2012

ANNUAL REPORT

FIRST MANITOWOC BANCORP, INC.

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OTCQB: FMWC

BOARD LISTINGS

First Manitowoc Bancorp, Inc. Directors

Michael G. Ansay
Donald R. Brisch
Robert D. Gregorski
Michael B. Molepske
Katherine M. Reynolds
David R. Sachse

First Manitowoc Bancorp, Inc. Officers

Michael G. Ansay, Chairman of the Board
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
A. John Ansay
Thomas J. Bare
Michael B. Molepske
Thomas M. Schaetz

United Financial Services, Inc.

Provides data processing solutions to over 40 Wisconsin banks

Robert J. Cera
Michael B. Molepske
Michael T. Tenpas

BANK FIRST 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 920.652.3100
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 Drive 920.694.1900

ST. NAZIANZ
109 S. Fourth Avenue 920.773.2101

TWO RIVERS
1509 Washington Street 920.793.2274

www.BankFirstNational.com

President's Letter

Dear Stockholder,

2012 was a record year for Bank First in many ways, including reaching $1 billion in assets, exceeding $10 million in net income, maintaining a disciplined approach to asset quality, achieving record efficiency and improving the quality of our credit administration function. The key to this success is giving our bankers the autonomy to lead and grow while also holding them accountable for their results. Our dedicated finance department prepares detailed balance sheets and income statements for each of our offices on a monthly basis, including giving each officer the ability to drill down to the profitability of each loan and deposit relationship. I meet with the staffs of all of our offices on a regular basis to discuss their successes and learn how they are embracing the culture we've built. In addition, each office and officer of the bank has detailed goals they must achieve each year. While we monitor how we are doing compared to each office level objective, we also focus on achieving key corporate goals.

One such corporate goal is the return we deliver on the assets we manage, which measures our stewardship of your investment. Return on assets is the ratio of net income to the average assets of the bank. During 2012, our bank employees far exceeded their goals and improved the company's return on assets to 1.11% from the 1.00% achieved last year.

Another key corporate goal is maintaining the quality of the loan portfolio, which is your bank's largest asset. Consistent with the relationship nature of our bank, the members of our internal credit committee have instilled a culture where we focus on the character of a customer over the collateral that is provided. Our credit culture is disciplined and focused on helping the customer succeed. Our relationship focus, and conservative approach to lending, resulted in the ratio of nonperforming assets to total assets being just 0.96% at the end of 2012 and far less than our goal of 2%.

In addition to setting goals for asset quality, we measure our efficiency by the ratio of average bank assets to average full-time equivalent employees. In 2012, we exceeded our goal and increased this measurement of efficiency to $5.6 million or 12% better than 2011. All of our offices have worked diligently to improve this ratio over the past three years. Since 2009, we've increased our average asset per average full-time equivalent employee by approximately 47% or more than $1.8 million. This was accomplished through adding to and enhancing talent, utilizing technology, enhancing the mix of our core competencies, minimizing excess capacity, investing in our facilities and improving our processes and procedures.

One of our critical processes is credit administration, where we identify, measure and mitigate credit risk. In 2012, we developed a metric of the effectiveness of our credit administration function with the objective of measuring and maintaining high standards for the loan portfolio. We believe poor credit administration is a leading indicator of deteriorating asset quality. Through the diligent efforts of everyone involved in the lending function, we ended the year with unapproved loan exceptions of less than 5% of our total exceptions.

The bank's success hinges on capital availability and growing the value of the business. In 2012, we exceeded our goal and increased the book value per share of the company by $0.62 to $14.71 despite also prepaying our scheduled 2013 common stock dividend of $0.44 per share. We focus on increasing the book value of each share of stock to provide capital we need to grow and improve our business for the future.

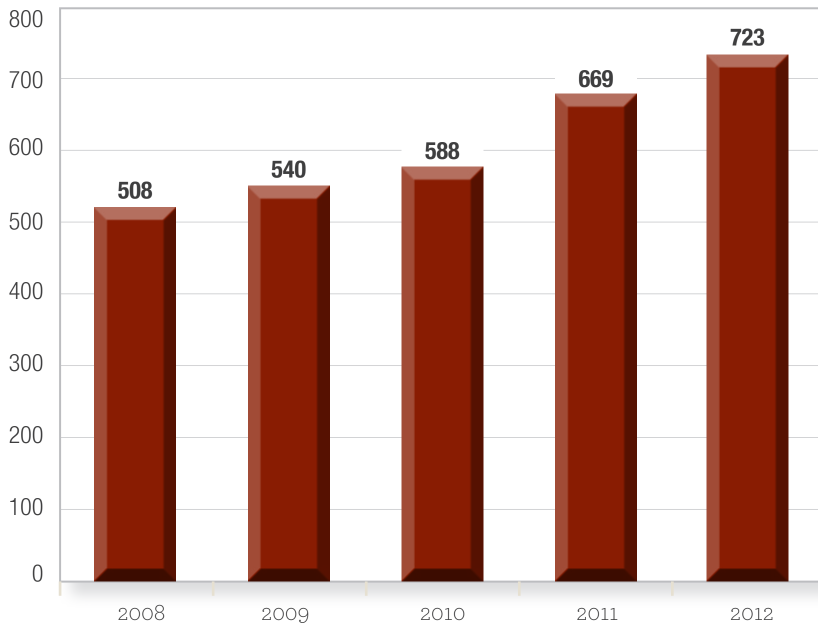
I am energized by the accomplishments of our team and believe that we are well positioned to continue to provide a strong return on your investment. I appreciate your continued support and believe that together we can continue to embrace our promise that "We are a relationship-based community bank focused on providing innovative products and services that are value driven."

Respectfully yours,

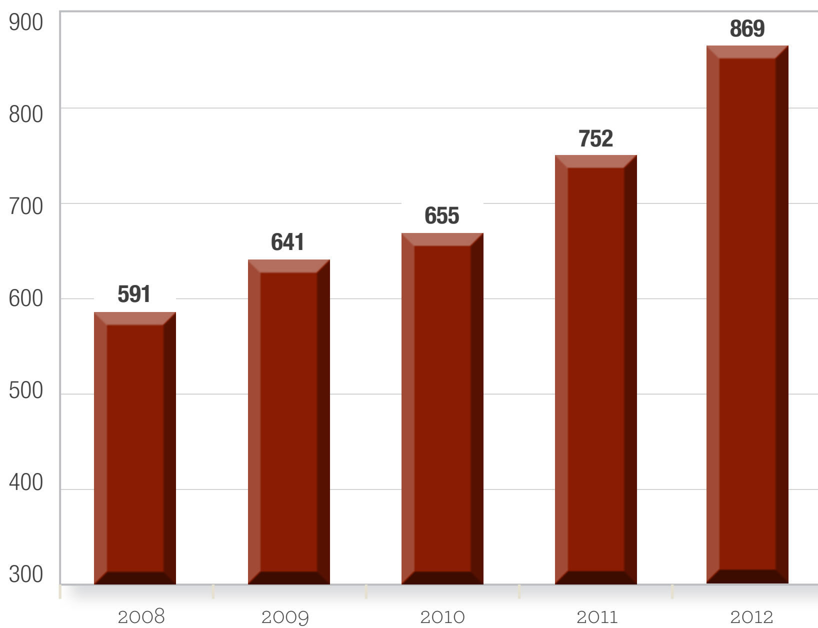
Michael B. Molepske

Michael B. Molepske
President and CEO

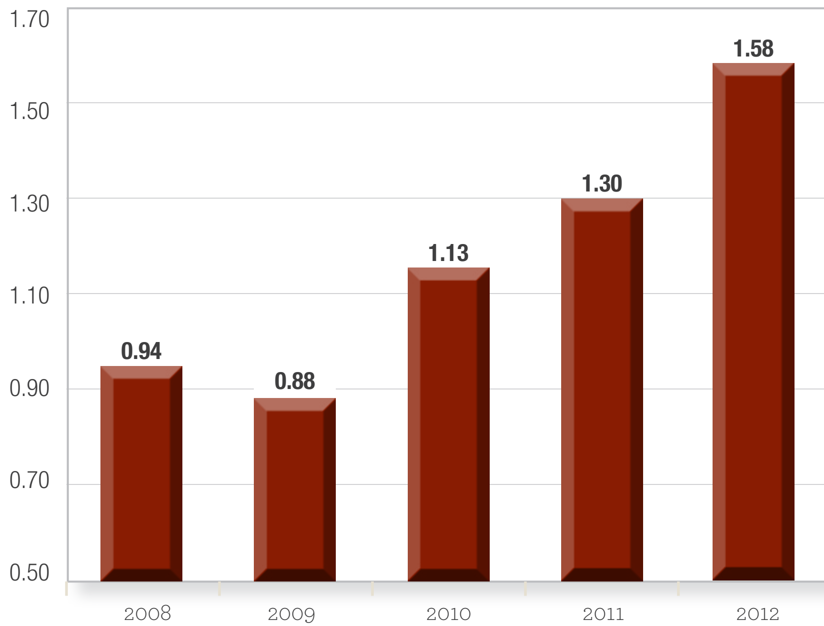
Total Loans, net of allowance *(in millions of dollars)*



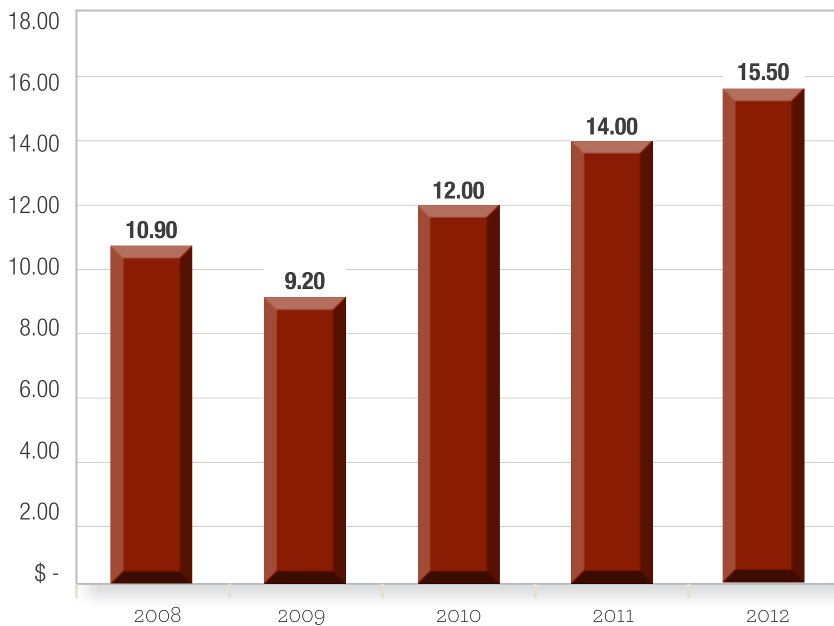
Total Deposits *(in millions of dollars)*



Earnings Per Share *(in dollars)*



FMWC Stock Price *(at year-end, in dollars)*



FINANCIALS

FIRST MANITOWOC BANCORP, INC.
AND SUBSIDIARIES

Manitowoc, Wisconsin

Consolidated Financial Statements

Years Ended December 31, 2012, 2011 and 2010

Independent Auditor's Report....................................F-1

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Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of First Manitowoc Bancorp, Inc. and its subsidiaries which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Manitowoc Bancorp, Inc. and its subsidiaries as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter
The consolidated financial statements and notes to the consolidated financial statements of First Manitowoc Bancorp, Inc. and its subsidiaries as of December 31, 2011, and for the years ended December 31, 2011 and 2010, were audited by another auditor whose report dated February 23, 2012 expressed an unmodified opinion on those statements.

Porter Keadle Moore, LLC

Atlanta, GA
February 20, 2013

First Manitowoc Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31	
	2012	**2011**
	(In Thousands)	
Assets		
Cash and due from banks	$ 38,599	$ 35,776
Interest-bearing deposits	72,562	4,253
Federal funds sold	454	910
Cash and cash equivalents	111,615	40,939
Securities available for sale, at fair value	117,955	131,449
Loans, net of allowance for loan loss of $7,950 and $7,480 at 2012 and 2011, respectively	722,943	669,037
Loans held for sale	723	1,877
Premises and equipment, net	10,051	9,573
Goodwill	7,984	7,984
Other investments, at cost	2,958	3,539
Cash value of life insurance	19,753	17,202
Identifiable intangible assets, net	2,087	1,797
Other real estate owned	5,567	6,640
Investment in minority-owned subsidiaries	14,170	14,824
Other assets	4,620	5,167
TOTAL ASSETS	$ 1,020,426	$ 910,028
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	$ 869,163	$ 752,486
Securities sold under repurchase agreements	43,099	51,933
Notes payable	2,820	3,700
Other liabilities	9,251	9,088
Total liabilities	924,333	817,207
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		
Outstanding - 6,531,121 and 6,587,879 in 2012 and 2011, respectively	67	67
Additional paid-in capital	2,536	2,451
Retained earnings	93,473	88,831
Treasury stock, at cost - 183,439 and 126,681 shares in 2012 and 2011, respectively	(3,041)	(1,742)
Accumulated other comprehensive income	3,058	3,214
Total stockholders' equity	96,093	92,821
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,020,426	$ 910,028

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31		
	2012	**2011**	**2010**
	(In Thousands, except per share amounts)		
Interest income:			
Loans, including fees	$ 34,515	$ 33,354	$ 32,599
Federal funds sold	29	12	7
Securities:			
Taxable	1,669	2,250	3,183
Tax-exempt	1,948	2,114	2,336
Other	(3)	10	8
Total interest income	38,158	37,740	38,133
Interest expense:			
Deposits	5,186	6,484	8,148
Securities sold under repurchase agreements	487	665	760
Borrowed funds	140	203	614
Total interest expense	5,813	7,352	9,522
Net interest income	32,345	30,388	28,611
Provision for loan loss	2,900	2,110	6,617
Net interest income after provision for loan loss	29,445	28,278	21,994
Other income:			
Service charges	2,869	2,196	2,389
Income from Ansay	1,196	857	1,357
Loan servicing income	967	24	932
Income from UFS	683	877	593
Net gain on sales of mortgage loans	1,874	772	1,099
Net gain on sales of securities	-	725	1,311
Noninterest income from strategic alliances	79	691	791
Other	708	1,220	730
Total other income	8,376	7,362	9,202
Other expenses:			
Salaries, commissions, and employee benefits	11,698	11,754	10,495
Occupancy	2,536	2,493	2,416
Data processing	1,454	1,366	1,384
Postage, stationery, and supplies	411	467	428
Net loss on sales and valuations of other real estate owned	824	2,544	445
Advertising	160	208	202
Outside service fees	1,789	2,122	2,852
Amortization of intangibles	18	44	52
Other	4,442	3,238	3,147
Total other expenses	23,332	24,236	21,421
Income before provision for income taxes	14,489	11,404	9,775
Provision for income taxes	4,069	2,857	2,325
Net Income	$ 10,420	$ 8,547	$ 7,450
Earnings per share - basic	$ 1.58	$ 1.30	$ 1.13
Earnings per share - diluted	$ 1.58	$ 1.30	$ 1.13

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31		
	2012	2011	2010
	(In Thousands)		
Net Income	$ 10,420	$ 8,547	$ 7,450
Other comprehensive income (loss):			
Unrealized gains (losses) on available for sale securities:			
Unrealized holding gains (losses) arising during period	(238)	4,091	31
Reclassification adjustment for gains included in net income	-	(725)	(1,311)
Income tax expense	82	(1,349)	432
Total other comprehensive income (loss)	(156)	2,017	(848)
Comprehensive income	$ 10,264	$ 10,564	$ 6,602

See accompanying notes to consolidated financial statements.

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

	Serial 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, 2010	$ -	$ 67	$ 2,451	$ 78,383	$ (1,653)	$ 2,045	$ 81,293
Net income	-	-	-	7,450	-	-	7,450
Other comprehensive loss	-	-	-	-	-	(848)	(848)
Purchase of treasury stock	-	-	-	-	(114)	-	(114)
Cash dividends ($0.42 per share)	-	-	-	(2,770)	-	-	(2,770)
Balance at December 31, 2010	$ -	$ 67	$ 2,451	$ 83,063	$ (1,767)	$ 1,197	$ 85,011
Net income	-	-	-	8,547	-	-	8,547
Other comprehensive income	-	-	-	-	-	2,017	2,017
Net sale of treasury stock	-	-	-	-	25	-	25
Cash dividends ($0.42 per share)	-	-	-	(2,779)	-	-	(2,779)
Balance at December 31, 2011	$ -	$ 67	$ 2,451	$ 88,831	$ (1,742)	$ 3,214	$ 92,821
Net income	-	-	-	10,420	-	-	10,420
Other comprehensive loss	-	-	-	-	-	(156)	(156)
Purchase of treasury stock	-	-	-	-	(1,881)	-	(1,881)
Sale of treasury stock	-	-	-	-	549	-	549
Cash dividends ($0.88 per share)	-	-	-	(5,778)	-	-	(5,778)
Amortization of stock-based compensation	-	-	118	-	-	-	118
Vesting of restricted stock awards	-	-	(33)	-	33	-	-
Balance at December 31, 2012	$ -	$ 67	$ 2,536	$ 93,473	$ (3,041)	$ 3,058	$ 96,093

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31		
	2012	2011	2010
	(In Thousands)		
Cash flows from operating activities:			
Net income	$ 10,420	$ 8,547	$ 7,450
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for loan losses	2,900	2,110	6,617
Depreciation and amortization of premises and equipment	990	968	897
Amortization of intangibles	17	44	52
Net amortization of securities	944	841	1,253
Amortization of stock-based compensation	118	-	-
(Benefit) expense for deferred income taxes	135	(941)	201
Goodwill and intangible impairment	-	602	-
Change in fair value of mortgage servicing right (MSR) and other	503	1,127	325
Loss from sale and disposal of premises and equipment	125	62	456
Loss on sale of other real estate owned and valuation allowance	824	2,544	445
Proceeds from sales of mortgage loans	117,852	66,359	89,972
Originations of mortgage loans held for sale	(115,634)	(66,961)	(90,954)
Gain on sales of mortgage loans	(1,874)	(772)	(1,099)
Realized gain on sale of securities available for sale	-	(724)	(1,311)
Gain recognized on contribution of assets to Ansay, net	-	(96)	(123)
Undistributed income of UFS joint venture	(683)	(877)	(593)
Undistributed income of Ansay joint venture	(1,195)	-	-
Net earnings on life insurance	(551)	(423)	(546)
Decrease (increase) in other assets	547	291	1,578
Increase (decrease) in other liabilities	124	819	(2,977)
Net cash provided by operating activities	15,562	13,520	11,643
Cash flows from investing activities:			
Activity in securities available for sale:			
Sales	4,998	24,269	54,497
Maturities, prepayments, and calls	23,261	23,984	31,393
Purchases	(15,961)	(38,308)	(35,422)
Net increase in loans	(59,110)	(86,201)	(61,472)
Purchase of bank-owned life insurance	(2,000)	-	(1,500)
Dividends received from UFS	1,659	413	229
Dividends received from Ansay	873	-	-
Proceeds from sale of Ansay units	-	2,859	-
Proceeds from life insurance	-	363	-
Proceeds from sale of other real estate owned	2,556	2,660	2,051
Capital expenditures on real estate held	(3)	(122)	-
Proceeds from sale of FHLB Stock	581	-	-
Proceeds from sale of premises and equipment	291	-	411
Purchases of premises and equipment	(1,884)	(1,540)	(1,838)
Net cash used in investing activities	(44,739)	(71,623)	(11,651)

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

	Years Ended December 31		
	2012	2011	2010
	(In Thousands)		
Cash flows from financing activities:			
Net increase in deposits	$ 116,677	$ 97,279	$ 14,083
Net decrease in securities sold under repurchase agreements	(8,834)	(23,764)	(3,240)
Proceeds from advances of borrowed funds	51,000	-	-
Repayment of borrowed funds	(51,000)	(1,203)	(20,930)
Proceeds from revolving line of credit	710	300	6,605
Repayment of revolving line of credit	(1,590)	(3,205)	(4,200)
Dividends paid	(5,778)	(2,779)	(2,770)
Issuance of common stock	549	259	-
Repurchase of common stock	(1,881)	(234)	(114)
Net cash provided by (used in) financing activities	99,853	66,653	(10,566)
Net increase (decrease) in cash and cash equivalents	70,676	8,550	(10,574)
Cash and cash equivalents at beginning	40,939	32,389	42,963
Cash and cash equivalents at end	$ 111,615	$ 40,939	$ 32,389
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	$ 6,042	$ 7,867	$ 10,325
Income taxes	4,069	2,915	3,873
Supplemental schedule of noncash activities:			
Loans transferred to other real estate owned	2,304	4,315	7,720
Mortgage servicing rights resulting from sale of loans	810	529	671
Noncash dividend received from the Bank	-	-	925
Ansay units sold	-	(2,859)	-
Net assets contributed to Ansay & Associates LLC merger	$ -	$ (2,859)	$ -

See accompanying notes to consolidated financial statements.

Note 1 Summary of Significant Accounting Policies

The accounting and reporting policies of First Manitowoc Bancorp, Inc. and Subsidiaries (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. and TVG Holdings, Inc. (TVG). Effective on December 31, 2011 the Corporation dissolved BFN Asset Management, Inc. 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 in the consolidated financial statements. The Bank owns 49.8% of United Financial Services, Inc. (UFS) which provides data processing solutions to over 40 Wisconsin banks, and 28.8% of Ansay & Associates, LLC (Ansay) providing clients with superior insurance and risk management solutions.

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 including the OCC and the Federal Reserve Board.

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 to meet specific reserve requirements. 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, 2012 and 2011 were approximately $4,112,000 and $4,103,000, respectively.

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. The Bank evaluates 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 payoffs are generally reported at their outstanding unpaid principal balances adjusted for charge-offs and the allowance for loan losses. The accrual of 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 is discontinued when a loan becomes 90 days past due and is not both well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. 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. 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. Total impaired loans are evaluated based on the fair value of the collateral rather than on discounted cash flow basis.

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.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

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.

Depreciation expense is computed using the straight-line method over the following estimated useful lives.

Buildings and improvements	40 years
Land improvements	20 years
Furniture, fixtures and equipment	2-7 years

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. Any write downs at the time of foreclosure are charged to the allowance for loan loss. Subsequent to foreclosure, valuations are periodically performed by management, and a valuation allowance is 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 but is subject to impairment evaluation annually.

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. Change in fair value is recorded as an adjustment to earnings.

The Corporation performs a "qualitative" assessment of goodwill to determine whether further impairment testing of indefinite-lived intangible assets is necessary on at least an annual basis. If it is determined as a result of performing a qualitative assessment over goodwill that it is more likely than not that goodwill is impaired, management will perform an impairment test to determine if the carrying value of goodwill is realizable.

The Corporation evaluated goodwill and core deposit intangibles for impairment during 2012, 2011 and 2010. In 2012 and 2010, 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 in connection with the closure of BFN Asset Management Inc. and recognized the expense in 2011 earnings.

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 6,587,174, 6,593,759, and 6,594,035 for the years ended December 31, 2012, 2011 and 2010, respectively. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities for basic and diluted earnings per share calculations. There were no potentially dilutive instruments outstanding during the periods presented.

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, 2012 and 2011.

Transfers of Financial Assets
Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Bank, the transferee obtains the right, free of conditions that constrain it from taking advantage of that right, to pledge or exchange the transferred assets and the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

Comprehensive Income
GAAP normally requires that recognized revenues, expenses, gains and losses be included in net income. In addition to net income, other components of comprehensive income include the after-tax effect of changes in unrealized gains and losses on available-for-sale securities and derivative financial instruments accounted for as cash flow hedges. These items are reported as a separate component of stockholders' equity. The Bank presents comprehensive income in the statement of comprehensive income.

Stock-based Compensation
The Bank uses the fair value method of recognizing expense for stock-based compensation based on the fair value of restricted stock awards at the date of grant as prescribed by accounting standards codification Topic 781-10 *Compensation/Stock Compensation.*

Mortgage Banking Derivatives
Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free standing derivatives. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest rate on the loan is locked. The Bank enters into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into in order to hedge the change in interest rates resulting from its commitments to fund loans. The Bank forward commitments for the future delivery of mortgage loans are based on the Banks "best efforts" and therefore the Bank is not penalized if a loan is not delivered to the investor if the loan did not get originated. Changes in the fair values of these derivatives generally offset each other and are included in "other income" in the consolidated statements of income.

Subsequent Events
Management has evaluated subsequent events through February 20, 2013, the issuance date of these consolidated financial statements.

Reclassifications
Certain reclassifications have been made to the 2011 and 2010 consolidated financial statements to conform to the 2012 classifications.

New Accounting Pronouncements
In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ("ASU 2011-05"). The amendments in ASU 2011-05 require entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity is eliminated. The amendments in this guidance are effective for the Corporation as of the beginning of a fiscal reporting year, and interim periods within that year, that begins after December 15, 2011. The adoption of this amendment had no impact on the consolidated financial statements as the prior presentation of comprehensive income was in compliance with this amendment.

ASU 2011-08 – *Intangibles – Goodwill and Other (Topic 350) Testing Goodwill for Impairment* ("ASU 2011-08"). ASU 2011-08 grants an entity the option to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. This conclusion can be used as a basis for determining whether it is necessary to perform the two-step goodwill impairment test required in Topic 350. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Adoption of the standard is not expected to have a material impact on the Corporation's results of operations, financial position or disclosures.

In July 2012, the Financial Accounting Standards Board issued Accounting Standards Update No. 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment* (the revised standard). It allows companies to perform a "qualitative" assessment to determine whether further impairment testing of indefinite-lived intangible assets is necessary, similar in approach to the goodwill impairment test. The revised standard is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, and entities can choose

to early adopt the revised guidance. The adoption of this standard is not expected to have a material impact on the Corporation's financial position, results of operations or disclosures.

Note 2 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 Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2012				
U.S. Treasury securities and obligations of U.S Government sponsored agencies	$ 13,359	$ 461	$ -	$ 13,820
Obligations of states and political subdivisions	57,033	3,045	(69)	60,009
Mortgage-backed securities	42,437	1,592	(3)	44,026
Corporate notes	100	-	-	100
Total securities	$ 112,929	$ 5,098	(72)	$ 117,955
December 31, 2011				
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	$ 126,201	$ 5,347	$ (99)	$ 131,449

The following table shows the fair value and gross unrealized losses of securities with unrealized losses, 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, 2012						
Obligations of states						
and political subdivisions	$ 3,328	$ (69)	$ -	$ -	$ 3,328	$ (69)
Mortgage-backed securities	1,424	(3)	-	-	1,424	(3)
Totals	$ 4,752	$ (72)	$ -	$ -	$ 4,752	$ (72)
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	$ 10,040	$ (92)	$ 151	$ (7)	$ 10,191	$ (99)

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, 2012, no obligations of states and political subdivisions had an unrealized loss greater than 12 months.

At December 31, 2011, 1 obligation of a state and political subdivision had unrealized losses greater than 12 months with aggregate depreciation of 4.57% 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 securities, by contractual maturity, as of December 31, 2012 (dollar amounts in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 2,497	$ 2,523
Due after one year through 5 years	17,814	18,348
Due after 5 years through ten years	35,557	37,280
Due after 10 years	14,624	15,778
Subtotal	70,492	73,929
Mortgage-backed securities	42,437	44,026
Total	$ 112,929	$ 117,955

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):

	2012	2011	2010
Proceeds from sales of securities	$4,998	$24,269	$54,497
Gross gains on sales	-	734	1,317
Gross losses on sales	-	(9)	(6)

As of December 31, 2012 and 2011, the carrying values of securities available for sale pledged to secure public deposits, securities sold under repurchase agreements, and for other purposes required or permitted by law were approximately $80,127,000 and $106,781,000, respectively.

Note 3 Loans

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

	2012	2011
Commercial/industrial	$ 187,161	$ 176,232
Commercial real estate - owner occupied	195,043	191,857
Commercial real estate - non-owner occupied	104,155	91,796
Construction and development	28,406	34,295
Residential 1-4 family	189,589	160,694
Consumer	12,011	11,466
Other	14,528	10,177
Subtotals	730,893	676,517
Less allowance for loan losses	7,950	7,480
Loans, net of allowance	722,943	669,037
Loans held for sale	723	1,877
Loans, net and loans held for sale	$ 723,666	$ 670,914

A summary of the activity in the allowance for loan losses by loan type as of December 31, 2012 is as follows (dollar amounts in thousands):

	Commercial / Industrial	Commercial Real Estate - Owner Occupied	Commercial Real Estate - Non - Owner Occupied	Construction and Development	1 - 4 Family Residential	Consumer	Other	Unallocated	Total
Allowance for loan losses - January 1, 2012	$ 1,488	$ 803	$ 536	$ 601	$ 3,353	$ 352	$ 40	$ 307	$ 7,480
Charge-offs	(686)	(154)	(910)	(151)	(655)	(29)	(85)	-	(2,670)
Recoveries	87	1	-	-	125	17	10	-	240
Provision	1,091	764	1,166	605	(765)	(223)	168	94	2,900
Allowance for loan losses - December 31, 2012	$ 1,980	$ 1,414	$ 792	$ 1,055	$ 2,058	$ 117	$ 133	$ 401	$ 7,950
ALL ending balance individually evaluated for impairment	-	-	25	450	210	-	-	-	$ 685
ALL ending balance collectively evaluated for impairment	$ 1,980	$ 1,414	$ 767	$ 605	$ 1,848	$ 117	$ 133	$ 401	$ 7,265
Loans outstanding - December 31, 2012	$ 187,161	$ 195,043	$ 104,155	$ 28,406	$ 189,589	$ 12,011	$ 14,528	$ -	$ 730,893
Allowance for loan losses	1,980	1,414	792	1,055	2,058	117	133	401	7,950
Loans, net of ALL	$ 185,181	$ 193,629	$ 103,363	$ 27,351	$ 187,531	$ 11,894	$ 14,395	$ (401)	$ 722,943
Loans ending balance individually evaluated for impairment	-	460	353	1,570	845	-	-	-	3,228
Loans ending balance collectively evaluated for impairment	$ 185,181	$ 193,169	$ 103,010	$ 25,781	$ 186,686	$ 11,894	$ 14,395	$ (401)	$ 719,715

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 / Industrial	Commercial Real Estate - Owner Occupied	Real Estate - Non - Owner Occupied	Construction and Development	1 - 4 Family 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	448	(51)	369	(345)	1,533	(46)	(42)	244	2,110
Allowance for loan losses - December 31, 2011	$ 1,488	$ 803	$ 536	$ 601	$ 3,353	$ 352	$ 40	$ 307	$ 7,480
ALL ending balance individually evaluated for impairment	-	-	-	-	-	-	-	-	$ -
ALL ending balance collectively evaluated for impairment	$ 1,488	$ 803	$ 536	$ 601	$ 3,353	$ 352	$ 40	$ 307	$ 7,480
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	1,488	803	536	601	3,353	352	40	307	7,480
Loans, net of ALL	$ 174,744	$ 191,054	$ 91,260	$ 33,694	$ 159,218	$ 11,114	$ 10,137	$ (307)	$ 670,914
Loans ending balance individually evaluated for impairment	-	-	2,131	-	-	-	-	-	2,131
Loans ending balance collectively evaluated for impairment	$ 174,744	$ 191,054	$ 89,129	$ 33,694	$ 159,218	$ 11,114	$ 10,137	$ (307)	$ 668,783

A summary of past due loans as of December 31, 2012 are as follows (dollar amounts in thousands):

	30-89 Days Past Due Accruing	90 Days or more Past Due or on Non-Accrual	2012 Total
Commercial/industrial	$ -	$ 118	$ 118
Commercial real estate - owner occupied	36	955	991
Commercial real estate - non-owner occupied	-	352	352
Construction and development	38	1,568	1,606
Residential 1-4 family	474	1,235	1,709
Consumer	41	8	49
Other	-	-	-
	$ 589	$ 4,236	$ 4,825

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

	30-89 Days Past Due Accruing	90 Days or more Past Due or on Non-Accrual	2011 Total
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	86	-	86
	$ 791	$ 3,251	$ 4,042

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. Otherwise they are deemed impaired and placed on nonaccrual status.

The breakdown of loans by risk rating as of December 31, 2012 is as follows (dollar amounts in thousands):

	Pass (1-5)	6	7	Total
Commercial/industrial	$ 177,546	$ 2,177	$ 7,438	$ 187,161
Commercial real estate - owner occupied	185,513	2,648	6,882	195,043
Commercial real estate - non-owner occupied	102,133	493	1,529	104,155
Construction and development	25,882	-	2,524	28,406
Residential 1-4 family	186,149	194	3,246	189,589
Consumer	12,000	-	11	12,011
Other	14,528	-	-	14,528
	$ 703,751	$ 5,512	$ 21,630	$ 730,893

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

	Pass (1-5)	6	7	Total
Commercial/industrial	$ 167,133	$ 200	$ 8,899	$ 176,232
Commercial real estate - owner occupied	185,863	-	5,994	191,857
Commercial real estate - non-owner occupied	87,614	2,417	1,765	91,796
Construction and development	31,678	-	2,617	34,295
Residential 1-4 family	158,501	-	2,193	160,694
Consumer	11,420	-	46	11,466
Other	10,177	-	-	10,177
	$ 652,386	$ 2,617	$ 21,514	$ 676,517

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 sheets. 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 (PFLL) 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 individually evaluated impaired loans and general reserves for collectively evaluated non-impaired loans. At December 31, 2012 and 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 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 and 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 PFLL 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):

	2012	2011	2010
Balance at beginning	$ 7,480	$ 6,347	$ 5,659
Provision for loan losses	2,900	2,110	6,617
Loans charged off	(2,670)	(1,263)	(6,028)
Recoveries of loans previously charged off	240	286	99
Balance at end	$ 7,950	$ 7,480	$ 6,347

A summary of impaired loans individually evaluated as of December 31, 2012 is as follows (dollar amounts in thousands):

	Commercial/ Industrial	Commercial Real Estate - Owner Occupied	Commercial Real Estate - Non - Owner Occupied	Construction and Development	1 - 4 Family Residential	Consumer	Other	Unallocated	Total
December 31, 2012									
With an allowance recorded:									
Recorded investment	$ -	$ -	$ 353	$ 862	$ 845	$ -	$ -	$ -	$ 2,060
Unpaid principal balance	-	-	508	943	954	-	-	-	2,405
Related allowance	-	-	25	450	210	-	-	-	685
With no related allowance recorded:									
Recorded investment	$ -	$ 460	$ -	$ 708	$ -	$ -	$ -	$ -	$ 1,168
Unpaid principal balance	-	877	-	708	-	-	-	-	1,585
Related allowance	-	-	-	-	-	-	-	-	$ -
Total:									
Recorded investment	$ -	$ 460	$ 353	$ 1,570	$ 845	$ -	$ -	$ -	$ 3,228
Unpaid principal balance	-	877	508	1,651	954	-	-	-	3,990
Related allowance	-	-	25	450	210	-	-	-	685
Average recorded investment during 2012 through December	$ 99	$ 382	$ 1,879	$ 686	$ 757	$ -	$ -	$ -	$ 3,803
Interest income recognized while impaired	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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

	Commercial/ Industrial	Commercial Real Estate - Owner Occupied	Commercial Real Estate - Non - Owner Occupied	Construction and Development	1 - 4 Family Residential	Consumer	Other	Unallocated	Total
December 31, 2011									
With an allowance recorded:									
Recorded investment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Unpaid principal balance	-	-	-	-	-	-	-	-	-
Related allowance	-	-	-	-	-	-	-	-	-
With no related allowance recorded:									
Recorded investment	$ 1,875	$ 145	$ 508	$ -	$ 560	$ 8	$ -	$ -	$ 3,096
Unpaid principal balance	1,875	145	508	-	560	8	-	-	3,096
Related allowance	-	-	-	-	-	-	-	-	$ -
Total:									
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):

	2012	2011
Impaired loans for which an allowance has been provided	$ 2,060	$ -
Impaired loans for which no allowance has been provided	1,168	3,096
Total impaired loans	$ 3,228	$ 3,096
Impairment reserve (included in allowance for loan losses)	$ 685	$ -
Total nonaccrual loans	$ 3,959	$ 3,096
Total loans past due 90 days or more and still accruing	$ 277	$ 155

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

	2012	2011	2010
Average investment in impaired loans	$ 3,803	$ 4,655	$ 2,721
Interest income that would have been recognized on an accrual basis	$ 209	$ 266	$ 209
Cash-basis interest income recognition	$ -	$ -	$ 107

A summary of nonperforming loans as of December 31, 2012 is as follows (dollar amounts in thousands):

	2012	2011
Nonaccrual loans	$ 3,959	$ 3,096
Loans past due 90 days	$ 277	$ 155
Total nonperforming loans ("NPLs")	$ 4,236	$ 3,251
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 on 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 2012 and 2011.

Note 4 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. Changes of those serving as 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):

	2012	2011
Balances at beginning	$ 22,664	$ 18,344
New loans and advances	12,683	14,013
Repayments	(14,941)	(9,693)
Balance at end	$ 20,406	$ 22,664

Note 5 Mortgage Servicing Rights

Loans serviced for others are not included in the accompanying consolidated balance sheets. Mortgage servicing rights (MSRs) 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):

	2012	2011
Fair value beginning of year	$ 1,704	$ 2,302
Servicing asset additions	810	529
Loan payments and payoffs	(711)	(615)
Changes in valuation inputs and assumptions used in the valuation model	208	(512)
Amount recognized through earnings	307	(598)
Fair value at end of year	$ 2,011	$ 1,704
Unpaid principal balance of loans serviced for others (in thousands)	$ 273,158	$ 249,305
Mortgage servicing rights as a percent of loans serviced for others	0.74	0.68

During the years ended December 31, 2012 and 2011, 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, 2012 and 2011 included constant prepayment speed of 14.7 and 17.9 months, respectively, and a discount rate of 10.56% and 10.07%, respectively. 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 MSRs 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, 2012 and 2011. Changes in fair value are recognized through the income statement as loan servicing income.

Note 6 Premises and Equipment
An analysis of premises and equipment at December 31 follows (dollar amounts in thousands):

	2012	2011
Land and land improvements	$ 1,311	$ 1,433
Buildings and improvements	10,860	10,122
Furniture and equipment	6,308	7,806
Totals	18,479	19,361
Less accumulated depreciation	8,428	9,788
Premises and equipment, net	$ 10,051	$ 9,573

Depreciation and amortization of premises and equipment charged to operating expense totaled approximately $990,000, $968,000, and $897,000 for the years ended December 31, 2012, 2011, and 2010, respectively.

Note 7 Other Real Estate Owned
Changes in other real estate owned (OREO) for the years ended December 31 were as follows (dollar amounts in thousands):

	2012	2011
Beginning of year	$ 6,640	$ 7,407
Transfers in	2,304	4,315
Capitalized improvements	3	122
Valuation allowances	(759)	(2,272)
Loss on other real estate owned	(65)	(272)
Sales	(2,556)	(2,660)
End of year	$ 5,567	$ 6,640

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

	2012	2011	2010
Beginning of year	$ 488	$ 378	$ 157
Additions charged to expense	724	2,272	320
Valuation relieved due to sale of OREO	(657)	(891)	(99)
End of year	$ 555	$ 1,759	$ 378

Note 8 Investment in Nonconsolidated Subsidiaries
The Corporation owns 49.8% of United Financial Services, Inc. (UFS) whose business is providing data processing services to the Corporation and other financial institutions. As of December 31, 2012, UFS had total assets of $8,244,000 and liabilities of $1,476,000. The Corporation's investment in UFS was $3,355,000 and $4,331,000 at December 31, 2012 and 2011, respectively. The investment is accounted for on the equity method and is included in investment in minority owned subsidiaries. The Corporation's earnings from its investment in UFS were approximately $683,000, $877,000, and $593,000 for the years ended December 31, 2012, 2011 and 2010, respectively. Data processing service fees paid by the Corporation to UFS were approximately $947,000, $955,000, and $908,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

The Corporation has an annual contract with UFS that matured December 31, 2012, 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 $426,000 at December 31, 2012 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 included 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 $2,621,000 at December 31, 2012. 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 $508,000 have been provided on undistributed earnings of $2,621,000 at December 31, 2012. During 2012, 2011 and 2010, the Corporation received $1,659,000, $413,000 and $228,500 in dividends from UFS, respectively.

On December 31, 2009, TVG Holdings Inc. (TVG), the insurance subsidiary of the Bank merged with A.N. Ansay and Associates, Inc. to form Ansay & Associates, LLC (Ansay). TVG owns 28.8% of Ansay whose business is managing the insurance and risk needs of commercial and personal insurance clients in Wisconsin and the Midwest. Ansay & Associates is a family owned independent insurance agency that has operated in southeastern Wisconsin since 1946. Effective January 1, 2011, Ansay purchased 8,440 Class A units from TVG for approximately $2,900,000 of cash. Effective with the purchase, TVG reduced its investment in Ansay & Associates, LLC from 36.9% to 28.8% and recognized a gain of $96,000. In connection with TVG Holdings, Inc.'s 2009 investment in Ansay whereby certain net assets were contributed, a $338,000 deferred gain was recorded. At December 31, 2012 the remaining deferred gain is $242,000 and will be recognized upon liquidation of remaining ownership interest.

As of December 31, 2012, Ansay had total assets of $22,619,000 and liabilities of $10,362,000. The Corporation's investment in Ansay, which is accounted for using the equity method, was $10,815,000 and $10,493,000 at December 31, 2012 and 2011, respectively. The Corporation recognized earnings of approximately $1,196,000, $857,000 and $1,357,000 and received dividends of $873,000, $720,000 and $1,107,000 from its investment in Ansay during the years ended December 31, 2012, 2011 and 2010, respectively.

Effective January 1, 2013, the CEO of Ansay was named Chairman of the Board of the Corporation and also serves as the Compensation Committee Chairman of the Corporation. As a related party, during 2012, 2011 and 2010 the Corporation purchased director and officer, fidelity bond and commercial insurance coverage through Ansay spending approximately $168,000, $196,000 and $192,000, respectively. Ansay has an available revolving line of credit of $2.0 million with the Corporation with no amounts outstanding as of December 31, 2012 and 2011. In addition Ansay has a $2.5 million term loan that was fully participated to a third party bank at December 31, 2012. At December 31, 2012, Ansay also had a $2.5 million term loan paying interest of 5.35% that matures on January 1, 2018 and another $2.0 million term loan paying interest at 4.0% that matures in July 1, 2019.

Ansay maintains deposits at the Bank totaling $2,491,000 and $944,000 as of December 31, 2012 and 2011. Ansay leases a building from the Corporation under a non-cancellable operating lease expiring December 31, 2019 and paid rents of $81,000, $113,000 and $110,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

Since the financial results of the Corporation and its 28.8% owned subsidiary are included 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 Ansay's undistributed earnings since the date of the acquisition. Deferred income taxes of approximately $884,000 have been provided on undistributed earnings of $2,254,000 at December 31, 2012. Those earnings would become taxable through dividends or during the sale of Ansay.

Note 9 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):

	2012		2011	
	Gross Carrying Amount	Intangible Accumulated Amortization	Gross Carrying Amount	Intangible Accumulated Amortization
Core deposit intangible	$ 232	$ 156	$ 232	$ 139
Mortgage servicing rights	2,011	-	1,704	-
Totals	$ 2,243	$ 156	$ 1,936	$ 139

The aggregate amortization expense for the years ended December 31, 2012, 2011 and 2010, was $18,000, $19,000, and $52,000, 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, 2012 (dollar amounts in thousands):

	Core Deposit Intangible
2013	$ 18
2014	18
2015	18
2016	22
Total	$ 76

Note 10 Goodwill

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

	2012	2011
Balance at beginning	$ 7,984	$ 8,480
Goodwill impairment	-	(496)
Total goodwill	$ 7,984	$ 7,984

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

Note 11 Deposits

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

	2012	2011
Noninterest-bearing demand deposits	$ 192,305	$ 139,562
Interest-bearing demand deposits	87,615	84,856
Savings deposits	426,176	347,734
Time deposits	163,067	180,334
Total deposits	$ 869,163	$ 752,486

Time deposits of $100,000 or more were approximately $ 67,245,000 and $70,420,000 at December 31, 2012 and 2011, respectively.

The scheduled maturities of time deposits at December 31, 2012, are summarized as follows (dollar amounts in thousands):

2013	$ 85,663
2014	33,185
2015	12,520
2016	22,591
2017 and thereafter	9,108
Total	$ 163,067

Deposits from directors, executive officers, principal shareholders, and their affiliates totaled approximately $21,205,000 and $9,722,000 as of December 31, 2012 and 2011, respectively.

Note 12 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. During 2012, the Corporation terminated one of its repurchase agreements and recognized $1,400,000 cost in other expenses.

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

	2012	2011	2010
Outstanding balance at the end of the year	$ 43,099	$ 51,933	$ 75,697
Weighted average interest rate at the end of the year	0.60%	1.16%	1.01%
Average balance during the year	$ 37,014	$ 56,261	$ 64,885
Average interest rate during the year	1.29%	1.18%	1.11%
Maximum month end balance during the year	$ 61,436	$ 73,643	$ 75,697

Note 13 Borrowed Funds
At December 31, 2012, the bank had no advances outstanding from FHLB. From time to time the Bank utilized short term FHLB advances to fund liquidity during 2012.

At December 31, 2012, total loans available to be pledged as collateral on FHLB borrowings were approximately $89.6 million and of that total, $57.3 million qualified as eligible collateral. The Bank owned $2.6 million of FHLB stock. As of December 31, 2012, the Bank had $18.5 million of credit outstanding from the FHLB which consisted of $0 in advances and $18.5 million in letters of credit and, accordingly, the Bank was required to hold $2,088,000 in FHLB stock. At December 31, 2012, the Bank had available liquidity of $38.8 million for future draws. FHLB stock is included in other investments at December 31, 2012 and 2011. This stock is recorded at cost, which approximates fair value.

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. As of December 31, 2011, the Bank had $18.5 million of credit outstanding from the FHLB which consisted of $0 in advances and $18.5 million in letters of credit and, accordingly, the Bank was required to hold $2,093,000 in FHLB stock. At December 31, 2011, the Bank had available liquidity of $22.6 million for future draws.

The Bank is approved for the borrower in custody program at the Federal Reserve Bank Discount Window. At December 31, 2012 and 2011, the Bank pledged $4.6 million and $13.0 million, respectively, of commercial loans. At December 31, 2012 the Bank had available liquidity of approximately 57% or $2.6 million for future draws utilizing the discount window. The Bank had no borrowings outstanding at December 31, 2012 and 2011.

Note 14 Notes Payable
The holding company of the Corporation maintains a $7,500,000 line of credit with a commercial bank. At December 31, 2012 and 2011, the Corporation had an outstanding balance on the line of credit of $810,000 and $1,420,000, respectively. The interest rate is a variable rate with a floor of 4.25% due May 19, 2013. At December 31, 2012, the interest rate was 4.25%.

The Corporation has a note payable with a commercial bank. At December 31, 2012 and 2011, the Corporation had an outstanding balance on the note payable of $2,010,000 and $2,280,000, respectively. 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, 2012, 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 maturities at December 31, 2012 is summarized as follows (dollar amounts in thousands):

	Total
2013	$ 930
2014	120
2015	120
2016	120
2017	120
Thereafter	1,410
Total	$ 2,820

Note 15 Income Taxes

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

	2012	2011	2010
Current tax expense:			
Federal	$ 2,870	$ 2,729	$ 1,404
State	1,064	1,069	720
Total current	3,934	3,798	2,124
Deferred tax expenses (benefit):			
Federal	$ 117	$ (708)	$ 521
State	18	(233)	(320)
Total deferred	135	(941)	201
Total provision for income taxes	$ 4,069	$ 2,857	$ 2,325

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 are as follows (dollar amounts in thousands):

	2012	2011	2010
Tax expense at statutory rate	$ 4,926	$ 3,877	$ 3,323
Increase (decrease) in taxes resulting from:			
Tax-exempt interest	(993)	(1,008)	(915)
State taxes (net of Federal benefit)	696	552	270
Cash surrender value of life insurance	(189)	(322)	(186)
ESOP dividend	(210)	(101)	(102)
Tax credits	(121)	(121)	(121)
Other	(40)	(20)	56
Total provision for income taxes	$ 4,069	$ 2,857	$ 2,325

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. Deferred taxes are included in other liabilities of the balance sheet. The major components of the net deferred tax asset (liability) as of December 31 are presented below (dollar amounts in thousands):

	2012	2011
Deferred tax assets:		
Deferred compensation	$ 883	$ 961
Allowance for loan losses	3,118	2,938
Accrued vacation and severance	66	81
Other real estate owned	733	694
Other	65	152
Total deferred tax assets	4,865	4,826
Deferred tax liabilities:		
Investment in acquisition and discount accretion	(93)	(42)
Mortgage servicing rights	(789)	(669)
Depreciation	(913)	(790)
Unrealized gain on securities available for sale	(1,973)	(2,055)
Other investments	(301)	(420)
Prepaid expenses	(64)	(94)
Investment in minority owned subsidiaries	(1,392)	(1,363)
Total deferred tax liabilities	(5,525)	(5,433)
Net deferred tax liability	$ (660)	$ (607)

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, 2012 and 2011, there was no liability for uncertain tax positions. Federal income tax returns for 4 years ended December 31, 2009 through 2012 remain open and subject to review by applicable tax authorities. State income tax return for 5 years ended December 31, 2008 through 2012 remain open and subject to review by applicable tax authorities.

Note 16 Employee Benefit Plans

Employee Stock Ownership Plan

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, 2012, the plan held 658,435 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 2012,

2011, and 2010. The Corporation made additional discretionary contributions to the plan of $346,000, $313,000, and $372,000 in 2012, 2011, and 2010, respectively. All discretionary contributions are at the direction of the Board of Directors. Total expense associated with the plans was approximately $574,000, $551,000, and $585,000 in 2012, 2011, and 2010, respectively.

Share-based Compensation
The Corporation has made restricted share grants during 2012 pursuant to the First Manitowoc Bancorp, Inc. 2011 Equity Compensation Plan (Plan). The purpose of the Plan is to provide financial incentives for selected employees and for the non-employee Directors of the Corporation, thereby promoting the long-term growth and financial success of the Corporation. The Corporation stock to be offered under the Plan pursuant to Stock Appreciation Rights (SAR), performance unit awards, and restricted stock and unrestricted Corporation stock awards must be Corporation stock previously issued and outstanding and reacquired by the Corporation. The number of shares of Corporation stock that may be issued pursuant to awards under the Plan shall not exceed, in the aggregate 659,250. Compensation expense for restricted stock is based on the fair value of the awards at the time of grant, which is equal to the value of First Manitowoc Bancorp, Inc. common stock on the date of the grant. The value of restricted stock grants that are expected to vest is amortized into expense over the vesting periods. For the year ended December 31, 2012 and 2011, compensation expense of $118,000 and $0, respectively, was recognized related to restricted stock awards.

As of December 31, 2012, there was $303,000 of unrecognized compensation cost related to non-vested restricted stock awards granted under the plan. That cost is expected to be recognized over a weighted average period of 3.9 years. The aggregate grant date fair value of restricted stock awards that vested during 2012 was approximately $33,000.

	Shares	Weighted-Average Grant-Date Fair Value
Restricted stock		
Outstanding at December 31, 2011	-	$ -
Granted	30,082	13.98
Vested	(2,328)	13.99
Cancelled	-	-
Outstanding at December 31, 2012	27,754	13.98
Vested at December 31, 2012	2,328	13.99

Deferred Compensation Plan
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 $81,000, $91,000, and $79,000 for the years ended December 31, 2012, 2011, and 2010, respectively. The vested present value of future payments of approximately $977,000 and $1,004,000 at December 31, 2012 and 2011, respectively, is included in other liabilities. During 2012, the present value of future payments increased due to a decline in the discount rate of 4.40% to 4.20%..

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 $1,273,000 and $1,443,000 at December 31, 2012 and 2011, respectively, is included in other liabilities. Expense associated with this plan was approximately $124,000, $99,000, and $89,000 in 2012, 2011, and 2010, respectively.

Note 17 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 not declare without the prior approval of the Office of the Comptroller of the Currency as of December 31, 2012 totaled approximately $16,619,000. 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, 2012, that the Corporation and the Bank meet all applicable capital adequacy requirements.

As of December 31, 2012, 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 minimum amounts required for capital adequacy purposes and to be well capitalized under prompt corrective action provisions as well as 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	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2012						
Total capital (to risk-weighted assets):						
Corporation	$ 92,724	12.32%	$ 60,199	8.00%	N/A	N/A
Bank	$ 90,001	12.03%	$ 59,836	8.00%	$ 74,795	10.00%
Tier 1 capital (to risk-weighted assets):						
Corporation	$ 84,774	11.27%	$ 30,099	4.00%	N/A	N/A
Bank	$ 82,051	10.97%	$ 29,918	4.00%	$ 44,877	6.00%
Tier 1 capital (to average assets):						
Corporation	$ 84,774	8.89%	$ 38,152	4.00%	N/A	N/A
Bank	$ 82,051	8.65%	$ 37,947	4.00%	$ 47,433	5.00%
2011						
Total capital (to risk-weighted assets):						
Corporation	$ 88,839	12.27%	$ 57,907	8.00%	N/A	N/A
Bank	$ 86,569	12.05%	$ 57,485	8.00%	$ 71,857	10.00%
Tier 1 capital (to risk-weighted assets):						
Corporation	$ 81,359	11.24%	$ 28,954	4.00%	N/A	N/A
Bank	$ 79,089	11.01%	$ 28,743	4.00%	$ 43,114	6.00%
Tier 1 capital (to average assets):						
Corporation	$ 81,359	9.30%	$ 34,991	4.00%	N/A	N/A
Bank	$ 79,089	9.09%	$ 34,818	4.00%	$ 43,523	5.00%

Note 18 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; and insurance 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 19 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, 2012 and 2011, respectively, was $13,589,000 and $11,701,000.

The Bank 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 Bank's exposure to credit loss is represented by the contractual or notional amount of these commitments. The Bank 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	
	2012	2011
Commitments to extend credit:		
Fixed	$ 19,262	$ 23,205
Variable	155,359	111,161
Credit card arrangements	4,307	5,130
Letters of credit	40,451	43,278

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 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 Bank and serviced by other companies. These commitments are unsecured.

Letters of credit include $35,489,000 of direct pay letters of credit and $4,962,000 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 Bank 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 Bank generally holds collateral supporting these commitments. The majority of the Bank's loans, commitments, and letters of credit have been granted to customers in the Bank'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 20 Fair Value of Financial Instruments

Accounting guidance establishes a fair value hierarchy to maximize the use of observable inputs and minimize 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 is as follows (dollar amounts in thousands):

	Instruments 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, 2012				
Assets				
Securities available for sale				
U.S. Treasury securities and obligations of U.S. Government sponsored agencies	$ 13,820	-	$ 13,820	-
Obligations of states			-	
and political subdivisions	60,009	-	58,999	1,010
Mortgage-backed securities	44,026	-	44,026	-
Corporate notes	100	-	100	-
Mortgage servicing rights	2,011	-	2,011	-
Asset subtotal	119,966	-	118,956	1,010
Liabilities				
Salary continuation plan	977	-	977	-
	120,943	-	119,933	1,010
December 31, 2011				
Assets				
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	-
Asset subtotal	133,153	-	132,143	1,010
Liabilities				
Salary continuation plan	1,004	-	1,004	-
	134,157	-	133,147	1,010

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

	2012	2011
Total securities at beginning of year	$ 1,010	$ 1,010
Included in earnings	-	-
Included in other comprehensive income	-	-
Purchases, issuance, and settlements	-	-
Transfer in and/or out of level 3	-	-
Total securities at end of year	$ 1,010	$ 1,010

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 loan 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, 2012 and 2011, 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. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the impaired loan as nonrecurring Level 3.

Loans with a carrying amount of $3,228,000 and $3,096,000 at December 31, 2012 and 2011, respectively, were considered impaired. As a result, the Corporation recognized an impairment reserve of approximately $685,000 and $0 during the years ended December 31, 2012 and 2011, respectively. Impaired loans with balances less than $250,000 are not specifically evaluated for impairment. At December 31, 2012, $731,000 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 3 measurements. Measurements prepared internally are based on observable market data but include significant unobservable data and are therefore considered Level 3 measurements.

Information regarding the fair value of assets measured at fair value on a non-recurring basis is 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, 2012				
Other real estate owned	$ 5,567	$ -	$ -	$ 5,567
Impaired Loans, net of impairment reserve	1,835	-	-	1,835
	$ 7,402	$ -	$ -	$ 7,402
December 31, 2011				
Other real estate owned	$ 6,640	$ -	$ -	$ 6,640
	$ 6,640	$ -	$ -	$ 6,640

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 amount.

Securities — The fair value measurement is obtained from an independent pricing service and is based on recent sales of similar securities and other observable market data.

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

*Loans held for sal*e — 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 amount.

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 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 company'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):

	2012		2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 111,615	$ 111,615	$ 40,939	$ 40,939
Securities available for sale	117,955	117,955	131,449	131,449
Loans - Net	722,943	722,300	669,037	670,812
Loans held for sale	723	723	1,877	1,877
Other Investments, at cost	2,958	2,958	3,539	3,539
Mortgage servicing rights	2,011	2,011	1,704	1,704
Cash surrender value of life insurance	19,753	19,753	17,202	17,202
Accrued interest receivable	2,762	2,762	3,103	3,103
Total financial assets:	$ 980,720	$ 980,077	$ 868,850	$ 870,625
Financial liabilities:				
Deposits	$ 869,163	$ 866,814	$ 752,486	$ 751,460
Securities sold under repurchase agreements	43,099	43,978	51,933	51,762
Notes payable	2,820	2,820	3,700	3,700
Accrued interest payable	639	639	843	843
Total financial liabilities:	$ 915,721	$ 914,251	$ 808,962	$ 807,765

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 21 Parent Company Only Financial Statements

Balance Sheets

	December 31	
	2012	2011
	(In thousands)	
Assets		
Cash and cash equivalents	$ 231	$ 176
Investment in Bank	93,370	90,551
Investment in Veritas	3,784	3,977
Premises and equipment, net	1,523	1,910
Other assets	16	10
TOTAL ASSETS	$ 98,924	$ 96,624
Liabilities and Stockholders' Equity		
Notes payable	$ 2,820	$ 3,700
Other liabilities	11	103
Total liabilities	2,831	3,803
Stockholders' equity:		
Common stock	67	67
Additional paid-in capital	2,536	2,451
Retained earnings	93,473	88,831
Treasury stock, at cost	(3,041)	(1,742)
Accumulated other comprehensive income	3,058	3,214
Total stockholders' equity	96,093	92,821
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 98,924	$ 96,624

Statement of Income

	Years Ended December 31		
	2012	2011	2010
	(In thousands)		
Income:			
Dividends received from Bank	$ 7,895	$ 5,578	$ 5,515
Rental income	358	422	265
Equity in undistributed earnings of subsidiaries	2,618	2,918	1,963
Other income	10	-	2
Total income	10,881	8,918	7,745
Other expenses	521	337	313
Provision for income taxes	(60)	34	(18)
Net income	$ 10,420	$ 8,547	$ 7,450

Statement of Cash Flows

	Years Ended December 31,		
	2012	2011	2010
	(In thousands)		
Cash flow from operating activities:			
Net income	$ 10,420	$ 8,547	$ 7,450
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of premises and equipment	63	67	50
Loss from sale and disposal of premises and equipment	39	-	-
Stock compensation	118	-	-
Equity in undistributed earnings of subsidiaries	(2,618)	(2,918)	(1,963)
Changes in other assets and liabilities:			
Other assets	(5)	44	(12)
Other liabilities	(91)	99	(3)
Net cash provided by operating activities	7,926	5,839	5,522
Cash flows from investing activities:			
Sales of premises and equipment	285	-	-
Purchases of premises and equipment	-	(256)	(14)
Contribution to subsidiaries	(165)	-	(4,840)
Net cash provided by (used in) investing activities	120	(256)	(4,854)
Cash flows from financing activities:			
Net (repayments) proceeds of borrowings	(880)	(2,905)	2,405
Cash dividends paid	(5,779)	(2,779)	(2,770)
Issuance of common stock	549	259	-
Repurchase of common stock	(1,881)	(234)	(114)
Net cash used in financing activities	(7,991)	(5,659)	(479)
Net increase (decrease) in cash and cash equivalents	55	(76)	189
Cash and cash equivalents at beginning	176	252	63
Cash and cash equivalents at end	**231**	**176**	**252**
Supplemental schedule of noncash activities:			
Fixed assets received from the Bank	$ -	$ -	$ 925

Note 25 Discontinued Operations

Effective December 31, 2011, the Corporation discontinued its registered investment advisory subsidiary, BFN Asset Management, Inc. 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, Inc. was acquired in 2006. The year-to-date loss for 2011 from operations was approximately $336,000. Gross revenues from the discontinued operation amounted to approximately $245,000 in 2011.

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

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