

2015 Annual Report

FNB FOX VALLEY

First Menasha Bancshares, Inc.

Letter from the President



Peter J. Prickett - President

On behalf of all our stakeholders, I am proud to report that 2015 was a record year in terms of financial performance and continued growth. First Menasha Bancshares, Inc. earned $3,763,399, a 33% increase over the $2,820,225 the Company earned in 2014. Some financial highlights were as follows:

- Earnings per common share were $6.33 in 2015. In 2014 we earned $8.35 per share. The decrease is reflective of our early 2015 capital raise. We raised $17 million in new capital by issuing 268,000 shares.
- At the Bank level, earnings were $3.9 million, a 29% increase over 2014.
- Net interest income increased 13% to $14.8 million compared to $13.1 million in 2014.
- Non-interest income was up 44% year over year due to strong mortgage originations and other fee income sources.
- Year over year loans grew 9% to $357 million (net). Deposits were up 7% to $362 million.
- Total assets were $459 million at year end 2015 compared to $420 million a year ago.
- Non-performing assets (including restructured loans) stood at .83% on December 31, 2015 and the allowance was 1.00% of loans. Net charge-offs were .05% of loans.
- Our efficiency ratio improved to 62.49%, down from 65.62% in 2014.
- Return on Equity was 8.52%, less than the 12.26% in 2014 but again, reflective of the additional capital.

I am also pleased to report the Board of Directors has approved a cash dividend of 35 cents per share payable April 15, 2016 with the intention to pay at this level in future quarters. This is a significant increase from our previous 20 cent dividend paid semi-annually.

Before I go on to provide additional insight on the year and the outlook for the Company, I want to inform you of a change in our capital structure. On February 26, 2016, we redeemed the $10 million preferred stock issued to the U. S. Treasury in 2011 in conjunction with our participation in the Small Business Lending Fund. Yes, it has been five years already. We had been paying the lowest dividend rate available (1%) on this capital for the majority of this time and leveraged this inexpensive capital into $70 million of new small business loans. These new loans have and will continue to generate millions in net income thereby enhancing shareholder value and return. A government program that actually worked!

The SBLF has enhanced our overall ability to grow the last several years. We ended 2015 at $459 million in assets. We are the **largest** community bank in our market and the 9th largest financial institution overall as measured by deposit market share. Our market is a bit unique with its heavy credit union orientation. Five of the top ten, and three of the top five largest institutions are credit unions. Three credit unions are over $1 billion in assets while only one bank (BMO) is in the $1 billion class.

Our asset growth fueled the gain in net-interest income. We had nice growth in commercial loans and mortgages that we hold in portfolio along with an increase in the investment portfolio. Competition for quality loans remains fierce and so the yield on assets decreased. We were able to drop our funding costs thereby overall holding our margin in the year.

The large increase in non-interest income came from increased origination fees from some commercial loans but mostly from strong residential mortgage originations. The local housing market has (finally) rebounded. The mortgage business is one of our core strategies. We are the largest mortgage originator of the local community banks and the only community bank in the top ten of all financial institution originators. We sell about 70% of our loans into the secondary market, generating fee income. We also offer nontraditional loans, primarily jumbo mortgages, which we hold in portfolio. These larger portfolio loans usually come with significant deposits.

In 2016 we would like to add bankers in both the commercial and mortgage areas to generate even more originations. We are strong in both areas and have the back office resources to handle a larger portfolio. Let's continue to do more of what we do well.

Letter from the President

Our challenge to asset growth remains in obtaining the funding. In 2015 we grew deposits 7%, not quite keeping up with our asset growth. Ideally, a bank would like to fund by obtaining local "core" deposits. Investors, analysts and regulators like this funding and generally it is low cost, stable funding. Each year we grow the numbers of these accounts yet the balances can't quite keep up with our loan growth. We remain challenged by the heavy credit union presence and their distinct advantages. We will continue to develop and implement strategies to grow core deposits. Fortunately, the world is awash in liquidity and we are able tap many sources of cost effective funding. However, the regulators watch this non-core funding and we must manage accordingly.

Our efficiency ratio improved in 2015 as we continue to grow into the infrastructure we had built in prior years. In 2013, we added space to and remodeled our Neenah headquarters, and in late 2014 opened our fifth branch in north Appleton. Cost pressures remain as new resources and staff are required to keep up with the regulatory burden.

We continue to invest in technology to stay abreast with customer demands for digital services. We have top notch treasury management tools for our commercial and public funds customers and in 2015 upgraded several of our technology tools like mobile banking. More upgrades will occur in 2016, especially in the retail branches to drive more efficiencies and customer convenience. Despite a decrease in transactional activity, branches remain important for new account and loan acquisition.

We raised the new capital in early 2015 to support not only our organic growth but perhaps to fund a bank or branch acquisition. We looked at several opportunities but nothing materialized. Early 2016, Wisconsin has seen increased merger and acquisition activity and we expect that to continue. We will stay close to the action. We have said for years that being a larger bank generally means a more valuable bank. Growing organically and by acquisition remain core strategies.

The local economy has been remarkably strong, especially in the present housing market as I had mentioned. Obviously, economic activity in part affects growth and credit quality. And the U. S. economy has held up surprisingly well despite international softness and weak oil prices. Unfortunately, the December rate increase has not to this point provided banks with any margin opportunities. Quite the opposite, the yield curve is even flatter now. This type of market tends to compress net interest margins for banks. On the whole, if the economy holds up we can find opportunities for growth that can overcome the challenges.

We will continue to execute on what we do best and try to keep it simple in this complicated industry. Keep landing commercial banking relationships, leverage our mortgage infrastructure and grow our deposit base. Perhaps we will be fortunate enough to find an additive acquisition as well.

Again, 2015 was a very nice year for your Company. Of course, it doesn't happen without the great employees we have along with the support of shareholders, customers and the community. I thank all of you.

We will again hold our annual meeting at the Bridgewood Resort and Conference Center, 1000 Cameron Way in Neenah, WI on April 25th, 2016. I invite you to join us to get acquainted and discuss our bank's future.

Sincerely,



Peter J. Prickett

Bank Board of Directors & Officers

Bank Board of Directors

Robert D. Coglianese
Chairman
Dustin J. McClone
Vice Chairman
Peter J. Prickett
FNB Fox Valley President & CEO
Omar Atassi, M.D.
Anna Belyaev
Hallie A. Detjen
Marianne K. Dickson
Robert J. Dusenberry
Brian Hopkins
Frederick W. Merizon (Jan. 2016)
William A. Raaths
Oliver Pierce Smith

Bank Officers

Peter J. Prickett
Presidient & CEO
Michael W. Boettcher
SVP - CFO
Kathy M. Blumreich
SVP - Treasury Management
Michael Sullivan
SVP - Operations & Retail Banking
Tim Vogelsang
SVP - Commercial Banking
Karri Bedor
VP- Chief Marketing Officer
John Hintze
VP - Commercial Banking
Brian Julius
VP- Mortgage Sales Manager
Steven R. Barry
AVP - Commercial Banking
Drew Bodway
AVP - Mortgage Banking
Todd Brokl
AVP - Commercial Banking
Lena Kraus
AVP - Controller
David G. Kruck
AVP - Commercial Banking
Chad Miller
AVP - Mortgage Banking
JoAnn Burgett
Sr. Relationship Banking Officer
Nancy Heling
Internal Audit & Compliance Review
Melissa Hietpas
Sr. Relationship Banking Officer
Holly Muggenthaler
Sr. Relationship Banking Officer
Dominic Renteria
Regional Branch Manager
Barry Wood
Mortgage Banking Officer
Sarah Ziemba
Human Resources Officer



The community we live in **can thrive** only **if we support it.**

106 LOCAL ORGANIZATIONS RECEIVED SPONSORSHIP DONATIONS

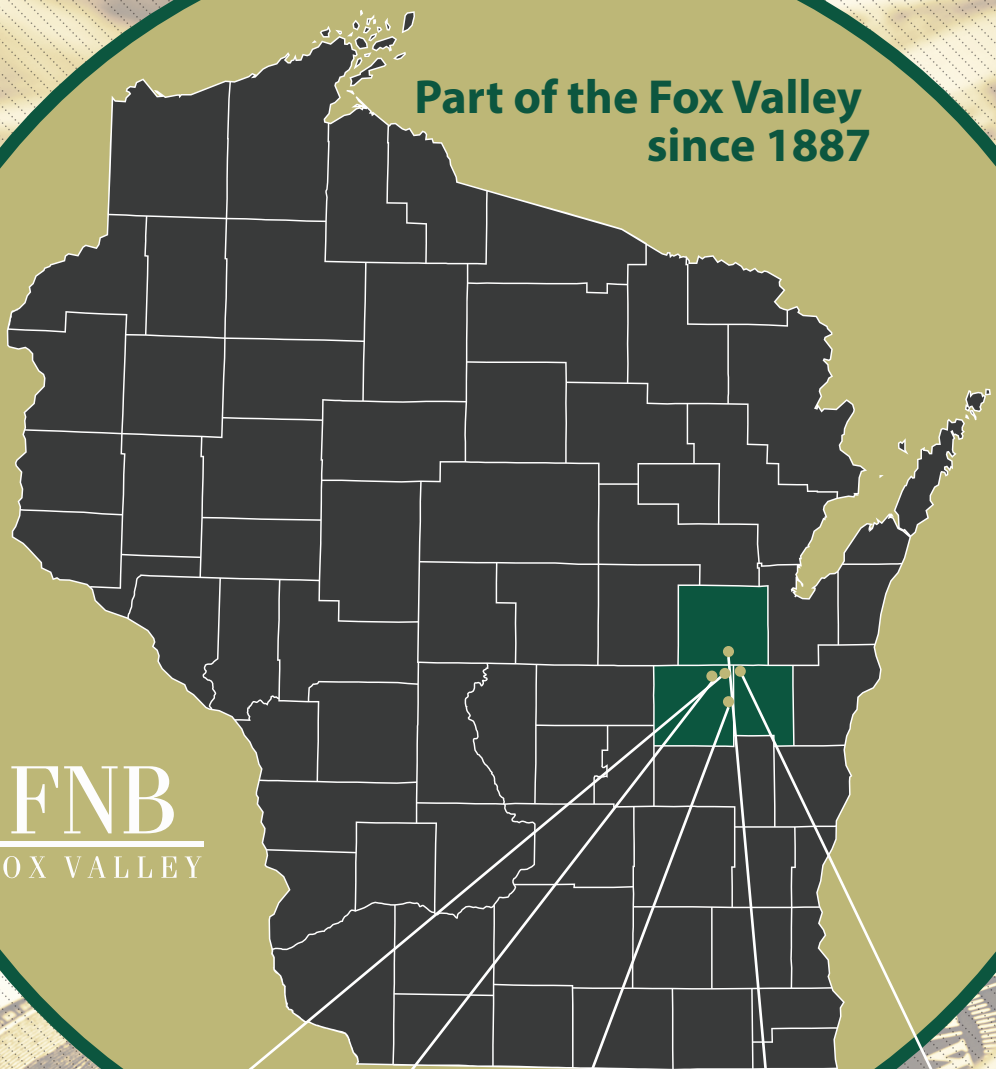
2,682 VOLUNTEER HOURS LOGGED BY BANK EMPLOYEES

BEYOND THE DOLLAR $IGN

Each employee receives 40 hours of paid volunteer time each year to give back to the community.



Commmunities We Serve



Menasha
Est. 1887

Neenah
Est. 1992

Oshkosh
Est. 1999

Appleton
East
Est. 2003

Appleton
North
Est. 2014

Independent Auditor's Report

Independent Auditor's Report

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

The accompanying consolidated condensed financial statements, which comprise the consolidated balance sheets of First Menasha Bancshares, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, are derived from the audited consolidated financial statements of First Menasha Bancshares, Inc. and Subsidiaries as of and for the years ended December 31, 2015 and 2014. We expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 18, 2016.

The information set forth in the accompanying consolidated condensed financial statements do not contain all the disclosures required by accounting principles generally accepted in the United States and are, therefore, not a substitute for reading the audited financial statements. The responsibilities of management and the auditor are included in the audited financial statements.

In our opinion, the information set forth in the accompanying consolidated condensed financial statements as of and for the years ended December 31, 2015 and 2014, are consistent, in all material respects, with the audited consolidated financial statements from which they have been derived.

Wipfli LLP

Wipfli LLP

March 18, 2016
Appleton, Wisconsin

Financial Statements

First Menasha Bancshares, Inc. and Subsidiaries

Consolidated Balance Sheets
For the Years Ended December 31, 2015 and 2014

Assets	2015	2014
Cash and due from banks	$ 40,360,088	$ 28,143,005
Interest - bearing deposits	10,940,625	16,601,402
Cash and cash equivalents	51,300,713	44,744,407
Securities available for sale	33,001,285	28,877,613
Loans, net	357,653,345	329,193,445
Premises and equipment, net	4,631,749	4,685,328
Other investments	1,959,596	1,550,994
Cash value of life insurance	8,134,724	7,882,619
Other real estate owned	106,270	312,274
Other assets	3,082,692	2,974,705
TOTAL ASSETS	$ 459,870,374	$ 420,221,385

Financial Statements

First Menasha Bancshares, Inc. and Subsidiaries

Consolidated Balance Sheets (Continued)
For the Years Ended December 31, 2015 and 2014

Liabilities and Stockholders' Equity	2015	2014
Liabilities:		
Non-interest-bearing deposits	$ 74,579,777	$ 56,074,218
Interest-bearing deposits	287,513,559	291,559,949
Total deposits	362,093,336	347,634,167
Borrowed funds	34,394,912	29,420,850
Loans payable	1,651,192	1,189,915
Debentures	5,110,073	5,107,572
Other liabilities	1,736,757	2,317,610
Total liabilities	404,986,270	385,670,114
Stockholders' equity:		
Senior noncumulative perpetual preferred stock - Series C		
Authorized – 10,000 shares		
Issued – 10,000 shares	10,000,000	10,000,000
Common stock – $0.025 par value		
Authorized – 900,000 shares 2015; 600,000 shares 2014		
Issued – 594,375 shares December 31, 2015	14,859	8,148
325,917 shares December 31, 2014		
Outstanding – 568,297 shares December 31, 2015		
306,085 shares December 31, 2014		
Capital surplus	20,422,465	3,031,614
Retained earnings	25,781,801	22,345,630
Accumulated other comprehensive income	316,159	355,799
Unearned ESOP shares – 26,078 shares December 31, 2015	(1,651,180)	(1,189,920)
19,832 shares December 31, 2014		
Total stockholders' equity	54,884,104	34,551,271
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 459,870,374	$ 420,221,385

Financial Statements

First Menasha Bancshares, Inc. and Subsidiaries

Consolidated Statements of Income
For the Years Ended December 31, 2015 and 2014

	2015	2014
Interest and dividend income:		
Loans, including fees	$ 15,936,393	$ 14,304,098
Securities:		
Taxable	206,792	173,319
Tax – exempt	619,719	686,668
Dividend income	53,660	41,339
Total interest and dividend income	16,816,564	15,205,424
Interest expense:		
Deposits	1,570,123	1,758,356
Borrowings	465,116	356,895
Total interest expense	2,035,239	2,115,251
Net interest income	14,781,325	13,090,173
Provision for loan losses	225,000	300,000
Net interest income after provision for loan losses	14,556,325	12,790,173
Other income:		
Service charges on deposit accounts	366,522	352,676
Loan origination and administrative fees	148,938	133,224
Mortgage banking activities	852,524	301,654
Fee income	474,697	362,773
Net increase in cash value of life insurance	252,105	250,169
Other	26,833	73,296
Total other income	$ 2,121,619	$ 1,473,792

Financial Statements

First Menasha Bancshares, Inc. and Subsidiaries

Consolidated Statements of Income (Continued)
For the Years Ended December 31, 2015 and 2014

	2015	2014
Other expenses:		
Salaries and related employee benefits	$ 5,825,871	$ 5,482,199
Net occupancy expense	1,003,333	824,706
Equipment rentals, depreciation, and maintenance	740,682	474,155
Professional fees	587,881	579,085
Examinations and assessments	355,004	354,505
Data processing and telecommunication fees	852,421	675,737
Marketing, sponsorships, and business development	529,515	626,932
Loan collection	48,372	90,712
Other real estate owned, net	36,281	51,534
Other	1,007,463	964,996
Total other expenses	10,986,823	10,124,561
Income before provision for income taxes	5,691,121	4,139,404
Provision for income taxes	1,927,722	1,319,179
Net income	$ 3,763,399	$ 2,820,225
Dividend on preferred stock - Series C	100,000	100,000
Net income available to common shareholders	$ 3,663,399	$ 2,720,225
Earnings per common share - basic and diluted	$ 6.33	$ 8.35

Financial Statements

First Menasha Bancshares, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2015 and 2014

	2015	2014
Net income	$ 3,763,399	$ 2,820,225
Other comprehensive income (loss) – Unrealized gain/(loss) on securities available for sale	(66,067)	295,445
Tax effect	26,427	(118,195)
Other comprehensive income (loss)	(39,640)	177,250
Comprehensive income	$ 3,723,759	$ 2,997,475

Financial Statements

First Menasha Bancshares, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2015 and 2014

	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Unearned ESOP Shares	Total Stockholders' Equity
Balance at January 1, 2014	$ 10,000,000	$ 8,132	$ 2,913,635	$ 19,747,961	$ 178,549	$ (1,427,700)	$ 31,420,577
Issuance of 644 shares of common stock for employee incentive plan		16	44,476				44,492
Net income				2,820,225			2,820,225
Dividends paid - common shares				(130,489)			(130,489)
Dividends paid - preferred shares				(100,000)			(100,000)
Other comprehensive income					177,250		177,250
Release of 3,963 shares of common stock to ESOP			73,503	7,933		237,780	319,216
Balance at December 31, 2014	$ 10,000,000	$ 8,148	$ 3,031,614	$ 22,345,630	$ 355,799	$ (1,189,920)	$ 34,551,271
Issuance of 268,000 shares of common stock under stock offering		6,700	17,287,608				17,294,308
Issuance of 458 shares of common stock for employee incentive plan		11	31,461				31,472
Purchase of 10,000 shares in ESOP						(686,500)	(686,500)
Net income				3,763,399			3,763,399
Dividends paid - common shares				(237,659)			(237,659)
Dividends paid - preferred shares				(100,000)			(100,000)
Other comprehensive loss					(39,640)		(39,640)
Release of 3,754 shares of common stock to ESOP			71,782	10,431		225,240	307,453
Balance at December 31, 2015	$ 10,000,000	$ 14,859	$ 20,422,465	$ 25,781,801	$ 316,159	$ (1,651,180)	$ 54,884,104

Financial Statements

First Menasha Bancshares, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

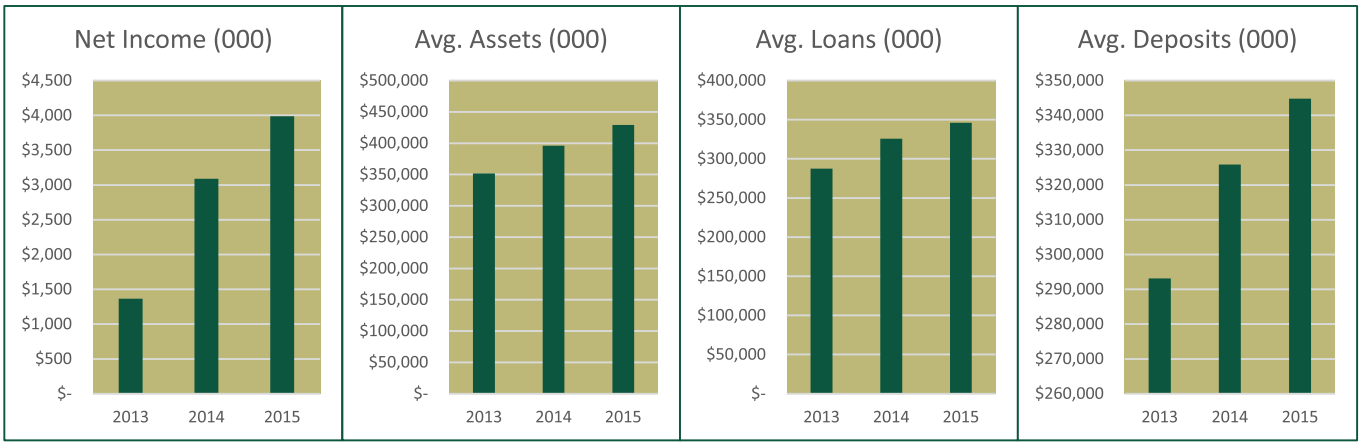
	2015	2014
Cash flows from operating activities:		
Net income	$ 3,763,399	$ 2,820,225
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and net amortization	510,575	430,263
Provision for loan losses	225,000	300,000
ESOP compensation expense	307,453	319,216
Net amortization of securities premiums	205,768	127,382
Loss on disposal of fixed assets	-	16,645
Net loss on sale of other real estate owned	3,050	-
(Credit) provision for deferred taxes	(129,422)	516,682
Increase in cash value of life insurance	(252,105)	(250,169)
Changes in operating assets and liabilities:		
Other assets	91,294	687,513
Other liabilities	(419,959)	(195,207)
Total adjustments	541,654	1,952,325
Net cash provided by operating activites	4,305,053	4,772,550
Cash flows from investing activities:		
Proceeds from maturities of securities available for sale	13,285,376	3,889,032
Purchase of securities available for sale	(17,675,633)	(2,201,448)
Purchase of other investments	(408,602)	(2,100)
Net increase in loans	(28,684,900)	(45,151,079)
Premises and equipment expenditures	(454,495)	(845,690)
Proceeds on sale of equipment	-	2,550
Proceeds from sales of other real estate owned	24,850	-
Net cash used in investing activities	$ (33,913,404)	$ (44,308,735)

First Menasha Bancshares, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
For the Years Ended December 31, 2015 and 2014

Cash flows from financing activities:		
Net increase in deposits	$ 14,459,169	$ 52,043,767
Proceeds from borrowed funds and loans payable	20,686,500	12,000,000
Principal payments on borrowed funds and loans payable	(15,251,161)	(7,729,109)
Purchase of ESOP Shares	(686,500)	-
Net proceeds from common stock issuances	17,294,308	-
Dividends paid	(337,659)	(230,489)
Net cash provided by financing activities	36,164,657	56,084,169
Net increase in cash and cash equivalents	6,556,306	16,547,984
Cash and cash equivalents at beginning	44,744,407	28,196,423
Cash and cash equivalents at end	$ 51,300,713	$ 44,744,407
Supplemental cash flow information:		
Cash paid during the year for:		
Income taxes	$ 1,818,780	$ 285,000
Interest	2,052,160	2,156,236
Noncash investing and financing activities:		
Loans transferred to other real estate owned	$ -	$ 27,900
Loans transferred to other assets	178,104	
Premises and equipment expenditures included in other liabilities	-	20,814

FNB Fox Valley Financial Highlights



FNB Fox Valley Highlights (Bank Only)

Annual Averages	2015 (000)	2014 (000)	2013 (000)
Assets	$ 429,287	$ 396,034	$ 351,537
Loans	$ 345,944	$ 325,782	$ 287,464
Deposits	$ 344,812	$ 325,864	$ 293,098

Period End			
Net interest income	$ 15,126	$ 13,263	$ 12,347
Non-interest income	$ 2,068	$ 1,519	$ 2,092
Non-interest expense	$ 10,856	$ 9,898	$ 8,677
Net Income	$ 3,987	$ 3,090	$ 1,365

Performance Ratios			
Net interest margin	3.96%	3.97%	3.99%
Return on average assets	0.93%	0.84%	0.40%
Nonperforming assets/total assets	0.18%	0.26%	0.78%
Allowance for loan losses/loans	1.00%	1.08%	1.13%
Tier 1 Capital to Risk Weighted Assets	16.11%	13.77%	14.98%

FNB
FOX VALLEY

VISION

Lead the Fox Valley in Community Banking by delivering innovative products, services and superior customer experiences from passionate employees dedicated to the communities we serve.

MISSION

Empowering employees to deliver a superior experience.

CORE VALUES

Employees | Customers | Community



FNB
FOX VALLEY

920.729.6900 | FNBFoxValley.com

BRANCH LOCATIONS

835 W. Northland Ave.
Appleton, WI 54914

3111A E. Calumet St.
Appleton, WI 54915

320 Racine St.
Menasha, WI 54952

550 S. Green Bay Rd.
Neenah, WI 54956

400 N. Koeller St.
Oshkosh, WI 54902

EQUAL HOUSING LENDER
Member FDIC