.3 million, respectively, were pledged to secure interest rate swap contracts, outstanding Federal Home Loan Bank ("FHLB") advances, if any, and additional FHLB availability.

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The amortized cost and estimated fair value of securities by contractual maturity at September 30, 2014 are shown below. Actual maturities may differ from contractual maturities because issuers have the right to call or prepay certain obligations without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
	(In Thousands)			
Due in one year or less	$—	$—	$—	$—
Due in one year through five years	7,736	7,672	2,288	2,266
Due in five through ten years	59,260	59,640	13,531	13,493
Due in over ten years	74,277	75,115	26,703	26,453
	$141,273	$142,427	$42,522	$42,212

The tables below show the Corporation's gross unrealized losses and fair value of available-for-sale investments with unrealized losses and the gross unrecognized losses and fair value of held-to-maturity investments, aggregated by investment category and length of time that individual investments were in a continuous loss position at September 30, 2014 and December 31, 2013. At September 30, 2014 and December 31, 2013, the Corporation held 58 and 131 available-for-sale securities that were in a loss position, respectively. Such securities have not experienced credit rating downgrades; however, they have primarily declined in value due to the current interest rate environment. At September 30, 2014, the Corporation held 24 available-for-sale securities that had been in a continuous loss position for twelve months or greater.

The Corporation also has not specifically identified available-for-sale securities in a loss position that it intends to sell in the near term and does not believe that it will be required to sell any such securities. It is expected that the Corporation will recover the entire amortized cost basis of each security based upon an evaluation of the present value of the expected future cash flows. Accordingly, no other than temporary impairment was recorded in the Consolidated Statements of Income for the nine months ended September 30, 2014 and 2013.

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

	As of September 30, 2014					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
	(In Thousands)					
Available-for-sale:						
U.S. Government agency obligations - government-sponsored enterprises	$2,491	$9	$4,680	$70	$7,171	$79
Asset-backed securities	—	—	1,514	1	1,514	1
Collateralized mortgage obligations - government issued	8,041	44	11,404	292	19,445	336
Collateralized mortgage obligations - government-sponsored enterprises	34,805	132	5,275	150	40,080	282
	$45,337	$185	$22,873	$513	$68,210	$698

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	As of December 31, 2013					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
	(In Thousands)					
Available-for-sale:						
U.S. Government agency obligations - government-sponsored enterprises	$10,608	$145	$—	$—	$10,608	$145
Municipal obligations	12,001	650	981	103	12,982	753
Asset-backed securities	1,494	$23	—	—	1,494	23
Collateralized mortgage obligations - government issued	34,021	997	6,146	282	40,167	1,279
Collateralized mortgage obligations - government-sponsored enterprises	20,628	506	5,418	190	26,046	696
	$78,752	$2,321	$12,545	$575	$91,297	$2,896

The tables below show the Corporation's gross unrecognized losses and fair value of held-to-maturity investments, aggregated by investment category and length of time that individual investments were in a continuous loss position at September 30, 2014. At September 30, 2014, the Corporation held 74 held-to-maturity securities that were in an unrecognized loss position. Such securities have not experienced credit rating downgrades; however, they have primarily declined in value due to the current interest rate environment. There were no held-to-maturity securities that had been in a continuous loss position for twelve months or greater as of September 30, 2014. It is expected that the Corporation will recover the entire amortized cost basis of each held-to-maturity security based upon an evaluation of the present value of the expected future cash flows. Accordingly, no other than temporary impairment was recorded in the Consolidated Statements of Income for the nine months ended September 30, 2014.

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

	As of September 30, 2014					
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrecognized losses	Fair value	Unrecognized losses	Fair value	Unrecognized losses
	(In Thousands)					
Held-to-maturity:						
U.S. Government agency obligations - government-sponsored enterprises	$1,487	$24	$—	$—	$1,487	$24
Municipal obligations	11,795	65	—	—	11,795	65
Collateralized mortgage obligations - government issued	11,448	113	—	—	11,448	113
Collateralized mortgage obligations - government-sponsored	9,790	129	—	—	9,790	129

enterprises	$34,520	$331	$—	$—	$34,520	$331

There were no securities designated as held-to-maturity as of December 31, 2013.

Note 6 — Loan and Lease Receivables, Impaired Loans and Leases and Allowance for Loan and Lease Losses

Loan and lease receivables consist of the following:

	September 30, 2014	December 31, 2013
	(In Thousands)	
Commercial real estate		
Commercial real estate — owner occupied	$144,017	$141,164
Commercial real estate — non-owner occupied	328,730	341,695
Construction and land development	86,150	68,708
Multi-family	70,483	62,758
1-4 family	25,208	30,786
Total commercial real estate	654,588	645,111
Commercial and industrial	336,746	293,552
Direct financing leases, net	34,474	26,065
Consumer and other		
Home equity and second mortgages	4,061	5,272
Other	12,773	11,972
Total consumer and other	16,834	17,244
Total gross loans and leases receivable	1,042,642	981,972
Less:		
Allowance for loan and lease losses	13,930	13,901
Deferred loan fees	826	1,021
Loans and leases receivable, net	$1,027,886	$967,050

The total principal amount of loans transferred to third parties, which consisted solely of participation interests in originated loans, during the three months ended September 30, 2014 and 2013 was $5.5 million and $17.0 million, respectively. For the nine months ended September 30, 2014 and 2013, $16.1 million and $29.8 million of loans were transfered to third parties, respectively. Each of the transfers of these financial assets met the qualifications for sale accounting, including the requirements specific to loan participations, and therefore all of the loans transferred during the three and nine months ended September 30, 2014 and September 30, 2013 have been derecognized in the unaudited Consolidated Financial Statements. The Corporation has a continuing involvement in each of the agreements by way of relationship management and servicing the loans; however, there are no further obligations to the third-party participant required of the Corporation in the event of a borrower's default, other than standard representations and warranties related to sold amounts. The loans were transferred at their fair value and no gain or loss was recognized upon the transfer, as the participation interest was transferred at or near the date of loan origination and the payments received for servicing the portion of the loans participated represents adequate compensation. The total amount of loan participations purchased on the Corporation's Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013 was $1.5 million and $498,000, respectively.

The total amount of outstanding loans transferred to third parties as loan participations sold at September 30, 2014 and December 31, 2013 was $46.5 million and $52.1 million, respectively, all of which was treated as a sale and derecognized under the applicable accounting guidance in effect at the time of the transfers of the financial assets. The Corporation's continuing involvement with these loans is by way of partial ownership, relationship management and all servicing responsibilities. As of September 30, 2014 and December 31, 2013, the total amount of the Corporation's partial ownership of loans on the Corporation's Consolidated Balance Sheets was $66.2 million and $77.2 million, respectively. As of September 30, 2014 and December 31, 2013, no loans in this participation sold portfolio were considered impaired. The Corporation does not share in the participant's portion of the charge-offs.

In May 2013, the Corporation repurchased, from the original participating entity, a portion of one loan which was previously and appropriately accounted for as a transfer (sale) under a participation agreement. The repurchase was not a condition of the original participation agreement and was undertaken to provide the Corporation with complete discretion in the workout process of this loan. At September 30, 2014 and December 31, 2013, the carrying amount of the loan purchased with deteriorated credit quality was $1.3 million and $1.4 million, respectively. The loan is classified as a non-performing troubled

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debt restructuring because the Corporation cannot reasonably estimate the timing of the cash flows expected to be collected and therefore the discount will not be accreted to earnings until the carrying amount is fully paid. During the nine months ended September 30, 2014, there were no changes to the allowance for loan and lease losses relating to this loan, as it is a collateral dependent loan and was deemed to have sufficient collateral value as of September 30, 2014 to support the carrying value.

The following information illustrates ending balances of the Corporation's loan and lease portfolio, including impaired loans by class of receivable, and considering certain credit quality indicators as of September 30, 2014 and December 31, 2013:

	Category				
As of September 30, 2014	I	II	III	IV	Total
	(Dollars in Thousands)				
Commercial real estate:					
Commercial real estate — owner occupied	$118,039	$12,721	$12,672	$585	$144,017
Commercial real estate — non-owner occupied	291,908	15,732	20,816	274	328,730
Construction and land development	72,312	2,423	6,357	5,058	86,150
Multi-family	69,708	755	—	20	70,483
1-4 family	16,905	4,819	2,904	580	25,208
Total commercial real estate	568,872	36,450	42,749	6,517	654,588
Commercial and industrial [1]	311,274	13,195	3,497	8,780	336,746
Direct financing leases, net	32,507	1,652	315	—	34,474
Consumer and other:					
Home equity and second mortgages	3,562	20	146	333	4,061
Other	12,008	2	—	763	12,773
Total consumer and other	15,570	22	146	1,096	16,834
Total gross loans and leases receivable	$928,223	$51,319	$46,707	$16,393	$1,042,642
Category as a % of total portfolio	89.03 %	4.92 %	4.48 %	1.57 %	100.00 %

[1] Subsequent to September 30, 2014, $6.2 million of principal for one loan in Category IV was paid in full.

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As of December 31, 2013	Category I	II	III	IV	Total
	(Dollars in Thousands)				
Commercial real estate:					
Commercial real estate — owner occupied	$118,764	$11,259	$10,802	$339	$141,164
Commercial real estate — non-owner occupied	290,865	29,444	21,103	283	341,695
Construction and land development	53,493	1,972	7,754	5,489	68,708
Multi-family	57,049	5,678	—	31	62,758
1-4 family	19,197	7,611	3,312	666	30,786
Total commercial real estate	539,368	55,964	42,971	6,808	645,111
Commercial and industrial	268,109	11,688	5,712	8,043	293,552
Direct financing leases, net	23,171	2,421	473	—	26,065
Consumer and other:					
Home equity and second mortgages	4,408	134	150	580	5,272
Other	11,177	—	—	795	11,972
Total consumer and other	15,585	134	150	1,375	17,244
Total gross loans and leases receivable	$846,233	$70,207	$49,306	$16,226	$981,972
Category as a % of total portfolio	86.18 %	7.15 %	5.02 %	1.65 %	100.00 %

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

Each credit is evaluated for proper risk rating upon origination, at the time of each subsequent renewal, upon receipt and evaluation of updated financial information from the Corporation’s borrowers, or as other circumstances dictate. The Corporation uses a nine grade risk rating system to monitor the ongoing credit quality of its loans and leases. The risk rating grades follow a consistent definition, and are then applied to specific loan types based on the nature of the loan. Each risk rating is subjective and, depending on the size and nature of the credit, subject to various levels of review and concurrence on the stated risk rating. In addition to its nine grade risk rating system, the Corporation groups loans into four loan and related risk categories which determine the level and nature of review by management.

Category I — Loans and leases in this category are performing in accordance with the terms of the contract and generally exhibit no immediate concerns regarding the security and viability of the underlying collateral, financial stability of the borrower, integrity or strength of the borrower’s management team or the industry in which the borrower operates. Loans and leases in this category are not subject to additional monitoring procedures above and beyond what is required at the origination or renewal of the loan or lease. The Corporation monitors Category I loans and leases through payment performance, continued maintenance of its personal relationships with such borrowers and continued review of such borrowers’ compliance with the terms of their respective agreements.

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

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

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

Utilizing regulatory classification terminology, the Corporation identified \$26.1 million and \$22.8 million of loans and leases as Substandard as of September 30, 2014 and December 31, 2013, respectively. No loans were considered Special Mention, Doubtful or Loss as of either September 30, 2014 or December 31, 2013. The population of Substandard loans are all Category IV loans and a subset of Category III loans.

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The delinquency aging of the loan and lease portfolio by class of receivable as of September 30, 2014 and December 31, 2013 is as follows:

As of September 30, 2014	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Current	Total loans
	(Dollars in Thousands)					
Accruing loans and leases						
Commercial real estate:						
Owner occupied	$—	$—	$—	$—	$143,510	$143,510
Non-owner occupied	—	—	—	—	328,456	328,456
Construction and land development	—	—	—	—	81,124	81,124
Multi-family	—	—	—	—	70,463	70,463
1-4 family	—	—	—	—	24,842	24,842
Commercial and industrial	—	—	—	—	327,997	327,997
Direct financing leases, net	—	—	—	—	34,474	34,474
Consumer and other:						
Home equity and second mortgages	—	—	—	—	3,929	3,929
Other	—	—	—	—	12,010	12,010
Total	—	—	—	—	1,026,805	1,026,805
Non-accruing loans and leases						
Commercial real estate:						
Owner occupied	$—	$—	$—	$—	$507	$507
Non-owner occupied	—	—	219	219	55	274
Construction and land development	—	—	—	—	5,026	5,026
Multi-family	—	—	—	—	20	20
1-4 family	168	—	107	275	91	366
Commercial and industrial	—	—	6,375	6,375	2,374	8,749
Direct financing leases, net	—	—	—	—	—	—
Consumer and other:						
Home equity and second mortgages	56	—	—	56	76	132
Other	—	—	763	763	—	763
Total	224	—	7,464	7,688	8,149	15,837
Total loans and leases						
Commercial real estate:						
Owner occupied	$—	$—	$—	$—	$144,017	$144,017
Non-owner occupied	—	—	219	219	328,511	328,730
Construction and land development	—	—	—	—	86,150	86,150
Multi-family	—	—	—	—	70,483	70,483
1-4 family	168	—	107	275	24,933	25,208
Commercial and industrial [(1)]	—	—	6,375	6,375	330,371	336,746
Direct financing leases, net	—	—	—	—	34,474	34,474
Consumer and other:						
	56	—	—	56	4,005	4,061

Home equity and second mortgages												
Other	—		—		763		763		12,010		12,773	
Total	$224		$—		$7,464		$7,688		$1,034,954		$1,042,642	
Percent of portfolio	0.02	%	—	%	0.72	%	0.74	%	99.26	%	100.00	%

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(1) Subsequent to September 30, 2014, $6.2 million of principal for one loan in the greater than 90 days past due category was paid in full.

As of December 31, 2013	30-59 days past due	60-89 days past due	Greater than 90 days past due	Total past due	Current	Total loans
	(Dollars in Thousands)					
Accruing loans and leases						
Commercial real estate:						
Owner occupied	$—	$—	$—	$—	$140,825	$140,825
Non-owner occupied	—	—	—	—	341,412	341,412
Construction and land development	—	—	—	—	63,286	63,286
Multi-family	—	—	—	—	62,727	62,727
1-4 family	—	—	—	—	30,265	30,265
Commercial and industrial	—	—	—	—	285,541	285,541
Direct financing leases, net	—	—	—	—	26,065	26,065
Consumer and other:						
Home equity and second mortgages	—	—	—	—	4,819	4,819
Other	—	—	—	—	11,177	11,177
Total	—	—	—	—	966,117	966,117
Non-accruing loans and leases						
Commercial real estate:						
Owner occupied	$—	$—	$254	$254	$85	$339
Non-owner occupied	—	—	—	—	283	283
Construction and land development	—	—	—	—	5,422	5,422
Multi-family	—	—	—	—	31	31
1-4 family	—	180	123	303	218	521
Commercial and industrial	1,944	1,407	53	3,404	4,607	8,011
Direct financing leases, net	—	—	—	—	—	—
Consumer and other:						
Home equity and second mortgages	—	—	85	85	368	453
Other	—	—	795	795	—	795
Total	1,944	1,587	1,310	4,841	11,014	15,855
Total loans and leases						
Commercial real estate:						
Owner occupied	$—	$—	$254	$254	$140,910	$141,164
Non-owner occupied	—	—	—	—	341,695	341,695
Construction and land development	—	—	—	—	68,708	68,708
Multi-family	—	—	—	—	62,758	62,758
1-4 family	—	180	123	303	30,483	30,786
Commercial and industrial	1,944	1,407	53	3,404	290,148	293,552
Direct financing leases, net	—	—	—	—	26,065	26,065
Consumer and other:						

Home equity and second mortgages	—		—		85		85		5,187		5,272	
Other	—		—		795		795		11,177		11,972	
Total	$1,944		$1,587		$1,310		$4,841		$977,131		$981,972	
Percent of portfolio	0.20	%	0.16	%	0.13	%	0.49	%	99.51	%	100.00	%

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The Corporation's total impaired assets consisted of the following at September 30, 2014 and December 31, 2013, respectively.

	September 30, 2014	December 31, 2013
	(Dollars in Thousands)	
Non-accrual loans and leases		
Commercial real estate:		
Commercial real estate — owner occupied	$507	$339
Commercial real estate — non-owner occupied	274	283
Construction and land development	5,026	5,422
Multi-family	20	31
1-4 family	366	521
Total non-accrual commercial real estate	6,193	6,596
Commercial and industrial	8,749	8,011
Direct financing leases, net	—	—
Consumer and other:		
Home equity and second mortgages	132	453
Other	763	795
Total non-accrual consumer and other loans	895	1,248
Total non-accrual loans and leases	15,837	15,855
Foreclosed properties, net	106	333
Total non-performing assets	15,943	16,188
Performing troubled debt restructurings	556	371
Total impaired assets	$16,499	$16,559

	September 30, 2014	December 31, 2013
Total non-accrual loans and leases to gross loans and leases	1.52 %	1.61 %
Total non-performing assets to total gross loans and leases plus foreclosed properties, net	1.53	1.65
Total non-performing assets to total assets	1.12	1.28
Allowance for loan and lease losses to gross loans and leases	1.34	1.42
Allowance for loan and lease losses to non-accrual loans and leases	87.96	87.68

As of September 30, 2014 and December 31, 2013, $7.2 million and $8.1 million of the non-accrual loans were considered troubled debt restructurings, respectively. As of September 30, 2014, there were no unfunded commitments associated with troubled debt restructured loans and leases.

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	As of September 30, 2014			As of December 31, 2013		
	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
	(Dollars in Thousands)					
Troubled debt restructurings:						
Commercial real estate						
Commercial real estate — owner occupied	2	$ 624	$ 585	1	$ 110	$ 84
Commercial real estate — non-owner occupied	4	390	274	3	385	283
Construction and land development	3	6,060	5,058	3	6,060	5,489
Multi-family	1	184	20	1	184	31
1-4 family	9	861	579	10	911	666
Commercial and industrial	4	361	170	5	1,935	565
Direct financing leases, net	—	—	—	—	—	—
Consumer and other:						
Home equity and second mortgages	5	602	333	6	752	580
Other	1	2,077	763	1	2,076	795
Total	29	$ 11,159	$ 7,782	30	$ 12,413	$ 8,493

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

As of September 30, 2014 and December 31, 2013, the Corporation's troubled debt restructurings grouped by type of concession were as follows:

	As of September 30, 2014		As of December 31, 2013	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(Dollars in Thousands)			
Commercial real estate				
Extension of term	1	$43	1	$