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# First Menasha Bancshares, Inc.
## 2013 Annual Report

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# Letter from the President

Dear Shareholder:

I am providing a mixed report card for 2013. FNB Fox Valley, our bank, earned $1,365,179 for a return on average assets (ROAA) of .40%. This was off significantly from 2012 where we earned $3,102,392 for an ROAA of .98%. The decrease in earnings was entirely due to a large increase in our loan loss provision. As we have disclosed to you several times now, we encountered a large customer related loan fraud loss in 2013.

On a consolidated basis, First Menasha Bancshares reports net income of $1,211,622 representing earnings of $4.06 per share and a return on equity of 4.31%. For comparison, earnings per share in 2012 were $10.10 and return on equity was 14.24%.

With the bad news out of the way … your bank still made significant strides in 2013 and continued to grow. Total assets increased by 6.7% to $359 Million, loans by 9.5% to $288 million and deposits by 5.5% to $296 million. This growth allowed us to increase our net interest income 10.7% to $12.4 million from $11.2 million in 2012. Non-interest income was down a bit due to a softer mortgage market in the last two thirds of the year. Still, we increased our operating income (defined as pre-tax and pre-loan loss provision) to $5.7 million or almost 10% over 2012. Our core operations remain strong and improving again in 2013.

We funded $4,037,877 into the loan loss reserve in 2013, which covered the fraud loss and strengthened the reserve. We ended the year with a reserve of 1.41% of loans vs. 1.06% in 2012. Asset quality improved as well ending the year with .91% of assets non-performing, a slight improvement from 2012's already low number. The loan portfolio is in very good shape and a strengthened loan loss reserve is in place as well.

We completed a number of key initiatives in 2013 to remain both competitive and relevant in an evolving financial world. We completed an addition to our Neenah headquarters late in the year. With our past growth, anticipated future growth, and increased compliance and regulatory burdens, additional space and human resources are required.

We are committed to keep pace in the digital world and continue to develop competitive and desirable products. In 2013 we implemented online account opening capabilities, rolled out new and improved mobile platforms for all devices, redesigned our website, deployed a gift/reloadable card program and began offering the Kasasa line of reward checking accounts.

What will 2014 and beyond look like for FNB Fox Valley? We continue our commitment to grow loans, deposits, and new customers which will drive increased revenue growth and shareholder value. Sounds simple, right? While our local area is stable, economic growth overall remains tepid. The competitive landscape isn't any easier and regulatory costs are real. Prior growth now provides us with a larger institution and more core momentum. The loan loss hurt in 2013 but we absorbed it, and your bank is fundamentally sound.



Peter J. Prickett
President/CEO

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# Bank Board of Directors and Officers

## Bank Board of Directors

**Chairman of the Board - William A. Raaths**
**Vice Chairman of the Board - Robert D. Coglianese**

**Omar Atassi, M.D.**
**Tim M. Bergstrom**
**Robert D. Bero**
**Hallie A. Detjen**
**Marianne K. Dickson**
**Robert J. Dusenberry**
**Gerald A. Henseler**
**Dustin J. McClone**
**Peter J. Prickett**
**Oliver Pierce Smith**

## Bank Officers

**Peter J. Prickett**
President and Chief Executive Officer

**Michael W. Boettcher**
Senior Vice President and Chief Financial Officer

**Wenda M. Roycraft**
Senior Vice President

**Kathleen M. Blumreich**
Senior Vice President

**Karri A. Bedor**
Vice President and Chief Marketing Officer

**John M. Hintze**
Vice President

**Brian R. Julius**
Vice President

**Timothy J. Vogelsang**
Vice President

**Melissa M. Watzlawick**
Vice President

**Steven R. Barry**
Assistant Vice President

**Chad M. Miller**
Assistant Vice President

**David G. Kruck**
Assistant Vice President

**Drew Bodway**
Assistant Vice President

**Lena A. Kraus**
Assistant Vice President and Controller

**Eben Johnson**
Commercial Banking Officer

**Nancy L. Heling**
Internal Auditor and Compliance Review Officer

**Sarah K. Ziemba**
Human Resources Officer

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# Communities We Serve




## FNB Fox Valley in the Community

In 2013, FNB Fox Valley helped over 97 local organizations, both monetarily and with volunteer hours. Below are a few examples of what "community" means to FNB Fox Valley.


Aves Wildlife Alliance


Habitat Gift Wrappers


Customer Picnic


Seafood Fest Volunteers


St. Elizabeth Hospital



Isle of Valor- Flag Dedication

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WIPFLi LLP

**Independent Auditor's Report**

Board of Directors and Stockholders
First Menasha Bancshares, Inc. and Subsidiaries
Neenah, Wisconsin

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the consolidated balance sheet of First Menasha Bancshares, Inc. and Subsidiaries as of December 31, 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, cash flows for the year then ended, and the related notes to the financial statements; and in our report dated March 21, 2014, we expressed an unmodified opinion on those financial statements.

In our opinion, the information set forth in the accompanying consolidated condensed financial statements as of and for the year ended December 31, 2013, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

Wipfli LLP

Wipfli LLP

March 21, 2014
Appleton, Wisconsin

# First Menasha Bancshares, Inc. and Subsidiaries

## Consolidated Balance Sheet
## Year Ended December 31, 2013

| Assets | 2013 |
|---|---|
| Cash and due from banks | $ 20,059,740 |
| Interest - bearing deposits | 8,136,683 |
| Cash and cash equivalents | 28,196,423 |
| Investment securities available for sale | 30,397,162 |
| Loans, net | 284,370,266 |
| Premises and equipment, net | 4,265,782 |
| Other Investment | 1,548,894 |
| Cash value of life insurance | 7,632,450 |
| Other real estate owned | 284,374 |
| Other assets | 3,093,493 |
| TOTAL ASSETS | $ 359,788,844 |

# First Menasha Bancshares, Inc. and Subsidiaries

## Consolidated Balance Sheet (Continued)
## Year Ended December 31, 2013

| Liabilities and Stockholders' Equity | 2013 |
|---|---|
| Liabilities: | |
| Non-interest-bearing deposits | $ 52,873,391 |
| Interest-bearing deposits | 242,717,009 |
| Total deposits | 295,590,400 |
| Borrowed funds | 24,912,161 |
| Loans payable | 1,427,713 |
| Debentures | 5,155,000 |
| Other liabilities | 1,282,993 |
| Total liabilities | 328,368,267 |
| Stockholders' equity: | |
| Senior noncumulative perpetual preferred stock - Series C | |
| Authorized – 10,000 shares | |
| Issued – 10,000 shares | 10,000,000 |
| Common stock – $0.025 par value | |
| Authorized – 600,000 shares | |
| Issued – 325,273 shares | 8,132 |
| Outstanding – 301,478 shares | |
| Capital surplus | 2,913,635 |
| Retained earnings | 19,747,961 |
| Accumulated other comprehensive income | 178,549 |
| Unearned ESOP shares – 23,795 shares | (1,427,700) |
| Total stockholders' equity | 31,420,577 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 359,788,844 |

# First Menasha Bancshares, Inc. and Subsidiaries

## Consolidated Statement of Income
## Year Ended December 31, 2013

| | 2013 |
|---|---|
| Interest and dividend income: | |
| Loans, including fees | $ 13,669,193 |
| Securities: | |
| Taxable | 203,202 |
| Tax – exempt | 706,938 |
| Dividend income | 40,240 |
| Total interest and dividend income | 14,619,573 |
| Interest expense: | |
| Deposits | 2,121,225 |
| Borrowings | 339,407 |
| Total interest expense | 2,460,632 |
| Net interest income | 12,158,941 |
| Provision for loan losses | 4,037,877 |
| Net interest income after provision for loan losses | 8,121,064 |
| Other income: | |
| Service charges on deposit accounts | 340,027 |
| Loan – origination and administrative fees | 137,639 |
| Mortgage banking activities | 858,262 |
| Fee income | 360,543 |
| Net increase in cash value of life insurance | 249,014 |
| Net gain on sales of other real estate owned | 46,621 |
| Other | 11,434 |
| Total other income | $ 2,003,540 |

# First Menasha Bancshares, Inc. and Subsidiaries

## Consolidated Statement of Income (Continued)
## Year Ended December 31, 2013

| | 2013 |
|---|---|
| Other expenses: | |
| Salaries and related employee benefits | $ 4,776,993 |
| Net occupancy expense | 639,658 |
| Equipment rentals, depreciation, and maintenance | 357,227 |
| Professional fees | 357,475 |
| Examinations and assessment | 342,001 |
| Data processing and telecommunication fees | 591,084 |
| Marketing, sponsorships, and business development | 447,316 |
| Loan collection | 79,360 |
| Other real estate owned | 127,341 |
| Other | 935,494 |
| Total other expenses | 8,653,949 |
| Income before provision for income taxes | 1,470,655 |
| Provision for income taxes | 259,033 |
| Net income | $ 1,211,622 |
| Earnings per common share | $ 4.06 |

# First Menasha Bancshares, Inc. and Subsidiaries

## Consolidated Statement of Comprehensive Income
## Year Ended December 31, 2013

| | | 2013 |
|---|---|---|
| Net income | $ | 1,211,622 |
| Other comprehensive loss – | | |
| Unrealized loss on securities available for sale | | (975,103) |
| Tax effect | | 383,299 |
| Other comprehensive loss | | (591,804) |
| Comprehensive income | $ | 619,818 |

# First Menasha Bancshares, Inc. and Subsidiaries

## Consolidated Statement of Stockholders' Equity
## Year Ended December 31, 2013

| | Preferred Stock | Common Stock | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive Income | Unearned ESOP Shares | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2013 | $10,000,000 | $8,114 | $2,783,930 | $18,948,615 | $770,353 | $(1,599,000) | $30,912,012 |
| Issuance of 703 shares of common stock for employee incentive plan | | 18 | 60,634 | | | | 60,652 |
| Net income | | | | 1,211,622 | | | 1,211,622 |
| Dividends paid | | | | (412,276) | | | (412,276) |
| Other comprehensive loss | | | | | (591,804) | | (591,804) |
| ESOP shares released | | | 69,071 | | | 171,300 | 240,371 |
| Balance at December 31, 2013 | $10,000,000 | $8,132 | $2,913,635 | $19,747,961 | $1,362,157 | $(1,427,700) | $31,420,577 |

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# First Menasha Bancshares, Inc. and Subsidiaries

## Consolidated Statement of Cash Flows
## Year Ended December 31, 2013

| | 2013 |
|---|---|
| Increase (decrease) in cash and cash equivalents: | |
| Cash flows from operating activities: | |
| Net income | $ 1,211,622 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation and net amortization | 307,148 |
| Provision for loan losses | 4,037,877 |
| ESOP compensation expense | 240,371 |
| Net amortization of security premiums | 178,669 |
| Loss on disposal of equipment | 1,248 |
| Net gain on sale of other real estate owned | (46,621) |
| Credit for deferred taxes | (185,860) |
| Increase in cash value of life insurance | (249,014) |
| Changes in operating assets and liabilities: | |
| Other assets | 1,504,988 |
| Other liabilities | (922,897) |
| Total adjustments | 4,865,909 |
| Net cash provided by operating activites | 6,077,531 |
| Cash flows from investing activities: | |
| Proceeds from maturities of securities available for sale | 10,578,702 |
| Purchase of securities available for sale | (5,430,111) |
| Purchase of Federal Reserve Bank Stock | (1,150) |
| Net increase in loans | (27,927,492) |
| Capital expenditures | (1,653,343) |
| Proceeds from sales of other real estate owned | 246,319 |
| Net cash used in investing activities | $ (24,187,075) |

# First Menasha Bancshares, Inc. and Subsidiaries

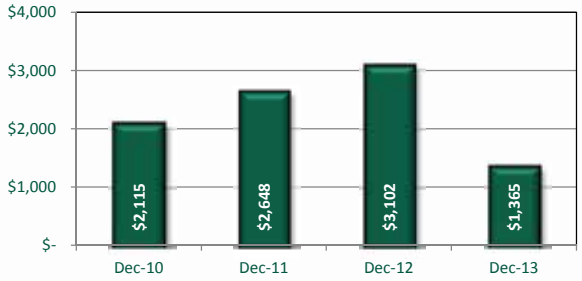
## Consolidated Statement of Cash Flows (Continued)
Year Ended December 31, 2013

| | 2013 |
|---|---|
| Cash flows from financing activities: | |
| Net increase in deposits | $ 15,607,781 |
| Net decrease in short – term borrowings | (5,000,000) |
| Proceeds from borrowed funds | 13,500,000 |
| Principal payments on borrowed funds | (1,756,594) |
| Dividends paid | (412,276) |
| Net cash provided by financing activities | 21,938,911 |
| Net increase in cash and cash equivalents | 3,829,367 |
| Cash and cash equivalents at beginning | 24,367,056 |
| Cash and cash equivalents at end | $ 28,196,423 |
| Supplemental cash flow information: | |
| Cash paid during the year for: | |
| Income taxes | $ 1,090,000 |
| Interest | 2,584,869 |
| Noncash investing and financing activities: | |
| Loans transferred to other real estate | $ 125,798 |
| Capital expenditures included in other liabilities | 818,549 |

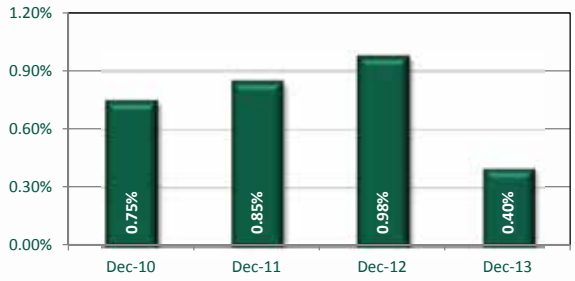
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# FINANCIAL HIGHLIGHTS

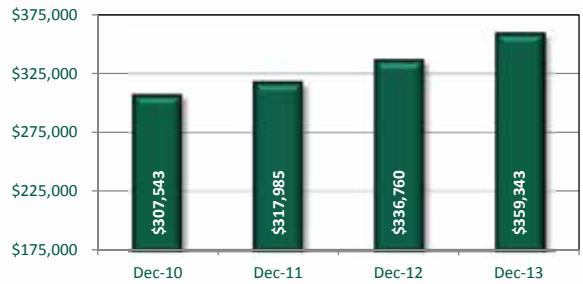
## Net Income (000)



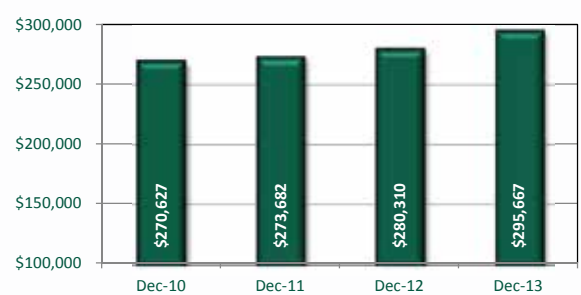

## Return on Assets (%)



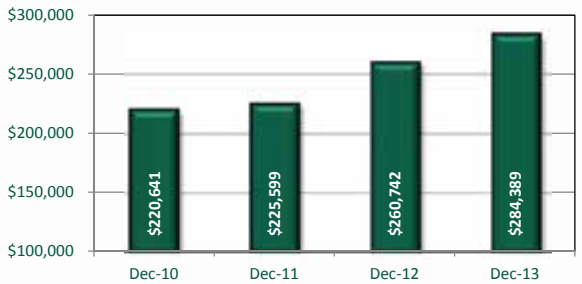

## Total Assets (000)



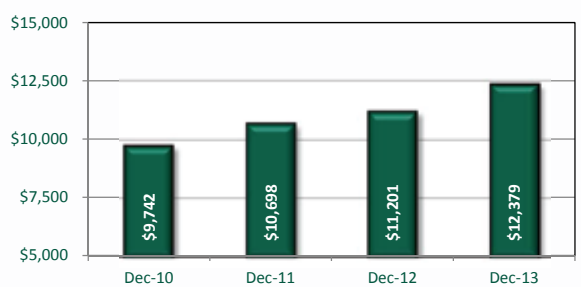

## Total Deposits (000)



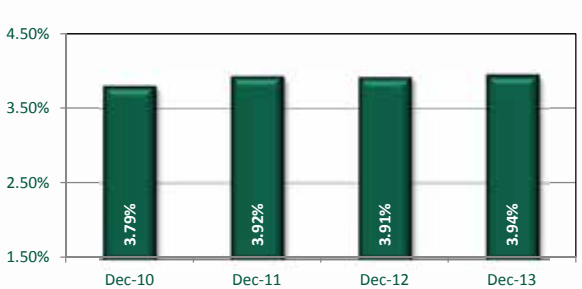

## Net Loans (000)



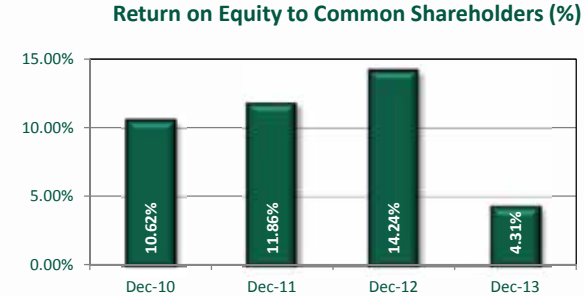

## Net Interest Margin (000)




## Net Interest Margin (%)




## First Menasha Bancshares, Inc. Return on Equity to Common Shareholders (%)



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# FIRST NATIONAL BANK - FOX VALLEY
# STATEMENTS OF CONDITION

| | December 31, 2013 | 2012 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $ 28,196,423 | $ 24,468,967 |
| Investment securities available for sale stated at fair value | 30,397,162 | 34,887,745 |
| Other investments | 1,548,894 | 3,296,744 |
| Loans - Net | 284,389,452 | 260,742,344 |
| Premises and equipment - Net | 4,265,782 | 2,099,786 |
| FDIC prepaid assessment | - | 1,208,615 |
| Other assets | 10,545,567 | 10,055,738 |
| TOTAL ASSETS | $ 359,343,280 | $ 336,759,939 |
| LIABILITIES AND STOCKHOLDER EQUITY | | |
| Liabilities | | |
| Deposits | | |
| Non-interest-bearing deposits | $ 52,891,815 | $ 49,807,636 |
| Interest-bearing deposits | 242,775,042 | 230,502,683 |
| Total deposits | 295,666,857 | 280,310,319 |
| Borrowed funds | 24,912,161 | 17,888,935 |
| Other liabilities | 1,156,476 | 1,215,341 |
| Total liabilities | 321,735,494 | 299,414,595 |
| Stockholder equity | | |
| Equity capital | | |
| Common stock, $5.00 par value per share Authorized and outstanding 100,000 shares | 500,000 | 500,000 |
| Surplus | 16,822,623 | 16,751,763 |
| Undivided profits | 20,106,613 | 19,323,229 |
| Accumulated other comprehensive income | 178,550 | 770,352 |
| Total stockholder equity | 37,607,786 | 37,345,344 |
| TOTAL LIABILITIES AND STOCKHOLDER EQUITY | $ 359,343,280 | $ 336,759,939 |

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# FIRST NATIONAL BANK- FOX VALLEY
# STATEMENTS OF EARNINGS

| | December 31, 2013 | 2012 |
|---|---|---|
| INTEREST AND DIVIDEND INCOME | | |
| Interest and fees on loans | $ 13,669,193 | $ 12,781,903 |
| Interest and dividends on investments | | |
| Taxable | 204,737 | 321,614 |
| Tax-exempt | 706,938 | 723,760 |
| Other interest and dividend income | 33,883 | 32,414 |
| Total interest and dividend income | 14,614,751 | 13,859,691 |
| INTEREST EXPENSE | | |
| Deposits | 2,121,224 | 2,363,364 |
| Borrowed funds | 80,866 | 295,453 |
| Total interest expense | 2,202,090 | 2,658,817 |
| NET INTEREST INCOME | 12,412,661 | 11,200,874 |
| Provision for loan losses | 4,037,877 | 825,000 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 8,374,784 | 10,375,874 |
| OTHER INCOME | | |
| Gain on sale of loans | 443,189 | 997,432 |
| Loan fees | 730,650 | 854,824 |
| Service charges on deposit accounts | 340,027 | 313,247 |
| Other service charges, exchange and fees | 182,633 | 161,655 |
| Gain on sale of other real estate owned | 69,789 | 203,643 |
| All other income | 260,448 | 241,924 |
| Total other income | 2,026,736 | 2,772,725 |
| OTHER EXPENSES | | |
| Salaries, wages, and benefits | 4,776,993 | 4,690,000 |
| FDIC insurance assessment | 238,826 | 230,000 |
| Occupancy expense - Net | 639,658 | 595,868 |
| Computer expense | 574,443 | 454,312 |
| Furniture and equipment - Net | 357,227 | 314,527 |
| Professional fees | 424,901 | 490,740 |
| Advertising and promotion | 188,698 | 194,951 |
| All other operating expenses | 1,452,833 | 1,370,929 |
| Loss on sale of other real estate owned | 23,168 | 130,892 |
| FHLB prepayment fee | - | 232,321 |
| Total other expenses | 8,676,747 | 8,704,540 |
| Income before income taxes | 1,724,773 | 4,444,059 |
| Provision for income taxes | 359,594 | 1,341,667 |
| NET INCOME | $ 1,365,179 | $ 3,102,392 |

# FIRST NATIONAL BANK - FOX VALLEY
# ANALYSIS OF ALLOWANCE FOR LOAN LOSSES

| | December 31, 2013 | 2012 |
|---|---|---|
| Balance - beginning of year | $ 2,805,419 | $ 2,761,285 |
| Charge-offs | | |
| Commercial loans | 2,071,662 | 677,216 |
| Real estate loans | 823,412 | 39,367 |
| Installment loans | 4,081 | 34,479 |
| Credit cards and related plans | 2,022 | 4,030 |
| Consumer accounts | 6,290 | 66,232 |
| Total charge-offs | 2,907,467 | 821,324 |
| Recoveries | | |
| Commercial loans | 1,854 | 30,667 |
| Real estate loans | 102,860 | - |
| Installment loans | 4,026 | 9,791 |
| Consumer accounts | 18,010 | - |
| Total recoveries | 126,750 | 40,458 |
| Net charge-offs | 2,780,717 | 780,866 |
| Provision charged to operations | 4,037,877 | 825,000 |
| Balance - end of year | $ 4,062,579 | $ 2,805,419 |
| Ratio of net charge-offs during the year to average loans outstanding | 1.00% | 0.32% |
| Ratio of allowance for credit losses to total loans at year-end | 1.41% | 1.06% |

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**Neenah Corporate Office/Branch**
550 S. Green Bay Road Neenah, WI 54956

**Appleton Branch**
3111A E. Calumet Street Appleton, WI 54915

**Menasha Branch**
320 Racine Street Menasha, WI 54952

**Oshkosh Branch**
400 N. Koeller Street Oshkosh, WI 54902

**www.fnbfoxvalley.com | 920.729.6900**

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