



First Maniowoc Bancorp, Inc.

2011 Annual Report

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President's Letter

Dear Valued Shareholders,

In 2011, Bank First, and its holding company First Manitowoc Bancorp, performed exceptionally well by virtually every financial and organizational measure. Our success is the result of our ongoing focus on growing relationships, minimizing credit risk, developing our culture and growing our footprint. We are pleased to report that net income for the company increased to a record \$8,547,000 in 2011, an improvement of nearly 15% from 2010.

The Bank's loan portfolio grew almost 14% to nearly \$679 million from the year before. This growth was generated by adding new customer relationships throughout our footprint with strong performances from our Oshkosh, Sheboygan and Plymouth offices. Our new Oshkosh staff grew loans to more than \$55 million in 2011 from under \$8 million the previous year. We experienced similar growth in deposits in Oshkosh with total deposits growing more than \$38 million to nearly \$40 million. Our Sheboygan and Plymouth offices also continued to grow with total loans in Sheboygan growing nearly 12% to more than \$225 million and total deposits in Plymouth growing more than 12% to over \$127 million.

In addition, we continued to experience improving asset quality with non-performing assets as a percentage of total assets declining to just 1.09% at the end of 2011 from 1.73% the previous year and our total past due loans (including non-accrual loans) to total loans falling to 0.60% from 1.80% over the same period.

This exceptional performance was largely driven by our Manitowoc area offices with assistance from our special asset group.

At Bank First, we continue to grow the Bank one relationship at a time. We do this by striving to provide exceptional customer service with every customer contact. Our customers can contact their local office for customer service instead of a call center in a distant city. We are local bankers passionate about our customer relationships and focused on contributing in a positive manner to the communities in which we live and work.

Please accept this invitation to join us at our Annual Meeting of Shareholders. Again this year, our Annual Meeting will be held at the Maritime Museum in Manitowoc. The meeting will be held on Monday, April 16, 2012, and begins at 4:00 P.M. with refreshments prepared by the Courthouse Pub to follow.

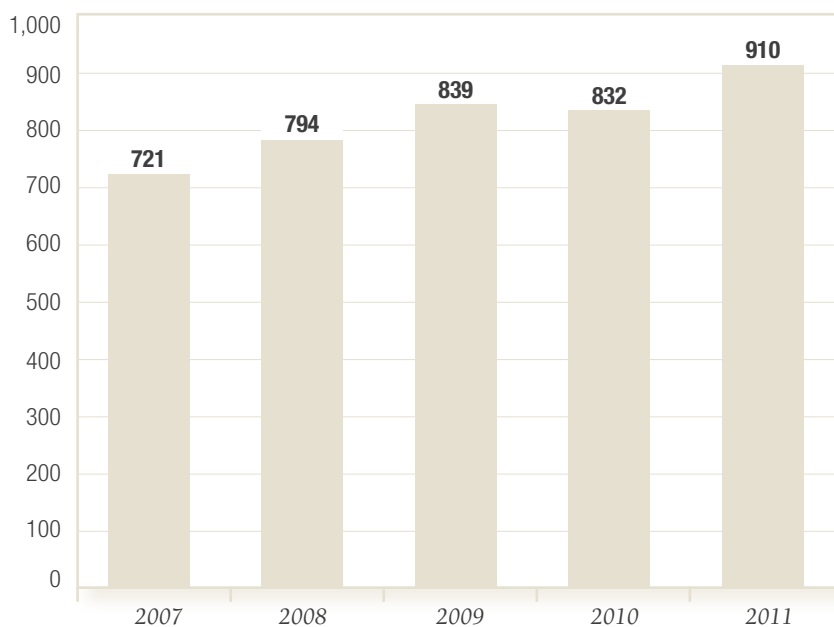
Respectfully yours,

Michael B. Molepske
President and CEO

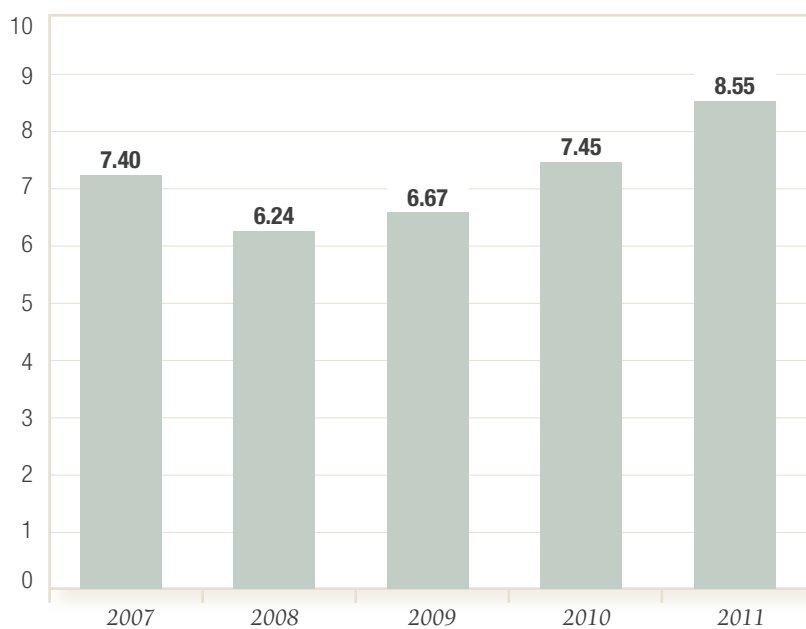


Michael B. Molepske
President and CEO

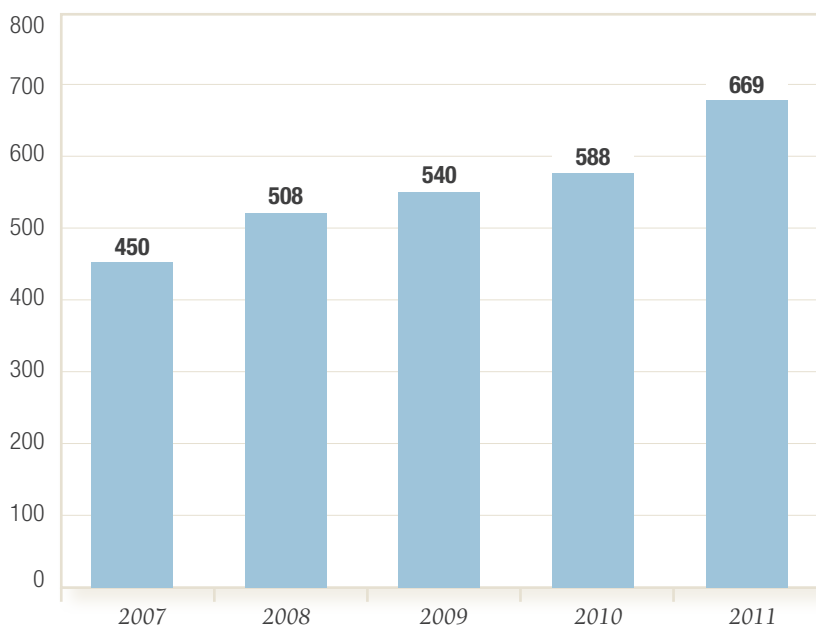
Consolidated Assets *(in millions of dollars)*



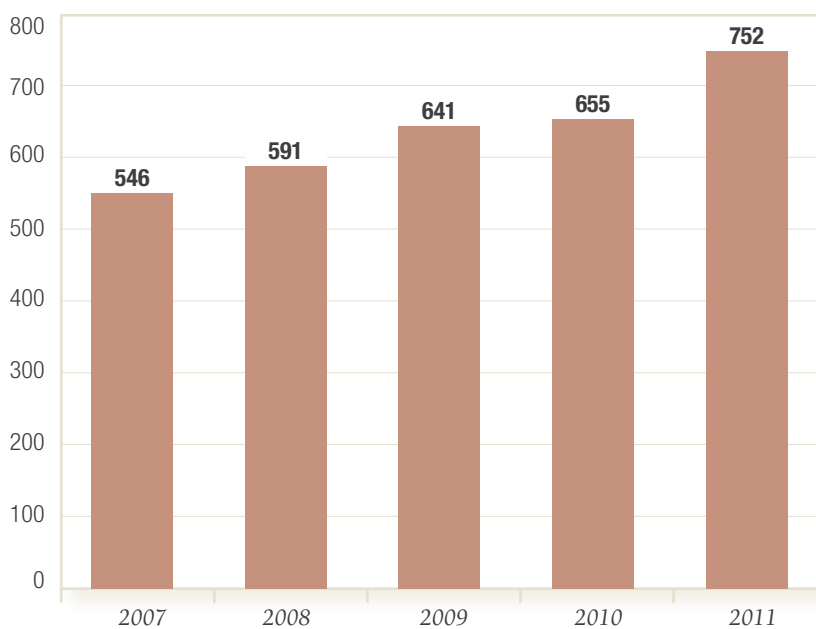
Consolidated Net Income *(in millions of dollars)*



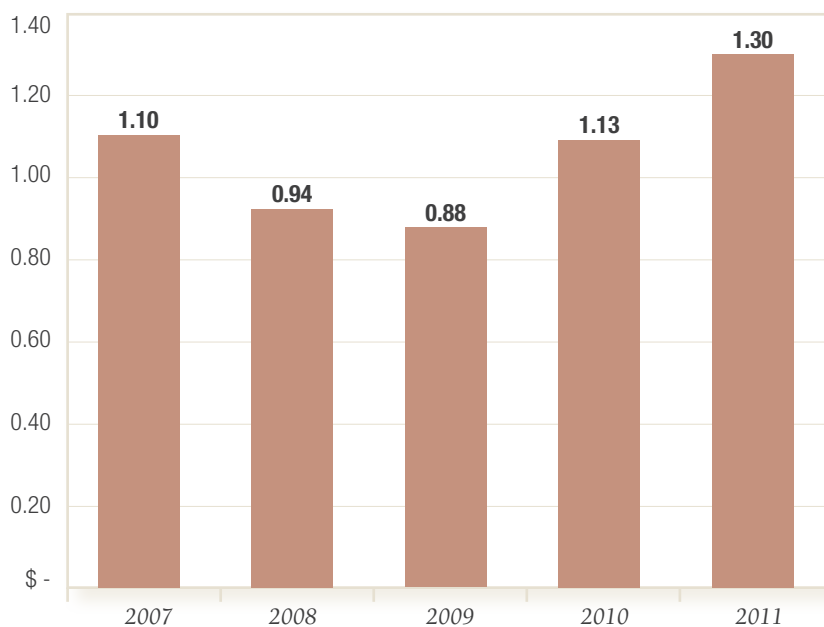
Total Loans, net of allowance *(in millions of dollars)*



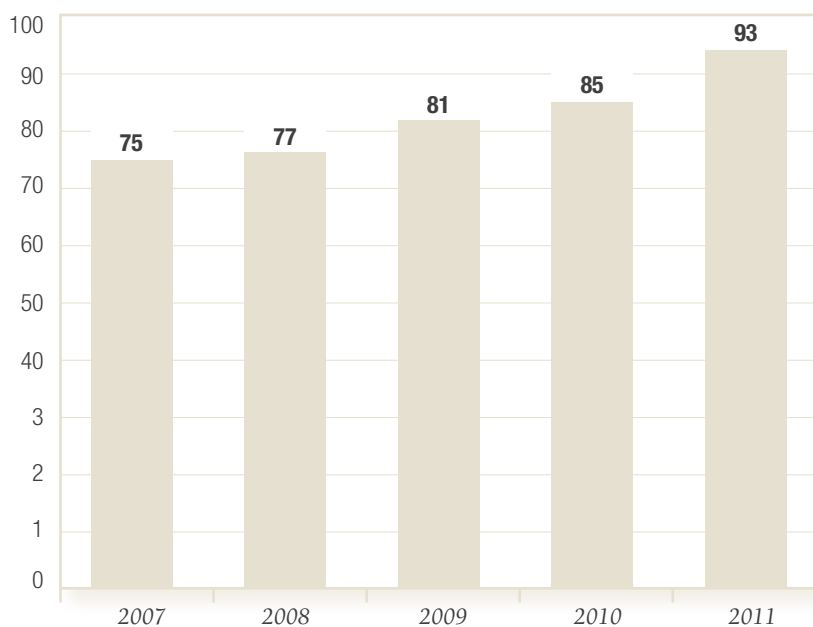
Total Deposits *(in millions of dollars)*



Earnings Per Share *(in dollars)*



FMB Stockholder's Equity *(in millions of dollars)*



Financials

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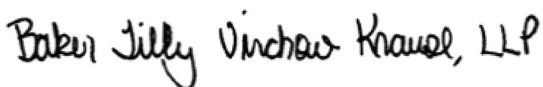
Independent Auditor's Report

Board of Directors
First Manitowoc Bancorp, Inc.
Manitowoc, Wisconsin

We have audited the accompanying consolidated balance sheets of First Manitowoc Bancorp, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated statements of income, stockholders' equity and cash flows for the year ended December 31, 2009 were audited by other auditors whose report, dated February 23, 2010, expressed an unqualified opinion on these consolidated financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of First Manitowoc Bancorp, Inc. and Subsidiaries at December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

A handwritten signature in black ink that reads "Baker Tilly Virchow Krause, LLP". The signature is written in a cursive, flowing style.

Baker Tilly Virchow Krause, LLP
Milwaukee, Wisconsin
February 23, 2012

First Maniowoc Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31	
	2011	2010
	(In thousands)	
ASSETS		
Cash and due from banks	\$ 35,776	\$ 15,514
Interest-bearing deposits	4,253	3,067
Federal funds sold	910	13,808
Cash and cash equivalents	40,939	32,389
Securities available for sale, at fair value	131,449	138,141
Loans, net of allowance for loan loss of \$7,480 and \$6,347 at 2011 and 2010, respectively	669,037	587,815
Loans held for sale	1,877	2,479
Premises and equipment, net	9,573	9,063
Goodwill	7,984	8,480
Other investments, at cost	3,539	3,539
Cash value of life insurance	17,202	17,141
Identifiable intangible assets, net	1,797	2,546
Other real estate owned	6,640	7,407
Investment in minority-owned subsidiaries	14,824	17,124
Other assets	5,167	5,457
TOTAL ASSETS	\$ 910,028	\$ 831,581
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	\$ 752,486	\$ 655,207
Securities sold under repurchase agreements	51,933	75,697
Borrowed funds	-	1,205
Notes payable	3,700	6,605
Other liabilities	9,088	7,856
Total liabilities	817,207	746,570
Stockholders' equity:		
Serial preferred stock – \$0.01 par value:		
Authorized – 5,000,000 shares	-	-
Common stock – \$0.01 par value:		
Authorized – 20,000,000 shares		
Issued – 6,714,560 shares in 2011 and 2010		
Outstanding – 6,587,879 and 6,586,925 shares in 2011 and 2010, respectively	67	67
Additional paid-in capital	2,451	2,451
Retained earnings	88,831	83,063
Treasury stock, at cost – 126,681 and 127,635 shares in 2011 and 2010, respectively	(1,742)	(1,767)
Accumulated other comprehensive income	3,214	1,197
Total stockholders' equity	92,821	85,011
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 910,028	\$ 831,581

See accompanying notes to consolidated financial statements.

First Manitowoc Bancorp, Inc. and Subsidiaries
Consolidated Statements of Income

	Years Ended December 31		
	2011	2010	2009
	(In thousands, except per share amounts)		
Interest income:			
Loans, including fees	\$ 33,354	\$ 32,599	\$ 31,288
Federal funds sold	12	7	10
Securities:			
Taxable	2,250	3,183	4,535
Tax-exempt	2,114	2,336	2,519
Other	10	8	8
Total interest income	<u>37,740</u>	<u>38,133</u>	<u>38,360</u>
Interest expense:			
Deposits	6,484	8,148	10,935
Securities sold under repurchase agreements	665	760	1,119
Borrowed funds	203	614	1,081
Total interest expense	<u>7,352</u>	<u>9,522</u>	<u>13,135</u>
Net interest income	30,388	28,611	25,225
Provision for loan losses	<u>2,110</u>	<u>6,617</u>	<u>3,770</u>
Net interest income after provision for loan losses	<u>28,278</u>	<u>21,994</u>	<u>21,455</u>
Other income:			
Noninterest income from fiduciary activities	691	791	914
Service charges	2,196	2,389	2,279
Insurance revenues	857	1,357	7,152
Loan servicing income (expense)	24	932	(736)
Income in minority-owned subsidiaries	877	593	534
Net loss on sales and valuations of other real estate owned	(2,544)	(445)	(349)
Net gain on sales of mortgage loans	772	1,099	1,374
Net gain on sales of securities	725	1,311	1,734
Other	1,220	730	843
Total other income	<u>\$ 4,818</u>	<u>\$ 8,757</u>	<u>\$ 13,745</u>
Other expenses:			
Salaries, commissions, and employee benefits	11,754	10,495	15,422
Occupancy	2,493	2,416	2,851
Data processing	1,366	1,384	1,643
Postage, stationery, and supplies	467	428	448
Advertising	208	202	303
Outside service fees	2,122	2,852	2,568
Amortization of intangibles	44	52	330
Branch restructuring	-	-	750
Other	3,238	3,147	2,134
Total other expenses	<u>21,692</u>	<u>20,976</u>	<u>26,449</u>
Income before provision for income taxes	11,404	9,775	8,751
Provision for income taxes	<u>2,857</u>	<u>2,325</u>	<u>2,080</u>
Net income	<u>\$ 8,547</u>	<u>\$ 7,450</u>	<u>\$ 6,671</u>
Preferred stock accretion	-	-	(600)
Preferred stock dividends	-	-	(237)
Net income available to common shareholders	<u>\$ 8,547</u>	<u>\$ 7,450</u>	<u>\$ 5,834</u>
Earnings per share — basic and diluted	<u>\$ 1.30</u>	<u>\$ 1.13</u>	<u>\$ 0.88</u>

See accompanying notes to consolidated financial statements.

First Maniowoc Bancorp, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity

	Perpetual Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	(In Thousands)						
Balance at January 1, 2009	\$ -	\$ 67	\$ 2,451	\$ 75,319	\$ (1,653)	\$ 1,284	\$ 77,468
Comprehensive income:							
Net income	-	-	-	6,671	-	-	6,671
Other comprehensive income	-	-	-	-	-	761	<u>761</u>
Total comprehensive income							7,432
Sale of perpetual preferred stock, Series A and Series B	12,000	-	-	-	-	-	12,000
Accretion of warrant	600	-	-	(600)	-	-	-
Retirement of perpetual preferred stock	(12,600)	-	-	-	-	-	(12,600)
Cash dividends declared on preferred stock	-	-	-	(237)	-	-	(237)
Cash dividends (\$0.42 per share)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,770)</u>	<u>-</u>	<u>-</u>	<u>(2,770)</u>
Balance at December 31, 2009	<u>\$ -</u>	<u>\$ 67</u>	<u>\$ 2,451</u>	<u>\$ 78,383</u>	<u>\$ (1,653)</u>	<u>\$ 2,045</u>	<u>\$ 81,293</u>
Comprehensive income:							
Net income	-	-	-	7,450	-	-	7,450
Other comprehensive loss	-	-	-	-	-	(848)	<u>(848)</u>
Total comprehensive income							6,602
Purchase of treasury stock	-	-	-	-	(114)	-	(114)
Cash dividends (\$0.42 per share)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,770)</u>	<u>-</u>	<u>-</u>	<u>(2,770)</u>
Balance at December 31, 2010	<u>\$ -</u>	<u>\$ 67</u>	<u>\$ 2,451</u>	<u>\$ 83,063</u>	<u>\$ (1,767)</u>	<u>\$ 1,197</u>	<u>\$ 85,011</u>
Comprehensive income:							
Net income	-	-	-	8,547	-	-	8,547
Other comprehensive income	-	-	-	-	-	2,017	<u>2,017</u>
Total comprehensive income							10,564
Net sale of treasury stock	-	-	-	-	25	-	25
Cash dividends (\$0.42 per share)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,779)</u>	<u>-</u>	<u>-</u>	<u>(2,779)</u>
Balance at December 31, 2011	<u>\$ -</u>	<u>\$ 67</u>	<u>\$ 2,451</u>	<u>\$ 88,831</u>	<u>\$ (1,742)</u>	<u>\$ 3,214</u>	<u>\$ 92,821</u>

First Manitowoc Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Years Ended December 31		
	2011	2010	2009
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 8,547	\$ 7,450	\$ 6,671
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	2,110	6,617	3,770
Depreciation and amortization of premises and equipment	968	897	1,024
Amortization of intangibles	44	52	342
Net amortization of securities	841	1,253	344
(Benefit) expense for deferred income taxes	(941)	201	(183)
Goodwill and intangible impairment	602	-	-
Change in fair value of mortgage servicing right (MSR) and other	1,127	325	2,508
Loss from premises and equipment	62	456	7
Loss on sale of other real estate owned and valuation allowance	2,544	445	349
Proceeds from sales of mortgage loans	66,359	89,972	130,750
Originations of mortgage loans held for sale	(66,961)	(90,954)	(129,376)
Gain on sales of mortgage loans	(772)	(1,099)	(1,374)
Realized gain on sale of securities available for sale	(724)	(1,311)	(1,734)
Gain recognized on contribution of assets to Ansay, net	(96)	(123)	(304)
Undistributed income of joint venture	(877)	(593)	(534)
Net earnings on life insurance	(423)	(546)	(532)
Decrease (increase) in other assets	291	1,578	(1,131)
Increase (decrease) in other liabilities	819	(2,977)	2,471
Total adjustments	4,973	4,193	6,397
Net cash provided by operating activities	13,520	11,643	13,068
Cash flows from investing activities:			
Activity in securities available for sale:			
Sales	24,269	54,497	88,211
Maturities, prepayments, and calls	23,984	31,393	34,834
Purchases	(38,308)	(35,422)	(124,295)
Net increase in loans	(86,201)	(61,472)	(43,441)
Acquisitions	-	-	(1,852)
Purchase of bank-owned life insurance	-	(1,500)	-
Contingent payments	-	-	(121)
Dividends received from UFS	413	229	750
Investment in Ansay	-	-	(750)
Proceeds from sale of Ansay units	2,859	-	-
Proceeds from life insurance	363	-	-
Proceeds from sale of other real estate owned	2,660	2,051	1,772
Capital expenditure on real estate held	(122)	-	-
Proceeds from sale of premises and equipment	-	411	556
Purchases of premises and equipment	(1,540)	(1,838)	(768)
Net cash used in investing activities	(71,623)	(11,651)	(45,104)

First Manitowoc Bancorp, Inc. and Subsidiaries
Consolidated Statements of Cash Flows - (continued)

	Years Ended December 31		
	2011	2010	2009
	(In thousands)		
Cash flows from financing activities:			
Net increase in deposits	\$ 97,279	\$ 14,083	\$ 50,188
Net decrease in securities sold under repurchase agreements	(23,764)	(3,240)	(7,119)
Proceeds from advances of borrowed funds	-	-	5,341
Repayment of borrowed funds	(1,203)	(20,930)	(11,376)
Proceeds from revolving line of credit	300	6,605	4,600
Repayment of revolving line of credit	(3,205)	(4,200)	(400)
Dividends paid	(2,779)	(2,770)	(2,770)
Preferred stock dividends paid	-	-	(237)
Issuance of common stock	259	-	-
Repurchase of common stock	(234)	(114)	-
Proceeds from issuance of preferred stock	-	-	12,000
Payment to repurchase preferred stock	-	-	(12,600)
Net cash provided by (used in) financing activities	<u>66,653</u>	<u>(10,566)</u>	<u>37,627</u>
Net (decrease) increase in cash and cash equivalents	<u>8,550</u>	<u>(10,574)</u>	<u>5,591</u>
Cash and cash equivalents at beginning	<u>32,389</u>	<u>42,963</u>	<u>37,372</u>
Cash and cash equivalents at end	<u>\$ 40,939</u>	<u>\$ 32,389</u>	<u>\$ 42,963</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 7,867	\$ 10,325	\$ 13,771
Income taxes	2,915	3,873	1,605
Supplemental schedule of noncash activities:			
Loans transferred to other real estate owned	4,315	7,720	2,334
Mortgage servicing rights resulting from sale of loans	529	671	1,249
Noncash dividend received from the Bank	-	925	-
Acquisition:			
Fair value of assets acquired from Insurance Associates	-	-	1,856
Ansay Merger:			
Assets contributed	-	-	12,597
Liabilities contributed	-	-	(1,059)
Cash paid	-	-	750
Market value adjustment	-	-	845
Ansay units sold	<u>(2,859)</u>	<u>-</u>	<u>-</u>
Net assets contributed to Ansay & Associates LLC merger	<u>\$ (2,859)</u>	<u>\$ -</u>	<u>\$ 13,133</u>

First Manitowoc Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

The accounting and reporting policies of First Manitowoc Bancorp, Inc. and Subsidiaries (the "Corporation") conform to generally accepted accounting principles (GAAP) in the United States and general practices within the financial institution industry. Significant accounting and reporting policies are summarized below.

Principles of Consolidation

The consolidated financial statements include the accounts of First Manitowoc Bancorp, Inc. and its wholly-owned subsidiaries Veritas Asset Holdings, LLC (Veritas) and Bank First National (Bank). The Bank's wholly-owned subsidiaries are Bank First Investments, Inc. (formerly known as FNBM Investment Corp.), TVG Holdings, Inc. (TVG). Effective on December 31, 2011 the Corporation dissolved BFN Asset Management, Inc. (BFN). All significant intercompany balances and transactions have been eliminated. The Bank has two investments in minority-owned subsidiaries that are accounted for using the equity method. The Bank owns 49.8% of United Financial Services, Inc. (UFS), and 28.8% of Ansay & Associates, LLC (Ansay). See Note 2 for a discussion of the Ansay merger.

Organization

The Corporation provides a variety of financial services to individual and business customers in Northeastern Wisconsin through the Bank. The Bank is subject to competition from other traditional and nontraditional financial institutions and is also subject to the regulations of certain federal agencies and undergoes periodic examinations by those regulatory authorities.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates. The allowance for loan losses, carrying value of real estate owned, carrying value of goodwill, fair value of mortgage servicing rights, and fair values of financial instruments are inherently subjective and are susceptible to significant change.

Cash and Cash Equivalents

For purposes of reporting cash flows in the consolidated financial statements, cash and cash equivalents include cash on hand, interest-bearing and noninterest-bearing accounts in other financial institutions, and federal funds sold, all of which have original maturities of three months or less. Generally, federal funds are purchased and sold for one day periods.

The Bank is required to maintain noninterest-bearing deposits on hand or with the Federal Reserve Bank. At December 31, 2011, those required reserves of \$7,798,000 were satisfied by currency and coin holdings.

In the normal course of business, the Corporation maintains cash and due from bank balances with correspondent banks. Accounts at each institution that are insured by the Federal Deposit Insurance Corporation have up to \$250,000 of insurance. Total uninsured balances held at December 31, 2011 were approximately \$4,103,000.

Securities

Securities are classified as available for sale and are carried at fair value. Interest and dividends are included in interest income from securities as earned. Amortization of premiums and accretion of discounts are recognized in interest income using the effective interest method over the expected estimated maturity.

Unrealized gains or losses considered temporary and the noncredit portion of unrealized losses deemed other-than-temporary are reported as an increase or decrease in accumulated other comprehensive income. The credit related portion of unrealized losses deemed other-than-temporary is recorded in current period earnings. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings.

We evaluate securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. As part of such monitoring, the credit quality of individual securities and their issuers are assessed. In addition, management considers the length of time and extent that fair value has been less than cost, the financial condition and near-term prospects of the issuer, and that the Corporation does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis. Adjustments to market value that are considered temporary are recorded as a separate component of equity, net of tax. If an impairment of security is identified as other-than-temporary based on information available such as the decline in the credit worthiness of the issuer, external market ratings or the anticipated or realized elimination of associated dividends, such impairments are further analyzed to determine if a credit loss exists. If there is a credit loss, it will be recorded in the consolidated statement of income in the period of identification.

Other Investments

Other investments are carried at cost, which approximates fair value, and consist of Federal Home Loan Bank of Chicago (FHLBC) stock, Federal Reserve stock, Bankers' Bancorporation stock, and preferred stock in a community development project. Other investments are evaluated for impairment on an annual basis.

Loans Held for Sale

Loans originated and intended for sale in the secondary market, consisting of the current origination of certain fixed-rate mortgage loans, are carried at the lower of cost or estimated fair value in the aggregate. A gain or loss is recognized at the time of the sale reflecting the present value of the difference between the contractual interest rate of the loans sold and the yield to the investor, adjusted for the initial value of mortgage servicing rights associated with loans sold with servicing retained. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Loans and Related Interest Income

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding unpaid principal balances adjusted for charge-offs and the allowance for loan losses. Interest on loans is calculated using the simple interest method on daily balances of the principal amount outstanding and is recognized in the period earned utilizing the loan convention applicable by loan type. Loan-origination fees are credited to income when received and the related loan-origination costs are expensed as incurred. Capitalization of fees net of the related costs would not have a material effect on the consolidated financial statements.

The accrual of interest on loans is discontinued when reasonable doubt exists as to the full, or timely collection of interest or principal. When loans are placed on nonaccrual or charged off, all unpaid accrued interest is reversed and additional income is recorded only to the extent that payments are received and the collection of principal is reasonably assured. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, when the obligation has performed in accordance with the contractual terms for a reasonable period of time, and future payments of principal and interest are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses (ALL) is established through a provision for loan losses charged to expense as losses are estimated to have occurred. Loan losses are charged against the allowance when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

Management regularly evaluates the allowance for loan losses using general economic conditions, the Corporation's past loan loss experience, composition of the portfolio, and other relevant factors. This evaluation is inherently subjective since it requires material estimates that may be susceptible to significant change.

The ALL consists of specific reserves for certain impaired loans and general reserves for non-impaired loans. Specific reserves reflect estimated losses on impaired loans from management's analyses developed through specific credit allocations. The specific credit reserves are based on regular analyses of impaired non-homogenous loans greater than \$250,000. These analyses involve a high degree of judgment in estimating the amount of loss associated with specific loans, including estimating the amount and timing of future cash flows and collateral values. The general reserve is based on the Bank's historical loss experience which is updated

quarterly. The general reserve portion of the ALL also includes consideration of certain qualitative factors such as 1) changes in lending policies and/or underwriting practices, 2) national and local economic conditions 3) changes in portfolio volume and nature, 4) experience, ability and depth of lending management and other relevant staff, 5) levels of and trends in past-due and nonaccrual loans and quality, 6) changes in loan review and oversight, 7) impact and effects of concentrations, 8) other issues deemed relevant.

In management's judgment, the allowance for loan losses is appropriate and covers probable losses relating to specifically identified loans, as well as probable losses inherent in the balance of the loan portfolio.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. Maintenance and repair costs are charged to expense as incurred. Gains or losses on disposition of premises and equipment are reflected in income. Premises and equipment, and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lesser of carrying value or fair value at the date of foreclosure less estimated costs to sell the asset, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and a valuation allowance established if fair value declines below carrying value. Costs relating to the development and improvement of the property are capitalized. Revenue and expenses from operations and changes in the valuation allowance are included in other expenses.

Intangible Assets and Goodwill

Intangible assets consist of the value of core deposits and mortgage servicing assets, and the excess of purchase price over fair value of net assets (goodwill). Core deposits are stated at cost less accumulated amortization and are amortized on a straight-line basis over a period of one to ten years. Mortgage servicing rights are stated at fair value. Goodwill is not amortized.

Mortgage servicing rights are recognized as separate assets when rights are acquired through purchase or through sale of mortgage loans with servicing retained. Servicing rights acquired through sale of financial assets are recorded based on the fair value of the servicing right. The determination of fair value is based on a valuation model and includes stratifying the mortgage servicing rights by predominant characteristics, such as interest rates and terms, and estimating the fair value of each stratum based on the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as costs to service, a discount rate, and prepayment speeds.

The Corporation reviews core deposit intangibles and goodwill for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The evaluation includes assessing the estimated fair value of the goodwill and core deposit intangibles based on market prices for similar assets, where available, and the present value of the estimated future cash flows associated with the goodwill and core deposit intangibles.

The Corporation evaluated goodwill and core deposit intangibles for impairment during 2011, 2010 and 2009. In 2010 and 2009, the Corporation determined there was no goodwill and core deposit intangible impairment. In 2011, the Corporation determined \$602,000 of goodwill and intangible asset impairment and recognized the expense in current earnings of 2011.

Income Taxes

The Corporation files one consolidated federal income tax return and one Wisconsin combined return. Federal income tax expense is allocated to each subsidiary based on an intercompany tax sharing agreement.

Deferred tax assets and liabilities have been determined using the liability method. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities and the current enacted tax rates which will be in effect when these differences are expected to reverse. Provision (benefit) for deferred taxes is the result of changes in the deferred tax assets and liabilities.

Tax effects from an uncertain tax position can be recognized in the financial statements only if the position is more likely than not to be sustained on audit, based on the technical merits of the position. The Corporation recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized, upon ultimate settlement with the relevant tax authority. Based on its evaluation, the Corporation has concluded that there are no significant uncertain tax positions requiring recognition in its consolidated financial statements.

Securities Sold Under Repurchase Agreements

The Corporation sells securities under repurchase agreements. These transactions are accounted for as collateralized financing transactions and are recorded at the amounts at which the securities were sold. The Corporation may have to provide additional collateral to the counterparty, as necessary.

Off-Balance-Sheet Financial Instruments

In the ordinary course of business, the Corporation has entered into off-balance-sheet financial instruments including commitments to extend credit, unfunded commitments under lines of credit, and letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded.

Advertising

Advertising costs are generally expensed as incurred.

Per Share Computations

Weighted average shares outstanding were 6,593,759, 6,594,035, and 6,595,110 for the years ended December 31, 2011, 2010 and 2009, respectively.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe that there are any such matters that will have a material effect on the consolidated financial statements at December 31, 2011 and 2010.

Subsequent Events

Management has evaluated subsequent events through February 23, 2012, the issuance date of these consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the 2010 and 2009 consolidated financial statements to conform with the 2011 classifications.

New Accounting Pronouncements

In July 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ('ASU') No. 2010-20, Receivables (Topic 310): *Disclosure about Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The objective of this guidance is for an entity to provide disclosure that facilitates the evaluation of the nature of credit risk inherent in the entity's portfolio of financing receivables, how that risk is analyzed and assessed in arriving at the allowance for doubtful accounts and the changes and reason for those changes in the allowance for credit losses. To achieve those objectives disclosures on a disaggregated basis shall be provided on two defined levels: (1) portfolio segment; and (2) class of financing receivable. This guidance makes changes to existing disclosure requirements and includes additional disclosure requirements relating to financing receivables. The guidance was effective for annual reporting periods ending on or after December 15, 2011. The adoption of this guidance did not have any impact on the Corporation's consolidated financial condition, results of operations or liquidity.

In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") No. 2011-02, "Receivables (Topic 310): *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*". The ASU is intended to improve financial reporting by creating greater consistency in the way GAAP is applied for various types of debt restructurings. The ASU clarifies which loan modifications constitute

troubled debt restructurings. It is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. The new guidance was effective for interim and annual periods beginning on or after June 15, 2011, and applied retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption. The adoption of this guidance did not have any impact on the Corporation's consolidated financial condition, results of operation or liquidity.

In May 2011, the FASB issued ASU No. 2011-03, Transfers and Servicing (Topic 860): *Reconsideration of Effective Control for Repurchase Agreements*. The ASU is intended to improve financial reporting of repurchase agreements ("repos") and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments to the codification in this ASU are intended to improve the accounting for these transactions by removing from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets. The guidance in the ASU is effective for the first interim or annual period beginning on or after December 15, 2011. The provisions of this guidance are not expected to have a significant impact the Corporation's consolidated financial condition, results of operation or liquidity.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): *Presentation of Comprehensive Income*. This ASU amends the codification to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total number for comprehensive income. ASU 2011-05 should be applied retrospectively. For non-public entities, the amendments are effective for fiscal years ending after December 15, 2012. Early adoption is permitted. In October 2011, the FASB deferred the effective date of the amendment. No effective date has been established. The provisions of this guidance are not expected to have a significant impact on the Company's consolidated financial condition, results of operations or liquidity.

In September 2011, the FASB issued ASU No. 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. ASU No. 2011-08 provides entities with the option to perform an initial qualitative assessment to determine whether it is "more likely than not" that the fair values of its reporting units' are greater than their carrying amounts. If, based on this assessment, an entity determines that it is more likely than not that the fair value of its reporting units are greater than their carrying amounts, performing the two-step goodwill impairment test is not required. If an entity is unable to determine that it is more likely than not that the fair value of its reporting units are greater than their carrying amounts, proceeding to step one of the two-step goodwill impairment test is required. This ASU is effective for the Corporation for fiscal years beginning after December 15, 2011. Early adoption is permitted. The provisions of this guidance are not expected to have a significant impact on the Bank's consolidated financial condition, results or operations or liquidity.

Note 2 Merger Transactions

Effective December 31, 2009, Bank First National's wholly-owned insurance subsidiary, The Vincent Group, Inc., completed a merger transaction with A.N. Ansay & Associates, Inc. to form a third party LLC, Ansay & Associates, LLC (Ansay). Upon completion of the merger, the net assets of The Vincent Group, Inc. were contributed to Ansay and The Vincent Group, Inc. was renamed to TVG Holdings, Inc., which was a 38.4% minority owner of Ansay upon completion of the merger. Total consideration exchanged for ownership in Ansay approximated \$13,133,000 and consisted of a contribution of approximately \$11,047,000 of income producing net assets, \$491,000 of net fixed assets and net cash paid of \$750,000. The investment also contained a market value premium adjustment of \$845,000. The total recognized gain as of December 31, 2009 was \$507,000 with \$338,000 recorded as a deferred gain. The total market value of the investment was determined through a third party independent appraisal.

Effective January 1, 2011, Ansay & Associates, LLC purchased 8,440 Class A units from TVG Holdings, Inc. for approximately \$2,900,000 of cash. Effective with the purchase, TVG Holdings, Inc. reduced its investment in Ansay & Associates, LLC to 28.8% and recognized a gain of \$96,000. At December 31, 2011, the remaining deferred gain was \$242,000 and will be recognized upon liquidation of remaining ownership interest.

Note 3 Securities Available for Sale

The amortized cost and estimated fair value of securities with gross unrealized gains and losses follows (dollar amounts in thousands):

	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Estimated <u>Fair Value</u>
December 31, 2011				
Debt securities:				
U.S. Treasury securities and obligations of U.S. Government sponsored agencies	\$ 15,856	\$ 160	\$ (4)	\$ 16,012
Obligations of states and political subdivisions	52,992	3,334	(7)	56,319
Mortgage-backed securities	57,253	1,853	(88)	59,018
Corporate notes	100	-	-	100
Total Securities	<u>\$ 126,201</u>	<u>\$ 5,347</u>	<u>\$ (99)</u>	<u>\$ 131,449</u>
December 31, 2010				
Debt securities:				
U.S. Treasury securities and obligations of U.S. Government sponsored agencies	\$ 9,378	\$ -	\$ (425)	\$ 8,953
Obligations of states and political subdivisions	57,611	1,221	(460)	58,372
Mortgage-backed securities	69,170	1,748	(202)	70,716
Corporate notes	100	-	-	100
Total Securities	<u>\$ 136,259</u>	<u>\$ 2,969</u>	<u>\$ (1,087)</u>	<u>\$ 138,141</u>

The following table shows the fair value and gross unrealized losses of securities with unrealized losses at December 31, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (dollar amounts in thousands):

	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2011						
U.S. Treasury securities and obligations of U.S. Government sponsored agencies	\$ 2,293	\$ (4)	\$ -	\$ -	\$ 2,293	\$ (4)
Obligations of states and political subdivisions	-	-	151	(7)	151	(7)
Mortgage-backed securities	7,747	(88)	-	-	7,747	(88)
Totals	<u>\$ 10,040</u>	<u>\$ (92)</u>	<u>\$ 151</u>	<u>\$ (7)</u>	<u>\$ 10,191</u>	<u>\$ (99)</u>

December 31, 2010						
U.S. Treasury securities and obligations of U.S. Government sponsored agencies	\$ 8,014	\$ (425)	\$ -	\$ -	\$ 8,014	\$ (425)
Obligations of states and political subdivisions	16,430	(390)	980	(70)	17,410	(460)
Mortgage-backed securities	7,723	(202)	-	-	7,723	(202)
Totals	<u>\$ 32,167</u>	<u>\$ (1,017)</u>	<u>\$ 980</u>	<u>\$ (70)</u>	<u>\$ 33,147</u>	<u>\$ (1,087)</u>

The Corporation evaluates securities for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and that management does not have the intent to sell the security and it is more likely than not that it will not have to sell the security before recovery of its cost basis. In analyzing an issuer's financial condition, the Corporation may consider whether the securities are issued or sponsored by the U.S. government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

At December 31, 2011, 1 obligation of a state and political subdivision has an unrealized loss greater than 12 months with aggregate depreciation of 4.57% from the Corporation's amortized cost basis. This unrealized loss relates principally to changes in interest rates and is not due to changes in the financial condition of the issuer.

At December 31, 2010, 3 obligations of states and political subdivisions have unrealized losses greater than 12 months with aggregate depreciation of 6.66% from the Corporation's amortized cost basis. These unrealized losses relate principally to the increase in interest rates and are not due to changes in the financial condition of the issuer.

Contractual maturities will differ from expected maturities for mortgage-backed securities because borrowers may have the right to call or prepay obligations without penalties. The following is a summary of amortized cost and estimated fair value of debt securities, by contractual maturity, as of December 31, 2011 (dollar amounts in thousands):

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 2,087	\$ 2,106
Due after one year through five years	13,926	14,314
Due after five years through ten years	34,651	36,594
Due after ten years	18,284	19,417
Subtotal	68,948	72,431
Mortgage-backed securities	57,253	59,018
Total	<u>\$ 126,201</u>	<u>\$ 131,449</u>

Following is a summary of the proceeds from sales of securities available for sale, as well as gross gains and losses from the years ended December 31 (dollar amounts in thousands):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Proceeds from sales of securities	\$ 24,269	\$ 54,497	\$ 88,211
Gross gains on sales	\$ 734	\$ 1,317	\$ 2,511
Gross losses on sales	\$ (9)	\$ (6)	\$ (777)

As of December 31, 2011 and 2010, the carrying values of securities held available for sale pledged to secure public deposits, securities sold under repurchase agreements, FHLB advances, and for other purposes required or permitted by law were approximately \$106,781,000 and \$87,551,000, respectively.

Note 4 Loans

The composition of loans at December 31 is as follows (dollar amounts in thousands):

	<u>2011</u>	<u>2010</u>
Commercial		
Commercial/Industrial	\$ 176,232	\$ 135,197
Real Estate - owner occupied	191,857	194,764
Real Estate - non-owner occupied	91,796	64,995
Construction and Development	34,295	32,487
Residential 1-4 Family	160,694	143,302
Consumer	11,466	12,601
Other	10,177	10,816
Subtotals	676,517	594,162
Less allowance for loan losses	7,480	6,347
Loans, net of allowance	669,037	587,815
Loans held for sale	1,877	2,479
Loans, net and loans held for sale	<u>\$ 670,914</u>	<u>\$ 590,294</u>

A summary of the activity in the allowance for loan losses by loan type as of December 31, 2011 is as follows (dollar amounts in thousands):

	Commercial Real Estate -		Commercial Real Estate -		Construction and		1 - 4 Family						
	Commercial/ Industrial	Owner Occupied	Non - Owner Occupied		Development	Residential	Consumer	Other	Unallocated	Total			
Allowance for loan losses -													
January 1, 2011	\$ 1,006	\$ 885	\$ 244	\$	988	\$ 2,673	\$ 391	\$ 97	\$ 63	\$ 6,347			
Charge-offs	(112)	(36)	(77)		(43)	(946)	(13)	(36)	-	(1,263)			
Recoveries	146	5	-		1	93	20	21	-	286			
Provision	<u>448</u>	<u>(51)</u>	<u>369</u>		<u>(345)</u>	<u>1,533</u>	<u>(46)</u>	<u>(42)</u>	<u>244</u>	<u>2,110</u>			
Allowance for loan losses -													
December 31, 2011	<u>\$ 1,488</u>	<u>\$ 803</u>	<u>\$ 536</u>	\$	<u>601</u>	<u>\$ 3,353</u>	<u>\$ 352</u>	<u>\$ 40</u>	<u>\$ 307</u>	<u>\$ 7,480</u>			
Ending balance individually evaluated for impairment	<u>-</u>	<u>-</u>	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>			
Ending balance collectively evaluated for impairment	<u>\$ 1,488</u>	<u>\$ 803</u>	<u>\$ 536</u>	\$	<u>601</u>	<u>\$ 3,353</u>	<u>\$ 352</u>	<u>\$ 40</u>	<u>\$ 307</u>	<u>\$ 7,480</u>			
Loans outstanding -													
December 31, 2011	\$ 176,232	\$ 191,857	\$ 91,796	\$	34,295	\$ 162,571	\$ 11,466	\$ 10,177	\$ -	\$ 678,394			
Allowance for loan losses	<u>1,488</u>	<u>803</u>	<u>536</u>		<u>601</u>	<u>3,353</u>	<u>352</u>	<u>40</u>	<u>307</u>	<u>7,480</u>			
Recorded investment	<u>\$ 174,744</u>	<u>\$ 191,054</u>	<u>\$ 91,260</u>	\$	<u>33,694</u>	<u>\$ 159,218</u>	<u>\$ 11,114</u>	<u>\$ 10,137</u>	<u>\$ (307)</u>	<u>\$ 670,914</u>			
Ending balance individually evaluated for impairment	-	-	2,131		-	-	-	-	-	2,131			
Ending balance collectively evaluated for impairment	<u>\$ 174,744</u>	<u>\$ 191,054</u>	<u>\$ 89,129</u>	\$	<u>33,694</u>	<u>\$ 159,218</u>	<u>\$ 11,114</u>	<u>\$ 10,137</u>	<u>\$ (307)</u>	<u>\$ 668,783</u>			

A summary of past due loans as of December 31, 2011 is as follows (dollar amounts in thousands):

	30-89 Days Past Due <u>Accruing</u>	90 Days or more Past Due or on <u>Non-Accrual</u>	<u>Total</u>
Commercial/Industrial	\$ 16	\$ 1,875	\$ 1,891
Commercial Real Estate - owner occupied	-	145	145
Commercial Real Estate - non-owner occupied	-	508	508
Construction and Development	-	-	-
Residential 1-4 Family	640	715	1,355
Consumer	49	8	57
Other	<u>86</u>	<u>-</u>	<u>86</u>
	<u>\$ 791</u>	<u>\$ 3,251</u>	<u>\$ 4,042</u>

Credit Quality:

We utilize a numerical risk rating system for commercial relationships whose total indebtedness equals \$250,000 or more. All other types of relationships (ex: residential, consumer, commercial under \$250,000 of indebtedness) are assigned a "Pass" rating, unless they have fallen 90 days past due or more, at which time they receive a rating of 7. The Corporation uses split ratings for government guaranties on loans. The portion of a loan that is supported by a government guaranty is included with other pass credits.

The determination of a commercial loan risk rating begins with completion of a matrix, which assigns scores based on the strength of the borrower's debt service coverage, collateral coverage, balance sheet leverage, industry outlook, and customer concentration. A weighted average is taken of these individual scores to arrive at the overall rating. This rating is subject to adjustment by the loan officer based on facts and circumstances pertaining to the borrower. Risk ratings are subject to independent review.

Commercial borrowers with ratings between 1 and 5 are considered pass credits, with 1 being most acceptable and 5 being just above the minimum level of acceptance.

Commercial borrowers rated 6 have potential weaknesses which may jeopardize repayment ability.

Borrowers rated 7 have a well-defined weakness or weaknesses such as the inability to demonstrate significant cash flow for debt service based on analysis of the company's financial information. These loans remain on accrual status provided full collection of principal and interest is reasonably expected.

The breakdown of loans by risk rating as of December 31, 2011 is as follows (dollar amounts in thousands):

	<u>Pass (1 - 5)</u>	<u>6</u>	<u>7</u>	<u>Total</u>
Commercial/Industrial	\$ 167,133	\$ 200	\$ 8,899	\$ 176,232
Commercial Real Estate - owner occupied	183,446	-	5,994	189,440
Commercial Real Estate - non-owner occupied	90,031	2,417	1,765	94,213
Construction and Development	31,678	-	2,617	34,295
Residential 1-4 Family	160,378	-	2,193	162,571
Consumer	11,420	-	46	11,466
Other	<u>10,177</u>	<u>-</u>	<u>-</u>	<u>10,177</u>
	<u>\$ 654,263</u>	<u>\$ 2,617</u>	<u>\$ 21,514</u>	<u>\$ 678,394</u>

The ALL represents management's estimate of probable and inherent credit losses in the loan portfolio. Estimating the amount of the ALL requires the exercise of significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogenous loans based on historical loss experience, and consideration of other qualitative factors such as current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset on the consolidated balance sheet. Loan losses are charged off against the ALL, while recoveries of amounts previously charged off are credited to the ALL. A provision for loan losses ("PFL") is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors.

The ALL consists of specific reserves for certain impaired loans and general reserves for non-impaired loans. At December 31, 2011, the Corporation had no specific reserves outstanding. Specific reserves reflect estimated losses on impaired loans from management's analyses developed through specific credit allocations. The specific credit reserves are based on regular analyses of impaired non-homogenous loans greater than \$250,000. These analyses involve a high degree of judgment in estimating the amount of loss associated with specific loans, including estimating the amount and timing of future cash flows and collateral values. The general reserve is based in part on the Bank's historical loss experience which is updated quarterly. The general reserve portion of the ALL also includes consideration of certain qualitative factors such as 1) changes in lending policies and/or underwriting practices, 2) national and local economic conditions 3) changes in portfolio volume and nature, 4) experience, ability and depth of lending management and other relevant staff, 5) levels of and trends in past-due and nonaccrual loans and quality, 6) changes in loan review and oversight, 7) impact and effects of concentrations, 8) other issues deemed relevant.

There are many factors affecting ALL; some are quantitative while others require qualitative judgment. The process for determining the ALL (which management believes adequately considers potential factors which might possibly result in credit losses) includes subjective elements and, therefore, may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional PFL could be required that could adversely affect the Corporation's earnings or financial position in future periods. Allocations of the ALL may be made for specific loans but the entire ALL is available for any loan that, in management's judgment, should be charged off or for which an actual loss is realized. As an integral part of their examination process, various regulatory agencies review the ALL as well. Such agencies may require that changes in the ALL be recognized when such regulators' credit evaluations differ from those of management based on information available to the regulators at the time of their examinations.

An analysis of the allowance for loan losses for the years ended December 31 follows (dollar amounts in thousands):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Balance at beginning	\$ 6,347	\$ 5,659	\$ 4,727
Provision for loan losses	2,110	6,617	3,770
Loans charged off	(1,263)	(6,028)	(3,275)
Recoveries of loans previously charged off	286	99	437
Balance at end	<u>\$ 7,480</u>	<u>\$ 6,347</u>	<u>\$ 5,659</u>

A summary of impaired loans as of December 31, 2011 is as follows (dollar amounts in thousands):

	Commercial Real Estate -		Commercial Real Estate -		Construction and		1 - 4 Family Residential		Consumer	Other	Unallocated	Total
	<u>Industrial</u>	<u>Owner Occupied</u>	<u>Non - Owner Occupied</u>	<u>Development</u>	<u>Residential</u>	<u>Consumer</u>	<u>Other</u>	<u>Unallocated</u>	<u>Total</u>			
December 31, 2011												
<u>With an allowance recorded:</u>												
Recorded investment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unpaid principal balance	-	-	-	-	-	-	-	-	-	-	-	-
Related allowance	-	-	-	-	-	-	-	-	-	-	-	-
<u>With no related allowance recorded:</u>												
Recorded investment	\$ 1,875	\$ 145	\$ 508	\$ -	\$ 560	\$ 8	\$ -	\$ -	\$ 3,096			
Unpaid principal balance	1,875	145	508	-	560	8	-	-	3,096			
Related allowance	-	-	-	-	-	-	-	-	-			
<u>Total:</u>												
Recorded investment	\$ 1,875	\$ 145	\$ 508	\$ -	\$ 560	\$ 8	\$ -	\$ -	\$ 3,096			
Unpaid principal balance	1,875	145	508	-	560	8	-	-	3,096			
Related allowance	-	-	-	-	-	-	-	-	-			
Average recorded investment												
during 2011 through December	\$ 2,033	\$ 380	\$ 605	\$ 107	\$ 1,514	\$ 16	\$ -	\$ -	\$ 4,655			
Interest income recognized												
while impaired	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			

Management regularly monitors impaired loan relationships. In the event facts and circumstances change, additional provision for loan losses may be necessary.

The following is a summary of information pertaining to impaired and nonperforming loans as of December 31 (dollar amounts in thousands):

	<u>2011</u>	<u>2010</u>
Impaired loans for which an allowance has been provided	\$ -	\$ 3,167
Impaired loans for which no allowance has been provided	<u>3,096</u>	<u>1,120</u>
Total impaired loans	<u>\$ 3,096</u>	<u>\$ 4,287</u>
Impairment reserve (included in allowance for loan losses)	\$ -	\$ 195
Total nonaccrual loans	\$ 3,096	\$ 6,971
Total loans past due 90 days or more and still accruing	\$ 155	\$ 10

An analysis of impaired loans for the three years ended December 31 follows (dollar amounts in thousands):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Average investment in impaired loans	\$ 4,655	\$ 2,721	\$ 4,037
Interest income that would have been recognized on an accrual basis	\$ 266	\$ 209	\$ 788
Cash-basis interest income recognition	\$ -	\$ 107	\$ 384

A summary of nonperforming loans as of December 31, 2011 is as follows (dollar amounts in thousands):

	<u>2011</u>	<u>2010</u>
Nonaccrual loans	\$ 3,096	\$ 6,971
Loans past due 90 days	<u>155</u>	<u>8</u>
Total nonperforming loans ("NPLs")	<u>\$ 3,251</u>	<u>\$ 6,979</u>
Restructured loans, accruing	\$ -	\$ -

A troubled debt restructuring ("TDR") includes a loan modification where a borrower is experiencing financial difficulty and we grant a concession to that borrower that we would not otherwise consider except for the borrower's financial difficulties. A TDR may be either accrual or nonaccrual status based upon the performance of the borrower and management's assessment of collectability. If a TDR is placed on nonaccrual status, it remains there until a sufficient period of performance under the restructured terms has occurred at which time it is returned to accrual status, generally six months. The Corporation did not have any loans that are considered troubled debt restructurings during 2011 and 2010.

Note 5 Related Party Matters

Directors, executive officers, and principal shareholders of the Corporation, including their families and firms in which they are principal owners, are considered to be related parties. Substantially all loans to officers, directors, and shareholders owning 5% or more of the Corporation, that we are aware of, were made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others and did not involve more than the normal risk of collectability or present other unfavorable features. The changes of the directors are reflected in the new loans and repayments.

A summary of loans to directors, executive officers, principal shareholders, and their affiliates for the years ended December 31 is as follows (dollar amounts in thousands):

	<u>2011</u>	<u>2010</u>
Balances at beginning	\$ 18,344	\$ 6,971
New loans	14,013	13,591
Repayments	<u>(9,693)</u>	<u>(2,218)</u>
Balance at end	<u>\$ 22,664</u>	<u>\$ 18,344</u>

Note 6 Mortgage Servicing Rights

Loans serviced for others are not included in the accompanying consolidated balance sheets. Mortgage servicing rights are recognized as separate assets when loans sold in the secondary market are sold with servicing retained. The Corporation utilizes a third party consulting firm to determine an accurate assessment of the mortgage servicing rights fair value. The third party firm collects relevant data points from numerous sources. Some of these data points relate directly to the pricing level or relative value of the mortgage servicing while other data points relate to the assumptions used to derive fair value. In addition, the valuation evaluates specific collateral types, and current and historical performance of the collateral in question. The valuation process focuses on the non-distressed secondary servicing market, common industry practices and current regulatory standards. The primary determinants of the fair value of mortgage servicing rights are servicing fee percentage, ancillary income, expected loan life or prepayment speeds, discount rates, costs to service, delinquency rates, foreclosure losses and recourse obligations. The valuation data also contains interest rate shock analyses for monitoring fair value changes in differing interest rate environments.

Following is an analysis of activity for the years ended December 31 in servicing assets that are measured at fair value (dollar amounts in thousands):

	<u>2011</u>	<u>2010</u>
Fair value beginning of year	\$ 2,302	\$ 1,956
Servicing asset additions	529	671
Loan payments and payoffs	(615)	(622)
Changes in valuation inputs and assumptions used in the valuation model	<u>(512)</u>	<u>297</u>
Fair value end of year	<u>\$ 1,704</u>	<u>\$ 2,302</u>
Unpaid principal balance of loans serviced for others (in thousands)	249,305	245,283
Mortgage servicing right as a percent of loans serviced for others	0.68	0.94

During the years ended December 31, 2011 and 2010, the Corporation utilized economic assumptions in measuring the initial value of MSRs for loans sold whereby servicing is retained by the Corporation. The economic assumptions used at December 31, 2011 and 2010 included constant prepayment speed of 17.9 months and a discount rate of 10.07%. The constant prepayment rates are obtained from publicly available sources for each of the Federal National Mortgage Association (FNMA) loan programs that the Corporation originates under. The assumptions used by the Corporation are hypothetical and supported by a third party valuation. The Corporation's methodology for estimating the fair value of MSR is highly sensitive to changes in assumptions.

The carrying value of the mortgage servicing rights is included with intangible assets and approximates fair market value at December 31, 2011 and 2010. Changes in fair value are recognized through the income statement as loan servicing income.

Note 7 Premises and Equipment

An analysis of premises and equipment at December 31 follows (dollar amounts in thousands):

	<u>2011</u>	<u>2010</u>
Land improvements	\$ 1,725	\$ 1,479
Buildings and improvements	9,830	9,376
Furniture and equipment	<u>6,827</u>	<u>6,137</u>
Totals	18,382	16,992
Less accumulated depreciation	<u>8,809</u>	<u>7,929</u>
Premises and equipment, net	<u>\$ 9,573</u>	<u>\$ 9,063</u>

Depreciation and amortization of premises and equipment charged to operating expense totaled \$968,000, \$897,000, and \$1,024,000 for the years ended December 31, 2011, 2010, and 2009, respectively.

Note 8 Other Real Estate Owned

Changes in other real estate owned (OREO) for the years ended December 31 were as follows (dollar amounts in thousands):

	<u>2011</u>	<u>2010</u>
Beginning of year	\$ 7,407	\$ 2,183
Transfers in	4,315	7,720
Capitalized improvements	122	-
Valuation allowances	(2,272)	(320)
Loss on other real estate owned	(272)	(125)
Sales	<u>(2,660)</u>	<u>(2,051)</u>
End of year	<u>\$ 6,640</u>	<u>\$ 7,407</u>

Activity in the valuation allowance for the years ended December 31 was as follows (dollar amounts in thousands):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Beginning of year	\$ 378	\$ 157	\$ 75
Additions charged to expense	2,272	320	82
Valuation relieved due to sale of OREO	<u>(891)</u>	<u>(99)</u>	<u>-</u>
End of year	<u>\$ 1,759</u>	<u>\$ 378</u>	<u>\$ 157</u>

Note 9 Investment in United Financial Services, Inc.

The Corporation owns 49.8% of United Financial Services, Inc. (UFS) whose business is developing and providing data processing services to the Corporation and other financial institutions. As of December 31, 2011, UFS had total assets of \$10,057,000 and liabilities of \$1,341,000. The Corporation's investment in UFS was \$4,331,000 and \$3,868,000 at December 31, 2011 and 2010, respectively. The investment is accounted for on the equity method and is included in other assets. The Corporation's earnings from its investment in UFS were approximately \$877,000, \$593,000, and \$534,000 for the years ended December 31, 2011, 2010 and 2009, respectively. Data processing service fees paid by the Corporation to UFS were approximately \$955,000, \$908,000, and \$963,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

The Corporation has an annual contract with UFS that matured December 31, 2011, which automatically renewed for a twelve-month term. The Corporation has the option to terminate the contract at any time by giving notice 180 days prior to maturity. The Corporation would have incurred a termination penalty of approximately \$437,000 at December 31, 2011 if it had early terminated the contract with no notice. The termination penalty is calculated

using the greater of 50% of the total estimated remaining unpaid monthly processing fees or six times the average monthly fee over the prior three months.

Since the financial results of the Corporation and its 49.8% owned subsidiary are consolidated for financial reporting but earnings from the investment in the subsidiary are included in taxable income only when they are received, the basis of the investment differs for financial and income tax reporting primarily by the Corporation's share of UFS's undistributed earnings since the date of acquisition. The undistributed earnings that have been recognized in the Corporation's consolidated financial statements but have not yet been included in its taxable income total approximately \$3,597,000 at December 31, 2011. Those earnings would become taxable through dividends or sale of the subsidiary, however a substantial portion of any dividends would be nontaxable due to the dividend received deduction. Deferred income taxes of approximately \$531,000 have been provided on undistributed earnings of \$3,597,000 at December 31, 2011. During 2011, 2010 and 2009, the Corporation received \$413,000, \$228,500 and \$750,000 in dividends from UFS, respectively.

Note 10 Identifiable Intangible Assets

The gross carrying amount and accumulated amortization of intangible assets (excluding goodwill) for the years ended December 31 are as follows (dollar amounts in thousands):

	<u>2011</u>		<u>2010</u>	
	Gross Carrying Amount	Intangible Accumulated Amortization	Gross Carrying Amount	Intangible Accumulated Amortization
Servicing asset	\$ -	\$ -	\$ 81	\$ 80
Trade name				
Core deposit intangible	<u>232</u>	<u>139</u>	<u>482</u>	<u>239</u>
Subtotals	232	139	563	319
Mortgage servicing rights	<u>1,704</u>	<u>-</u>	<u>2,302</u>	<u>-</u>
Totals	<u>\$ 1,936</u>	<u>\$ 139</u>	<u>\$ 2,865</u>	<u>\$ 319</u>

The aggregate amortization expense for the years ended December 31, 2011, 2010 and 2009, was \$19,000, \$52,000, and \$342,000, respectively. For the years ended December 31, 2011, 2010 and 2009, \$19,000, \$52,000 and \$313,000 was charged to amortization expense, \$0, \$0 and \$29,000 was recorded as an offset to loan income respectively.

Mortgage servicing rights are carried at fair value; therefore, there is no amortization expense. The following table shows the estimated future amortization expense for amortizing intangible assets. The projections of amortization expense are based on existing asset balances as of December 31, 2011 (dollar amounts in thousands):

	Core Deposit <u>Intangible</u>
2012	\$ 18
2013	18
2014	18
2015	18
2016 and Thereafter	<u>21</u>
Total	<u>\$ 93</u>

Note 11 Goodwill

The changes in the carrying amount of goodwill for the years ended December 31 are as follows (dollar amounts in thousands):

	<u>2011</u>	<u>2010</u>
Balance at beginning	\$ 8,480	\$ 7,932
Goodwill acquired during the year	-	548
Goodwill impairment	(496)	-
Total goodwill	<u>\$ 7,984</u>	<u>\$ 8,480</u>

During 2011, goodwill decreased by \$495,757 as a result of the dissolution of BFN Asset Management. The goodwill impairment is reflected in the consolidated statements of income in other expenses.

During 2010, goodwill increased by \$548,283 as a result of a stock option exercised by the President of UFS and a corresponding sale of shares back to UFS. The sale of shares by the President of UFS back to UFS was recorded at fair value.

Note 12 Deposits

The composition of deposits at December 31 is as follows (dollar amounts in thousands):

	<u>2011</u>	<u>2010</u>
Noninterest-bearing demand deposits	\$ 139,562	\$ 121,114
Interest-bearing demand deposits	291,970	184,210
Savings deposits	140,620	142,073
Time deposits	180,334	207,810
Total deposits	<u>\$ 752,486</u>	<u>\$ 655,207</u>

Time deposits of \$100,000 or more were approximately \$70,420,000 and \$85,070,000 at December 31, 2011 and 2010, respectively.

The scheduled maturities of time deposits at December 31, 2011, are summarized as follows (dollar amounts in thousands):

2012	\$ 110,000
2013	27,897
2014	13,829
2015	5,771
2016 and thereafter	22,837
Total	<u>\$ 180,334</u>

Deposits from directors, executive officers, principal shareholders, and their affiliates totaled approximately \$9,722,000 and \$6,231,000 as of December 31, 2011 and 2010, respectively.

Note 13 Securities Sold Under Repurchase Agreements

Securities sold under repurchase agreements have contractual maturities up to one year from the transaction date with variable and fixed rate terms. The agreements to repurchase securities require that the Corporation (seller) repurchase identical securities as those that are sold. The securities underlying the agreements were under the Corporation's control.

Information concerning securities sold under repurchase agreements at December 31 consists of the following (dollar amounts in thousands):

	<u>2011</u>		<u>2010</u>		<u>2009</u>	
Outstanding balance at the end of the year	\$	51,933	\$	75,697	\$	78,937
Weighted average interest rate at the end of the year		1.16%		1.01%		1.03%
Average balance during the year	\$	56,261	\$	64,885	\$	67,872
Average interest rate during the year		1.18%		1.11%		1.61%
Maximum month-end balance during the year	\$	73,643	\$	75,697	\$	78,937

Note 14 Borrowed Funds

Borrowed funds consist of the following as of December 31 (dollar amounts in thousands):

	<u>2011</u>		<u>2010</u>	
	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
FHLB advance due July 2010	0.00%	\$ -	0.00%	\$ -
FHLB advance due July 2010	0.00%	-	0.00%	-
Treasury, tax and loan account	0.00%	-	0.00%	1,205
Totals		<u>\$ -</u>		<u>\$ 1,205</u>

The Bank is a treasury, tax & loan (TT&L) depository for the Federal Reserve Bank and, as such, it accepts TT&L deposits. The Bank is allowed to borrow these funds until they are called. The average rate paid on the TT&L account was 0.00% in 2011, 0.00% in 2010, and 0.00% in 2009. U.S. Government sponsored agency securities with a face value greater than or equal to the amount borrowed are pledged as a condition of borrowing TT&L deposits. At December 31, 2011, no collateral was pledged for TT&L.

At December 31, 2011, total loans available to be pledged as collateral on FHLB borrowings were approximately \$66.1 million and of that total, \$41.0 million qualified as eligible collateral and the Bank owned \$3.2 million of FHLB stock. The FHLB borrowings were limited to no greater than a ratio of 20:1 of FHLB borrowings to FHLB stock. As of December 31, 2011, the Bank had \$18.5 million of credit outstanding from the FHLB which consisted of \$0 million in advances and \$18.5 million in letters of credit and, accordingly, the Bank was required to hold \$925,000 in FHLB stock. At December 31, 2011 the Bank had available liquidity of \$22.6 million for future draws. FHLB stock is included in other investments at December 31, 2011. This stock is recorded at cost, which approximates fair value.

During 2010, the Bank paid off all of the FHLB loans and incurred prepayment fees of approximately \$743,000. The Bank had committed fed funds purchased lines totaling \$66.1 and \$61.2 million for the years ended December 31, 2011 and 2010, respectively, representing relationships with five correspondent banks. At December 31, 2011 and 2010, the Bank had no outstanding fed funds purchased balances. The Bank is a member of the Promontory Network and had borrowing availability of \$75 million at December 31, 2011 and 2010, which \$0 and \$5 million was utilized at December 31, 2011 and 2010, respectively.

The Bank is approved for the borrower in custody program at the Federal Reserve Bank Discount Window. At December 31, 2011, the Bank pledged \$13.0 million of commercial loans for access to the discount window and had no borrowings outstanding at year end.

Note 15 Notes Payable

The holding company of the Corporation maintains a \$7,500,000 line of credit with a commercial bank. At December 31, 2011, the Holding Company of the Corporation had an outstanding balance on the line of credit of \$1,420,020. The interest rate is a variable rate with a floor of 4.25% due May 2012. At December 31, 2011, the interest rate was 4.25%.

The holding company of the Corporation has a \$2,280,000 note payable with a commercial bank at December 31, 2011. The note is payable in monthly installments at \$10,000 including interest at 1.90% above LIBOR rate with a floor of 3.50%. At December 31, 2011, the interest rate was 3.50%. The note is due December 2015 and is collateralized by real estate owned by First Manitowoc Bancorp, Inc.

The schedule of notes payable at December 31, 2011 is summarized as follows (dollar amounts in thousands):

	<u>Total</u>
2012	\$ 1,540
2013	120
2014	120
2015	120
2015	120
Thereafter	1,680
Total	<u>\$ 3,700</u>

Note 16 Income Taxes

The components of the provision for income taxes for the years ended December 31 are as follows (dollar amounts in thousands):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current tax expense:			
Federal	\$ 2,729	\$ 1,404	\$ 1,698
State	1,069	720	565
Total current	<u>3,798</u>	<u>2,124</u>	<u>2,263</u>
Deferred tax expenses (benefit):			
Federal	\$ (708)	\$ 521	\$ (228)
State	(233)	(320)	45
Total deferred	<u>(941)</u>	<u>201</u>	<u>(183)</u>
Total provision for income taxes	<u>\$ 2,857</u>	<u>\$ 2,325</u>	<u>\$ 2,080</u>

A summary of the sources of differences between income taxes at the federal statutory rate and the provision for income taxes for the years ended December 31 follows (dollar amounts in thousands):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Tax expense at statutory rate	\$ 3,877	\$ 3,323	\$ 2,975
Increase (decrease) in taxes resulting from:			
Tax-exempt interest	(1,008)	(915)	(891)
State taxes	552	270	370
Cash surrender value of life insurance	(322)	(186)	(184)
ESOP dividend	(101)	(102)	(105)
Tax credits	(121)	(121)	-
Other	(20)	56	(85)
Total provision for income taxes	<u>\$ 2,857</u>	<u>\$ 2,325</u>	<u>\$ 2,080</u>

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Corporation's assets and liabilities. The major components of the net deferred tax asset (liability) as of December 31 are presented below (dollar amounts in thousands):

	<u>2011</u>	<u>2010</u>
Deferred tax assets:		
Deferred compensation	\$ 961	\$ 1,037
Allowance for loan losses	2,938	2,493
Accrued vacation	81	78
Alternative minimum tax carryforward	-	14
Other real estate owned	694	165
Other	152	97
Total deferred tax assets	<u>4,826</u>	<u>3,884</u>
Deferred tax liabilities:		
Investment acquisition and discount accretion	(42)	(55)
Mortgage servicing rights	(669)	(905)
Depreciation	(790)	(604)
Unrealized gain on securities available for sale	(2,055)	(705)
Other investments	(420)	(420)
Intangibles	-	-
Prepaid expenses	(94)	(78)
Investment in minority owned subsidiaries	(1,363)	(1,315)
Total deferred tax liabilities	<u>(5,433)</u>	<u>(4,082)</u>
Net deferred tax liability	<u>\$ (607)</u>	<u>\$ (198)</u>

Tax effects from an uncertain tax position can be recognized in the financial statements only if the position is more likely than not to be sustained on audit, based on the technical merits of the position. The Corporation recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. When applicable, interest and penalties on uncertain tax positions are calculated based on the guidance from the relevant tax authority and included in income tax expense. At December 31, 2011 and 2010, there was no liability for uncertain tax positions. Federal income tax returns for years ended December 31, 2008 through 2011 remain open and subject to review by applicable tax authorities. State income tax return for years ended December 31, 2007 through 2011 remain open and subject to review by applicable tax authorities.

Note 17 Employee Benefit Plans

The Corporation has a defined contribution profit sharing 401(k) plan which includes the provisions for an employee stock ownership plan (ESOP). The plan is available to all employees over 18 years of age after completion of three months of service. Employees participating in the plan may elect to defer a minimum of 2% of compensation up to the limits specified by law. All participants of the 401(k) plan are eligible for the ESOP and may allocate their contributions to purchase shares of the Corporation's stock. As of December 31, 2011, the plan held 720,513 shares. These shares are included in the calculation of the Corporation's earnings per share. The Corporation may make discretionary contributions up to the limits established by IRS regulations. The discretionary match was 35% of participant tax deferred contributions up to 10% of the employee's salary in 2011, 2010, and 2009. The Corporation made additional discretionary contributions to the plan of \$313,000, \$372,000, and \$376,000 in 2011, 2010, and 2009, respectively. All discretionary contributions are at the direction of the Board of Directors. Total expense associated with the plans was approximately \$551,000, \$585,000, and \$703,000 in 2011, 2010, and 2009, respectively.

The Corporation has a deferred compensation agreement with one of its former executive officers. The benefits were payable beginning June 30, 2009, the date of termination of employment with the Corporation via retirement.

The estimated annual cash benefit payment upon retirement at the age of 70 under the salary continuation plan is \$108,011. The payoff is for the participant's lifetime and is guaranteed to the participant or their surviving beneficiary for a minimum of 15 years. Related expense for this agreement was approximately \$91,000, \$79,000, and \$57,000 for the years ended December 31, 2011, 2010, and 2009, respectively. The vested present value of future payments of approximately \$1,004,000 and \$827,000 at December 31, 2011 and 2010, respectively is included in other liabilities. During 2011, the present value of future payments increased due to a decline in the discount rate.

The Corporation has a nonqualified deferred compensation plan which permits eligible participants to defer a portion of their compensation. The benefits are generally payable beginning with the earlier of attaining age 70 or resignation from the Corporation. The estimated present value of future payments of approximately \$1,443,000 and \$1,814,000 at December 31, 2011 and 2010, respectively is included in other liabilities. Expense associated with this plan was approximately \$99,000, \$89,000, and \$197,000 in 2011, 2010, and 2009, respectively.

Note 18 Stockholders' Equity and Regulatory Matters

The Bank, as a national bank, is subject to the dividend restrictions set forth by the Office of the Comptroller of the Currency. Under such restrictions, the Bank may not, without the prior approval of the Office of the Comptroller of the Currency, declare dividends in excess of the sum of the current year's earnings (as defined) plus the retained earnings (as defined) from the prior two years. The dividends that the Bank could declare without the prior approval of the Office of the Comptroller of the Currency as of December 31, 2011, totaled approximately \$13,833,000. The payment of dividends may be further limited because of the need for the Bank to maintain capital ratios satisfactory to applicable regulatory agencies.

The Corporation and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory — (and possibly additional discretionary) — actions by regulators that, if undertaken, could have a direct material effect on the Corporation's consolidated financial statements and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. It is management's opinion, as of December 31, 2011, that the Corporation and the Bank meet all applicable capital adequacy requirements.

As of December 31, 2011, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification which management believes have changed the Bank's category.

The Corporation's and the Bank's actual capital amounts and ratios as of December 31 are presented in the following table (dollar amounts in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
2011						
Total capital (to risk-weighted assets):						
Corporation	\$ 88,839	12.27%	\$ 57,907	8.0%	N/A	N/A
Bank	\$ 86,569	12.05%	\$ 57,485	8.0%	\$ 71,857	10.0%
Tier I capital (to risk-weighted assets):						
Corporation	\$ 81,359	11.24%	\$ 28,954	4.0%	N/A	N/A
Bank	\$ 79,089	11.01%	\$ 28,743	4.0%	\$ 43,114	6.0%
Tier I capital (to average assets):						
Corporation	\$ 81,359	9.30%	\$ 34,991	4.0%	N/A	N/A
Bank	\$ 79,089	9.09%	\$ 34,818	4.0%	\$ 43,523	5.0%
2010						
Total capital (to risk-weighted assets):						
Corporation	\$ 81,208	13.01%	\$ 49,940	8.0%	N/A	N/A
Bank	\$ 80,974	13.10%	\$ 49,441	8.0%	\$ 61,801	10.0%
Tier I capital (to risk-weighted assets):						
Corporation	\$ 74,861	11.99%	\$ 24,970	4.0%	N/A	N/A
Bank	\$ 74,627	12.08%	\$ 24,721	4.0%	\$ 37,081	6.0%
Tier I capital (to average assets):						
Corporation	\$ 74,861	9.38%	\$ 31,911	4.0%	N/A	N/A
Bank	\$ 74,627	9.41%	\$ 31,727	4.0%	\$ 39,659	5.0%

Note 19 Accumulated Other Comprehensive Income

The Corporation's accumulated other comprehensive income is comprised of the unrealized gain or loss on securities available for sale, net of tax. The following shows the activity in accumulated other comprehensive income for the years ended December 31 (dollar amounts in thousands):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Accumulated other comprehensive income at beginning	\$ 1,197	\$ 2,045	\$ 1,284
Activity:			
Unrealized gain on securities available for sale	4,091	31	2,951
Reclassified adjustments for gains realized in income	(725)	(1,311)	(1,734)
Subtotals	3,366	(1,280)	1,217
Tax impact	1,349	432	(456)
Other comprehensive income (loss)	2,017	(848)	761
Accumulated other comprehensive income at end	\$ 3,214	\$ 1,197	\$ 2,045

Note 20 Segment Information

First Manitowoc Bancorp, Inc., through a branch network of its subsidiary, Bank First National, provides a full range of consumer and commercial financial institution services to individuals and businesses in Northeastern Wisconsin. These services include credit cards; secured and unsecured consumer, commercial, and real estate loans; demand, time, and savings deposits; ATM processing; insurance services; asset management services;

and trust services. The Corporation also offers a full-line of insurance services through its equity investment in Ansay and offers data processing services through its equity investment in UFS.

While the Corporation's chief decision makers monitor the revenue streams of various Corporation products and services, operations are managed and financial performance is evaluated on a Corporation-wide basis. Accordingly, all of the Corporation's financial institution operations are considered by management to be aggregated in one reportable operating segment.

Note 21 Commitments and Contingencies

The Corporation enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in the net gain or loss on sale of mortgage loans. Fair value is based on fees currently charged to enter into similar agreements and for fixed rate commitments also considers the difference between current levels of interest rates and committed rates. The notional amount of rate lock commitments at December 31, 2011 and 2010, respectively was \$11,701,000 and \$4,365,000.

The Corporation is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets.

The Corporation's exposure to credit loss is represented by the contractual or notional amount of these commitments. The Corporation follows the same credit policies in making commitments as it does for on-balance-sheet instruments. Since some of the commitments are expected to expire without being drawn upon and some of the commitments may not be drawn upon to the total extent of the commitment, the notional amount of these commitments does not necessarily represent future cash requirements.

The following commitments were outstanding at December 31 (dollar amounts in thousands):

	Notional Amount	
	<u>2011</u>	<u>2010</u>
Commitments to extend credit:		
Fixed	\$ 23,205	\$ 16,063
Variable	111,161	95,170
Credit card arrangements	5,130	5,288
Letters of credit	43,278	47,653

Commitments to extend credit are agreements to lend to a customer at fixed or variable rates as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable; inventory; property, plant, and equipment; real estate; and stocks and bonds.

Credit card commitments are commitments on credit cards issued by a third party on behalf of the Corporation and serviced by other companies. These commitments are unsecured.

Letters of credit include \$41,149,000 of direct pay letters of credit and \$2,129,000 of standby letters of credit. Direct pay letters of credit generally are issued to support the marketing of industrial development revenue and housing bonds and provide that all debt service payments will be paid by drawing on the letter of credit. The letter of credit draws are then repaid by draws from the customer's bank account. Standby letters of credit are conditional lending commitments issued by the Corporation to guaranty the performance of a customer to a third party. Generally, all standby letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation generally holds collateral supporting these commitments. The majority of the Corporation's loans,

commitments, and letters of credit have been granted to customers in the Corporation's market area. The concentrations of credit by type are set forth in Note 4. Standby letters of credit were granted primarily to commercial borrowers. Management believes the diversity of the local economy will prevent significant losses in the event of an economic downturn.

Various legal claims arise from time to time in the normal course of business. In the opinion of management, any liability resulting from such proceedings would not have a material impact on the consolidated financial statements.

Note 22 Fair Value of Financial Instruments

Accounting guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

- Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Information regarding the fair value of assets measured at fair value on a recurring basis as follows (dollar amounts in thousands):

	Assets Measured At Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
12/31/2011				
Securities available for sale				
U.S. Treasury securities and obligations of U.S. Government sponsored agencies	\$ 16,012	\$ -	\$ 16,012	\$ -
Obligations of states and political subdivisions	56,319	-	55,309	1,010
Mortgage-backed securities	59,018	-	59,018	-
Corporate notes	100	-	100	-
Mortgage Servicing Rights	1,704	-	1,704	-
	<u>\$ 133,153</u>	<u>\$ -</u>	<u>\$ 132,143</u>	<u>\$ 1,010</u>
12/31/2010				
Securities available for sale				
U.S. Treasury securities and obligations of U.S. Government sponsored agencies	\$ 8,953	\$ -	\$ 8,953	\$ -
Obligations of states and political subdivisions	58,372	-	57,362	1,010
Mortgage-backed securities	70,716	-	70,716	-
Corporate notes	100	-	100	-
Mortgage Servicing Rights	2,302	-	2,302	-
	<u>\$ 140,443</u>	<u>\$ -</u>	<u>\$ 139,433</u>	<u>\$ 1,010</u>

Fair value of assets measured on a recurring basis using significant unobservable inputs (Level 3) are as follows (dollar amounts in thousands):

	2011	2010
Total securities at beginning of year	\$ 1,010	\$ 18,924
Included in earnings	-	-
Included in other comprehensive income	-	-
Purchases, issuance, and settlements	-	1,010
Transfer in and/or out of Level 3	-	(18,924)
Total securities at end of year	<u>\$ 1,010</u>	<u>\$ 1,010</u>

The following methods and assumptions were used by the Corporation to estimate fair value of financial instruments on a non-recurring basis.

Loans — The Corporation does not record loans at fair value on a recurring basis. However, from time to time a loan is considered impaired and an allowance for loan losses is established. Loans are considered impaired if it

is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. Once a loan is identified as impaired, the fair value of the impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, and liquidation value or discounted cash flows. Impaired loans do not require an allowance if the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2011 and 2010, substantially all of the total impaired loans were evaluated based on the fair value of the collateral rather than on discounted cash flows. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the impaired loan as a nonrecurring Level 2 valuation.

Loans with a carrying amount of \$3,096,000 and \$4,287,000 at December 31, 2011 and 2010, respectively were considered impaired. As a result, the Corporation recognized an impairment reserve of approximately \$0 and \$195,000 during the years ended December 31, 2011 and 2010, respectively. Impaired loans with balances less than \$250,000 are not specifically evaluated for impairment. At December 31, 2011, \$965,000 of impaired loans are not specifically evaluated and are carried at historical cost on the balance sheet.

Other real estate owned – Real estate acquired through or in lieu of loan foreclosure is not measured at net realizable value on a recurring basis. However, other real estate is initially measured at net realizable value (less estimated costs to sell) when it is acquired and is also measured at net realizable value (less estimated costs to sell) if it becomes subsequently impaired. The net realizable value measurement for each property may be obtained from an independent appraiser or prepared internally. Net realizable value measurements obtained from independent appraisers are generally based on sales of comparable assets and other observable market data and are considered Level 2 measurements. Measurements prepared internally are based on observable market data but include significant unobservable data and are therefore considered Level 2 measurements. See footnote 8 for OREO detail.

Information regarding the fair value of assets measured at fair value on a non-recurring basis as follows (dollar amounts in thousands):

	Assets Measured At Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2011				
Other real estate owned	\$ 6,640	\$ -	\$ 6,640	\$ -
	<u>\$ 6,640</u>	<u>\$ -</u>	<u>\$ 6,640</u>	<u>\$ -</u>
December 31, 2010				
Impaired loans, net of impairment reserve	\$ 2,972	\$ -	\$ 2,972	\$ -
Other real estate owned	7,407	-	7,407	-
	<u>\$ 7,407</u>	<u>\$ -</u>	<u>\$ 7,407</u>	<u>\$ -</u>

The following methods and assumptions were used by the Corporation to estimate fair value of financial instruments.

Cash and cash equivalents — Fair value approximates the carrying value.

Other investments — The carrying amount reported in the consolidated balance sheets for other investments approximates the fair value of these assets.

Loans held for sale — Fair value is based on commitments on hand from investors or prevailing market prices.

Loans — Fair value of variable rate loans that reprice frequently are based on carrying value. Fair value of other loans is estimated by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings. Fair value of impaired and other nonperforming loans are estimated using discounted expected future cash flows or the fair value of the underlying collateral, if applicable.

Mortgage servicing rights — Fair values were determined using the present value of future cash flows.

Cash value of life insurance — The carrying amount approximates its fair value.

Accrued interest receivable and payable — Fair value approximates the carrying value.

Deposits — Fair value of deposits with no stated maturity, such as demand deposits, savings, and money market accounts, by definition, is the amount payable on demand on the reporting date. Fair value of fixed-rate time deposits is estimated using discounted cash flows applying interest rates currently offered on similar time deposits.

Securities sold under repurchase agreements — The fair value of securities sold under repurchase agreements with variable rates or due on demand is the amount payable at the reporting date. The fair value of securities sold under repurchase agreements with fixed terms is estimated using discounted cash flows with discount rates at interest rates currently offered for securities sold under repurchase agreements of similar remaining values.

Borrowed funds and notes payable — Rates currently available to the Corporation for debt with similar terms and remaining maturities are used to estimate fair value of existing debt. Fair value of fixed rate, fixed-term borrowings is estimated by discounting future cash flows using the current rates at which similar borrowings would be made. Fair value of borrowed funds due on demand is the amount payable at the reporting date.

Off-balance-sheet instruments — Fair value is based on quoted market prices of similar financial instruments where available. If a quoted market price is not available, fair value is based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and the counterparty's credit standing. Since this amount is immaterial, no amounts for fair value are presented.

The carrying value and estimated fair value of financial instruments at December 31 follows (dollar amounts in thousands):

	<u>2011</u>		<u>2010</u>	
	<u>Carrying</u> <u>Amount</u>	<u>Estimated</u> <u>Fair Value</u>	<u>Carrying</u> <u>Amount</u>	<u>Estimated</u> <u>Fair Value</u>
Financial assets:				
Cash and cash equivalents	\$ 40,939	\$ 40,939	\$ 32,386	\$ 32,386
Securities available for sale	131,449	131,449	138,141	138,141
Loans - Net	669,037	670,812	587,815	590,784
Loans held for sale	1,877	1,877	2,479	2,479
Other investments, at cost	3,539	3,539	3,539	3,539
Mortgage servicing rights	1,704	1,704	2,302	2,302
Cash surrender value of life insurance	17,202	17,202	17,141	17,141
Accrued interest receivable	3,103	3,103	2,690	2,690
Total financial assets	<u>\$ 868,850</u>	<u>\$ 870,625</u>	<u>\$ 786,493</u>	<u>\$ 789,462</u>
Financial liabilities:				
Deposits	\$ 752,486	\$ 751,460	\$ 655,205	\$ 646,954
Securities sold under repurchase agreements	51,933	51,762	75,697	75,447
Borrowed funds	-	-	1,205	1,205
Notes payable	3,700	3,700	6,605	6,605
Accrued interest payable	843	843	1,383	1,383
Total financial liabilities	<u>\$ 808,962</u>	<u>\$ 807,765</u>	<u>\$ 740,095</u>	<u>\$ 731,594</u>

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Corporation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Consequently, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Corporation.

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Corporation's entire holdings of a particular instrument. Because no market exists for a significant portion of the Corporation's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters that could affect the estimates. Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments.

Deposits with no stated maturities are defined as having a fair value equivalent to the amount payable on demand. This prohibits adjusting fair value derived from retaining those deposits for an expected future period of time. This component, commonly referred to as a deposit base intangible, is neither considered in the above amounts nor is it recorded as an intangible asset on the consolidated balance sheet. Significant assets and liabilities that are not considered financial assets and liabilities include premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

Note 23 Parent Company Only Financial Statements

Balance Sheets

	December 31	
	<u>2011</u>	<u>2010</u>
	(In thousands)	
<i>Assets</i>		
Cash and cash equivalents	\$ 176	\$ 252
Repurchase agreements	-	-
Investment in Bank First National	90,551	84,777
Investment in Veritas	3,977	4,816
Premises and equipment, net	1,910	1,721
Other assets	10	54
TOTAL ASSETS	<u>\$ 96,624</u>	<u>\$ 91,620</u>
<i>Liabilities and Stockholders' Equity</i>		
Notes payable	\$ 3,700	\$ 6,605
Other liabilities	103	4
Total liabilities	<u>3,803</u>	<u>6,609</u>
Stockholders' equity:		
Common stock	67	67
Additional paid-in capital	2,451	2,451
Retained earnings	88,831	83,063
Treasury stock, at cost	(1,742)	(1,767)
Accumulated other comprehensive income	3,214	1,197
Total stockholders' equity	<u>92,821</u>	<u>85,011</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 96,624</u>	<u>\$ 91,620</u>

Statement of Income

	Years Ended December 31,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
	(In thousands)		
Income:			
Dividends received from Bank	\$ 5,578	\$ 5,515	\$ 3,470
Rental income received from Bank	422	265	210
Equity in undistributed earnings of subsidiary	2,918	1,963	3,299
Other income	-	2	1
Total income	<u>8,918</u>	<u>7,745</u>	<u>6,980</u>
Other expenses	337	313	350
Provision for income taxes	34	(18)	(41)
Net income	<u>\$ 8,547</u>	<u>\$ 7,450</u>	<u>\$ 6,671</u>

Statement of Cash Flows

	Years Ended December 31,		
	2011	2010	2009
	(In thousands)		
Cash flow from operating activities:			
Net income	\$ 8,547	\$ 7,450	\$ 6,671
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for depreciation	67	50	48
Equity in earnings of subsidiary	(8,496)	(7,478)	(6,769)
Changes in other assets and liabilities:			
Other assets	44	(12)	(23)
Other liabilities	99	(3)	(11)
Total adjustments	(8,286)	(7,443)	(6,755)
Net cash provided by operating activities	261	7	(84)
Cash flows from investing activities:			
Net (increase) decrease in repurchase agreements	-	-	66
Dividends received from the Bank	5,578	5,515	3,470
Purchases of premises and equipment	(256)	(14)	-
Capital injection to subsidiary	-	(4,840)	(4,000)
Net cash provided by (used in) investing activities	5,322	661	(464)
Cash flows from financing activities:			
Net (repayments) proceeds of borrowings	(2,905)	2,405	4,200
Cash dividends paid	(2,779)	(2,770)	(2,770)
Proceeds from issuance of preferred stock	-	-	12,000
Payment to repurchase preferred stock	-	-	(12,600)
Issuance of common stock	259	-	-
Repurchase of common stock	(234)	(114)	-
Preferred stock dividends paid	-	-	(237)
Net cash provided by (used in) financing activities	(5,659)	(479)	593
Net increase (decrease) in cash and cash equivalents	(76)	189	45
Cash and cash equivalents at beginning	252	63	18
Cash and cash equivalents at end	\$ 176	\$ 252	\$ 63
Supplemental schedule of noncash activities:			
Fixed assets received from the Bank	\$ -	\$ 925	\$ -
Change in unrealized gains (loss) on investment securities	\$ -	\$ (1,280)	\$ 1,217

Note 24 Branch Restructuring

On November 20, 2009, the Corporation closed three branches and restructured the Operations and Information Technology Services area. In connection with these actions, the Corporation recognized \$750,000 of restructuring charges which consisted of losses on the sale of buildings, severance packages provided to terminated personnel, and other related expenses. The decision to close underperforming offices and restructure operations reflects the goal of improving efficiencies at Bank First National.

Note 25 Discontinued Operations

Effective December 31, 2011, the Corporation discontinued its registered investment advisory subsidiary, BFN Asset Management. Upon dissolving the entity, the Corporation recognized a \$602,000 impairment charge to earnings consisting of goodwill and intangible assets recognized when BFN Asset Management was acquired in 2006. The year-to-date loss for 2011 from operation was approximately \$336,000. Gross revenues from the discontinued operation amounted to approximately \$245,000 in 2011.

All other remaining assets were transferred to Bank First National on December 31, 2011. The customer accounts formerly managed by BFN Asset Management have transferred to a third party registered investment advisory firm. Bank First National will receive a percentage of net revenue pursuant to contract terms with the third party investment advisory firm.

Office Locations



ASHWAUBENON

2865 S. Ridge Road (920) 499-0500

BELLEVUE

2747 Manitowoc Road (920) 469-0500

FRANCIS CREEK

106 S. Packer Drive (920) 683-5700

KIEL

110 Fremont Street (920) 894-2215

MANITOWOC

402 N. Eighth Street (920) 684-6611

2915 Custer Street (920) 683-5710

MISHICOT

110 Baugniet Street (920) 755-4200

OSHKOSH

101 City Center (920) 237-5126

PLYMOUTH

2323 Eastern Avenue (920) 893-1611

SHEBOYGAN

2600 Kohler Memorial Dr (920) 694-1900

ST. NAZIANZ

109 S. Fourth Avenue (920) 773-2101

TWO RIVERS

1509 Washington Street (920) 793-2274

www.BankFirstNational.com

Board Listings

First Manitowoc Bancorp, Inc. Directors

Michael G. Ansay	John C. Miller
Donald R. Brisch	Michael B. Molepske
Robert D. Gregorski	Katherine M. Reynolds
Daniel J. Lalko	David R. Sachse

First Manitowoc Bancorp, Inc. Officers

John C. Miller, Chairman of the Board
Michael G. Ansay, Vice-Chairman
Michael B. Molepske, President and Chief Executive Officer
Lisa M. O'Neill, Chief Financial Officer
Jennifer L. Foote, Corporate Secretary

Bank First National Equity Investments

Ansay & Associates, LLC

Provides clients with superior insurance and risk management solutions

Michael G. Ansay	Michael B. Molepske
A.J. Ansay	Thomas M. Schaetz
Thomas J. Bare	

United Financial Services, Inc.

Provides data processing solutions to over 40 Wisconsin banks

Robert J. Cera
Rick A. Haendel
Michael B. Molepske

