



Choice Bank

Oshkosh, Wisconsin

Financial Statements

Years Ended December 31, 2010 and 2009

Choice Bank

Financial Statements

Years Ended December 31, 2010 and 2009

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Choice Bank
Oshkosh, Wisconsin

We have audited the accompanying balance sheets of Choice Bank as of December 31, 2010 and 2009, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. The Bank is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included considerations of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Choice Bank at December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States.

A handwritten signature in cursive script that reads "Wipfli LLP".

Wipfli LLP

March 28, 2011
Green Bay, Wisconsin

Choice Bank

Balance Sheets

December 31, 2010 and 2009

Balance Sheet

December 31, 2010 and 2009

<i>Assets</i>	2010	2009
Cash and due from banks	\$ 2,653,935	\$ 941,962
Federal funds sold	6,438,000	521,000
Cash and cash equivalents	9,091,935	1,462,962
Interest-bearing deposits in banks	0	0
Securities available for sale	11,762,431	5,521,099
Loans held for sale	638,131	1,422,733
Loans, net	137,187,579	103,096,134
Premises and equipment, net	1,598,681	1,729,539
Other real estate owned	1,892,200	3,304,761
Deferred tax asset	0	2,727,045
Other assets	1,526,917	1,543,209
TOTAL ASSETS	\$ 163,697,874	\$ 120,807,482
<i>Liabilities and Stockholders' Equity</i>		
Liabilities:		
Non-interest bearing deposits	\$ 6,730,342	\$ 5,057,864
Interest bearing deposits	144,088,554	97,995,367
Total deposits	150,818,896	103,053,231
Other liabilities	623,533	365,575
Total Liabilities	151,442,429	103,418,806
Stockholders' equity:		
Common Stock - \$1 par value:		
Authorized - 3,177,000 shares		
Issued and outstanding - 2,160,620 shares	2,160,620	2,160,620
Additional paid-in capital	20,441,866	20,430,838
Accumulated deficit	(10,534,452)	(5,451,796)
Accumulated other comprehensive income (loss)	187,411	249,014
Total stockholders' equity	12,255,445	17,388,676
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 163,697,874	\$ 120,807,482

See accompanying notes to financial statements.

Choice Bank

Statements of Operations

Years Ended December 31, 2010 and 2009

	2010	2009
Interest and dividend income:		
Loans, including fees	\$ 6,942,878	\$ 5,933,376
Securities -Taxable	322,504	299,373
Federal funds sold	5,680	1,999
Total interest and dividend income	7,271,062	6,234,748
Interest expense:		
Deposits	2,409,667	2,684,003
Borrowed funds	972	3,329
Total interest expense	2,410,639	2,687,332
Net interest income	4,860,423	3,547,416
Provison for loan losses	2,590,000	5,500,572
Net interest income, after provision for loan losses	2,270,423	(1,953,156)
Non-interest income:		
Service fees	237,917	296,336
Secondary market fees	309,904	137,512
Rental Income	367,228	255,580
Total non-interest income	915,049	689,428
Non-interest expense:		
Salaries and employee benefits	2,037,366	1,539,648
Occupancy and equipment	398,584	355,482
Data processing	197,939	182,074
Professional services	480,750	339,942
Marketing	102,409	97,502
Other real estate write-down	1,544,855	405,000
Other	692,125	532,600
Total non-interest expenses	5,454,028	3,452,248
Loss before income taxes	(2,268,556)	(4,715,976)
Provision (credit) for income taxes	2,814,100	(1,866,100)
Net loss	\$ (5,082,656)	\$ (2,849,876)
Earnings (loss) per share - basic and diluted	\$ (2.35)	\$ (1.32)

See accompanying notes to financial statements.

Choice Bank

Statements of Stockholders' Equity Years Ended December 31, 2010 and 2009

	Common Stock Shares	Common Stock Amount	Additional Paid- In-Capital- Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at January 1, 2009	2,160,620	\$2,160,620	\$20,397,138	\$ (2,601,920)	\$ 150,000	\$ 20,105,838
Comprehensive loss:						
Net loss				(2,849,876)		(2,849,876)
Unrealized gains on securities available for sale, Net of tax					99,014	99,014
Total comprehensive income						(2,750,862)
Options and warrants compensation expense			33,700			33,700
Balance at December 31, 2009	2,160,620	2,160,620	20,430,838	(5,451,796)	249,014	17,388,676
Comprehensive income:						
Net loss				(5,082,656)		(5,082,656)
Unrealized gains on securities available for sale, Net of tax					(61,603)	(61,603)
Total comprehensive loss						(5,144,259)
Options and warrants compensation expense			11,028			11,028
Balance at December 31, 2010	2,160,620	\$2,160,620	\$20,441,866	\$(10,534,452)	\$ 187,411	\$ 12,255,445

See accompanying notes to financial statements.

Choice Bank

Statements of Cash Flows Years Ended December 31, 2010 and 2009

	2010	2009
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities		
Net income (loss)	\$ (5,082,656)	\$ (2,849,876)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation of premises and equipment	155,355	162,330
Provision for loan losses	2,590,000	5,500,572
Valuation allowance on other real estate	1,544,855	405,000
Compensation expense for options	11,028	33,700
Net amortization (accretion) of securities	18,288	(11,749)
Credit (charge) for deferred taxes	2,814,100	(1,866,100)
Changes in operating assets and liabilities :		
Loans held for sale	784,602	(1,176,389)
Other assets	16,292	(449,831)
Other liabilities	135,598	(259,206)
Net cash provided by operating activities	2,987,462	(511,549)
Cash flows from investing activities:		
Change in interest-bearing deposits in banks	0	290,000
Purchases of securities available for sale	(7,201,836)	0
Proceeds from maturities and pre-payments of securities available for sale	915,918	350,832
Proceeds from sale of other real estate	1,994,986	0
Loan originations and principal collections, net	(38,808,725)	(7,196,118)
Purchases of premises and equipment	(24,497)	(57,147)
Net cash used in investing activities	(43,124,154)	(6,612,433)

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Statements of Cash Flows (Continued) Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from financing activities:		
Net increase (decrease) in deposits	47,765,665	4,742,230
Net cash provided by (used in) financing activities	47,765,665	4,742,230
Net increase (decrease) in cash and cash equivalents	7,628,973	(2,381,752)
Cash and cash equivalents at beginning	1,462,962	3,844,714
Cash and cash equivalents at end	\$ 9,091,935	\$ 1,462,962

Supplemental cash flow information:

Cash paid during the year for:

Cash paid for Interest	\$ 2,425,639	\$ 2,940,051
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Noncash investing and financing activities:

Transfer of loans to foreclosed assets	\$ 2,127,280	\$ 3,709,761
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Choice Bank

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies

Organization

Choice Bank (the "Bank") is a full-service community-oriented commercial bank. The Bank offers a broad range of commercial and consumer banking services to local businesses, professionals, community service organizations, and individuals. The Bank commenced operations in July 2006. The Bank operates with two locations in Oshkosh, Wisconsin. The Bank is subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying 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.

Cash and Cash Equivalents

For purposes of reporting cash flows in the financial statements, cash and cash equivalents include cash on hand, interest-bearing and non-interest-bearing accounts in other financial institutions, and federal funds sold, all of which have original maturities of three months or less.

Interest-bearing Deposits in Banks

Interest-bearing deposits in banks mature within one year and are carried at cost.

Choice Bank

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Securities

Securities are classified as available for sale and are carried at fair value, with unrealized gains and losses reported in other comprehensive income or loss. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the estimated lives of the securities.

Declines in fair value of securities that are deemed to be other than temporary, if applicable, are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers the length of time and the extent to which fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and determined using the specific-identification method.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Rate Lock Commitments

The Bank 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. Rate lock commitments are recorded only to the extent of fees received since recording the estimated fair value of these commitments would not have a significant impact on the financial statements.

Choice Bank

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding unpaid principal balances adjusted for charge-offs and the allowance for loan losses. Interest on loans is accrued and credited to income based on the unpaid principal balance.

The accrual of interest on loans is discontinued when, in the opinion of management, there is an indication the borrower may be unable to make payments as they become due. When loans are placed on nonaccrual or charged off, all unpaid accrued interest is reversed against interest income. The interest on these loans is subsequently accounted for on the cash basis until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses 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 the Bank's past loan loss experience, known and inherent risks in the portfolio, composition of the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, current economic conditions, and other relevant factors. This evaluation is inherently subjective since it requires material estimates that may be susceptible to significant change.

Choice Bank

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

The allowance for loan losses consists of specific, general, and unallocated components. The specific component relates to loans that are classified as doubtful, substandard, or special mention and includes allowances estimated for impaired loans. The general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses and reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The allowance for loan losses includes specific allowances related to loans that have been judged to be impaired under current accounting standards. A loan is impaired when, based on current information, it is probable that the Bank will not collect all amounts due in accordance with the contractual terms of the loan agreement. Management determines whether a loan is impaired on a case-by-case basis, taking into consideration the payment status, collateral value, length and reason of any payment delays, the borrower's prior payment record, and any other relevant factors. Large groups of smaller balance homogeneous loans, such as residential mortgage and consumer loans, are collectively evaluated in the allowance for loan losses analysis and are not subject to impairment analysis unless such loans have been subject to a restructuring agreement. Specific allowances for impaired loans are based on discounted cash flows of expected future payments using the loan's initial effective interest rate or the fair value of the collateral if the loan is collateral dependent.

In addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may require additions to the allowance for loan losses based on their judgments of collectability.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

Choice Bank

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosures are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Stock Compensation Plans

The Bank accounts for employee stock compensation plans using the fair value based method of accounting. Under this method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is also the vesting period.

Income Taxes

Deferred income 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 as measured by the current enacted tax rates which will be in effect when these differences are expected to reverse. Provision (credit) for deferred taxes is the result of changes in the deferred tax assets and liabilities. A deferred tax valuation allowance is established if it is more likely than not that all or a portion of the deferred tax assets will not be realized.

The Bank may also recognize a liability for unrecognized tax benefits from uncertain tax positions. Unrecognized tax benefits represent the differences between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured in the financial statements. Interest and penalties related to unrecognized tax benefits are classified as income taxes.

Off-Balance-Sheet Financial Instruments

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

Choice Bank

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Other Comprehensive Income (Loss)

Other comprehensive income (loss) is shown on the statements of stockholders' equity. The Bank's accumulated other comprehensive income is comprised of the unrealized gains on securities available for sale, net of tax, and is shown on the statements of stockholders' equity.

Earnings (Loss) per Share

Basic earnings (loss) per share represents operating income (losses) divided by the weighted average number of common shares outstanding during the period. Due to a weighted average strike price of potential common shares outstanding which is lower than the estimated average market value of the Bank's common stock, anti-dilution would occur in calculating diluted earnings per share. As such, diluted earnings per share is not presented.

New Accounting Pronouncements

In January 2010, the FASB updated the Accounting Standards Codification to provide guidance to improve disclosure requirements related to fair value measurements and require reporting entities to make new disclosures about recurring or nonrecurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. The FASB also clarified existing fair value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques. Entities will be required to separately disclose significant transfers into and out of Level 1 and Level 2 measurements in the fair value hierarchy and the reasons for the transfers. Except for the detailed Level 3 roll forward disclosures, the guidance is effective for annual and interim reporting periods beginning after December 15, 2009. The new disclosures about purchases, sales, issuances, and settlements in the roll forward activity for Level 3 fair value measurements are effective for interim and annual reporting periods beginning after December 15, 2010. In the initial adoption period, entities are not required to include disclosures for previous comparative periods; however, they are required for periods ending after initial adoption. Adoption of these disclosures did not have a significant impact on the Bank's financial statements.

In February 2010, the FASB issued guidance that amended Topic 855, "Subsequent Events." These Amendments to Certain Recognition and Disclosure Requirements remove the requirement for a Securities and Exchange Commission ("SEC") filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. The FASB believes these amendments remove potential conflicts with the SEC's literature. This amendment was effective immediately upon final issuance and did not have a significant impact on the Bank's financial statements.

Choice Bank

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

In April 2010, the FASB issued guidance that updated Topic 310, "Receivables." The Effect of Loan Modification when the Loan is Part of a Pool that is Accounted for as a Single Asset clarifies how a loan that is part of a pool should be accounted for if the loan is modified in such a manner that it would constitute a troubled debt restructuring. This amendment to Topic 310 indicates that modifications of loans that are accounted for within a pool do not result in the removal of these loans from the pool even if the modification of those loans would be considered troubled debt restructuring. The amendment is effective for modifications of loans accounted for within pools occurring in the first interim or annual period ending on or after July 15, 2010. Adoption of this amendment did not have a significant impact on the Bank's financial statements.

In July 2010, the FASB issued new guidance related to disclosures about the credit quality of financing receivables and the allowance for credit losses. The guidance is designed to improve transparency in financial reporting by banks that hold financing receivables, which include loans. The guidance requires banks to provide more information in their disclosures about the credit quality of their loans and the credit reserves held against them, including an aging of past due receivables, detail on credit quality indicators, and information on loan modifications. Under the guidance, a bank needs to disaggregate new and existing disclosures based on how it develops its allowance for loan losses and how it manages credit exposures.

Existing disclosures are amended to require an entity to provide the following disclosures about its financing receivables on a disaggregated basis:

- A roll-forward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the reporting period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the impairment method;
- For each disaggregated ending balance in item 1 above, the related recorded investment in financing receivables;
- The nonaccrual status of financing receivables by class of financing receivables; and
- Impaired financing receivables by class of financing receivables.

Choice Bank

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

The amendments also require an entity to provide the following additional disclosures about its financing receivables:

- Credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables;
- The aging of past due financing receivables at the end of the reporting period by class of financing receivables;
- The nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses;
- The nature and extent of financing receivables modified as troubled debt restructurings within the previous twelve months that defaulted during the reporting period by class of financing receivables and their effect on the allowance for credit losses; and
- Significant purchases and sales of financing receivables during the reporting period disaggregated by portfolio segments.

The disclosures as of the end of the reporting period will be effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period will be effective for interim and annual reporting periods beginning on or after December 15, 2010. While this update to Topic 310 changed the format of certain disclosures, it did not have a significant impact on the Bank's financial statements. The disclosures related to troubled debt restructurings were delayed for an estimated period of six months.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 classifications.

Choice Bank

Notes to Financial Statements

Note 2 Cash and Due From Banks

In the normal course of business, the Bank maintains cash and due from bank balances with correspondent banks that are participating in the Federal Deposit Insurance Corporation's (FDIC's) Transaction Account Guarantee Program. Consequently, all account balances with correspondent banks are guaranteed by the FDIC through December 31, 2012, upon which time the insurance is expected to revert back to \$250,000.

Note 3 Securities

The amortized cost and estimated fair value of securities with gross unrealized gains and losses at December 31 follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2010				
Securities available for sale:				
U.S. agency securities	\$ 1,100,211	\$ 33,580	\$ 7,863	\$ 1,125,928
Municipal bonds	4,570,615	212,257	10,478	4,772,394
Mortgage-related securities	2,681,834	82,275	0	2,764,109
Corporate bonds	3,100,000	0	0	3,100,000
Total securities available for sale	\$11,452,660	\$ 328,112	\$ 18,341	\$11,762,431

2009

Securities available for sale:

U.S. agency securities	\$ 596,702	\$ 43,611	\$ 0	\$ 640,313
Municipal bonds	3,069,587	194,390	0	3,263,977
Mortgage-related securities	1,518,741	98,068	0	1,616,809
Total securities available for sale	\$ 5,185,030	\$ 336,069	\$ 0	\$ 5,521,099

	Less than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities available for sale:				
U.S. agency securities	\$ 1,473,891	\$ (7,863)	\$ 1,473,891	\$ (7,863)
Municipal bonds	1,491,375	(10,478)	1,491,375	(10,478)
Total securities available for sale	\$ 2,965,266	\$ (18,341)	\$ 2,965,266	\$ (18,341)

Choice Bank

Notes to Financial Statements

Note 3 Securities (Continued)

Fair values of securities are estimated based on financial models or prices paid for similar securities. It is possible interest rates could change considerably resulting in a material change in the estimated fair value.

The following is a summary of amortized cost and estimated fair value of debt securities by contractual maturity as of December 31, 2010. Contractual maturities will differ from expected maturities for mortgage-related securities because borrowers may have the right to call or prepay obligations without penalties.

	<u>Available for Sale</u>	
	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due within one-year	\$ 3,698,403	\$ 3,723,836
Due after one-year through five years	4,080,615	4,242,861
Due after five years through ten years	991,808	1,031,626
Subtotal	\$ 8,770,826	\$ 8,998,323
Mortgage-related securities	2,681,834	2,764,108
Total	<u>\$11,452,660</u>	<u>\$11,762,431</u>

There were no sales of securities in 2010 and 2009.

As of December 31, 2010, the amortized cost and estimated fair value of securities pledged to secure an unused line of credit was \$6,348,998 and \$6,668,963, respectively. As of December 31, 2009, the amortized cost and estimated fair value of securities pledged to secure an unused line of credit was \$5,185,030 and \$5,521,099, respectively.

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Notes to Financial Statements

Note 4 Loans

The composition of loans at December 31 is as follows:

	2010	2009
Commercial	\$ 26,428,301	\$ 21,502,232
Real estate:		
Commercial	62,208,710	42,510,972
Residential	32,477,382	28,520,256
Construction	11,514,963	5,965,779
Second Mortgages	1,903,147	2,111,250
Equity lines of credit	5,059,613	3,800,744
Consumer	641,195	807,738
Subtotals	140,233,311	105,218,971
Less - Allowance for loan losses	3,045,732	2,122,837
Loans, net	<u>\$137,187,579</u>	<u>\$103,096,134</u>

Choice Bank

Notes to Financial Statements

Note 4 Loans (Continued)

The following table presents summary account activity of the allowance for loan losses by loan category as of December 31, 2010:

	December 31, 2010			
	Commercial	Real Estate	Other	Total
(Dollars in thousands)				
Allowance for credit losses:				
Balance, beginning of period	\$ 730	\$ 1,240	\$ 153	\$ 2,123
Charge-offs	673	1,120	1	1,794
Recoveries	127	0	0	127
Provision	946	1,784	(140)	2,590
Balance, end of period	\$ 1,130	\$ 1,904	\$ 12	\$ 3,046
Ending Balance: Individually evaluated for impairment				
	\$ 277	\$ 45	\$ 0	\$ 322
Ending Balance: Collectively evaluated for impairment				
	\$ 853	\$ 1,859	\$ 12	\$ 2,724

	December 31, 2010			
	Commercial	Real Estate	Other	Total
(Dollars in thousands)				
Loans valued for impairment:				
Individually	\$ 9,789	\$ 110	\$ 0	\$ 9,899
Collectively	16,639	113,054	641	130,334
Total	\$ 26,428	\$ 113,164	\$ 641	\$ 140,233

The following table presents summary account activity of the allowance for loan losses as of December 31, 2009:

(Dollars in thousands)	2009
Balance at beginning	1,318
Provision for loan losses	5,501
Charge-offs	4,698
Recoveries	2
Balance at end	2,123

Choice Bank

Notes to Financial Statements

Note 4 Loans (Continued)

The following is a summary of information pertaining to impaired loans:

(Dollars in thousands)	December 31, 2010		
	Commercial	Commercial real estate	Total
Unpaid principal balance	\$ 745	\$ 110	\$ 855
Impaired loans with no allowance	0	0	0
Impaired loans with allowance	745	110	855
Total impaired loan balance	\$ 745	\$ 110	\$ 855
Related allowance	\$ 277	\$ 45	\$ 322
Average balance	\$ 186	\$ 110	\$ 171

(Dollars in thousands)	December 31, 2009
Impaired loans without a valuation allowance	\$ 2,127
Impaired loans with a valuation allowance	1,881
Valuation allowance related to impaired loans	1,020
Total nonaccrual loans	3,793
Average investment in impaired loans	1,336

The following is a summary of information pertaining to past due and nonperforming loans:

(Dollars in thousands)	December 31, 2010				
	30 - 89 days past due	Greater than 90 days and nonaccruing	Total past due and nonaccruing	Current loans	Total loans
Commercial	\$ 48	\$ 35	\$ 83	\$ 26,345	\$ 26,428
Real estate:					
Commercial	0	225	225	61,984	\$ 62,209
Residential	0	0	0	32,477	\$ 32,477
Construction	0	0	0	11,515	\$ 11,515
Second Mortgages	0	0	0	1,903	\$ 1,903
Equity lines of credit	0	0	0	5,060	\$ 5,060
Consumer	0	0	0	641	641
Total	\$ 48	\$ 260	\$ 308	\$ 139,925	\$ 140,233

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Notes to Financial Statements

Note 4 Loans (Continued)

(Dollars in thousands)

Risk Grade	December 31, 2010			
	Commercial	Real Estate	Consumer	Total
Grade - 1	\$ 0	\$ 0	\$ 0	\$ 0
Grade - 2	36	0	0	36
Grade - 3	1,196	7,840	0	9,036
Grade - 4	796	6,389	0	7,185
Grade - 5	12,882	68,018	0	80,900
Grade - 6	4,807	8,817	0	13,624
Grade - 7	2,618	3,057	0	5,675
Grade - 8	4,058	1,649	0	5,707
	<u>\$ 26,393</u>	<u>\$ 95,770</u>	<u>\$ 0</u>	<u>\$ 122,163</u>
Performing	\$ 0	\$ 17,169	\$ 641	\$ 17,810
Non-performing	35	225	0	260
	<u>\$ 26,428</u>	<u>\$ 113,164</u>	<u>\$ 641</u>	<u>\$ 140,233</u>

The impaired loans consist of five loans of which all are performing and accruing interest. No interest payments were collected on nonaccruing loans during 2010.

Directors, executive officers, and principal stockholders of the Bank, including their families and firms in which they are principal owners, are considered to be related parties. Substantially all loans to these related parties 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.

A summary of loans to directors, executive officers, principal stockholders, and their affiliates as of December 31 is as follows:

	2010	2009
Balance at beginning	\$ 14,585,338	\$ 14,912,937
New Loans	3,836,531	1,167,966
Repayments	(1,642,949)	(1,495,565)
Balance at end	<u>\$ 16,778,920</u>	<u>\$ 14,585,338</u>
Unfunded lines of credit (not included above)	<u>\$ 544,012</u>	<u>\$ 447,930</u>

Choice Bank

Notes to Financial Statements

Note 5 Premises and Equipment

An analysis of premises and equipment at December 31 follows:

	2010	2009
Land	\$ 285,000	\$ 285,000
Buildings	1,088,606	1,088,606
Furniture and equipment	537,964	527,190
Computer equipment	329,921	316,197
Totals	2,241,491	2,216,993
Less - Accumulated depreciation	642,810	487,454
Premises and equipment, net	\$1,598,681	\$1,729,539

Depreciation of premises and equipment charged to operating expense totaled \$155,355 and \$162,330 in 2010 and 2009, respectively.

The Bank leases a branch facility from a bank director under a ten-year noncancelable operating lease expiring in 2016 with options to renew for additional years at the expiration of the initial lease. The Bank also pays for real estate taxes, insurance, and maintenance under this net lease. The terms of the lease are determined to be at a market rate. Rent expense was \$49,392 for 2010 and 2009.

Future minimum rental payments under noncancelable lease terms as of December 31, 2010, are as follows:

2011	\$	49,392
2012		49,392
2013		49,392
2014		49,392
2015		49,392
Thereafter		49,392
Total	\$	296,352

Choice Bank

Notes to Financial Statements

Note 6 Deposits

The composition of deposits at December 31 is as follows:

	2010	2009
Non-interest-bearing demand deposits	\$ 6,730,342	\$ 5,057,864
Interest-bearing demand deposits	3,109,973	2,275,636
Savings deposits	3,257,156	4,053,869
Money market deposits	53,571,610	32,448,524
Certificates of deposit less than \$100,000	36,762,000	29,670,671
Certificates of deposit \$100,000 and greater	47,387,815	29,546,667
Total Deposits	\$150,818,896	\$103,053,231

The scheduled maturities of certificates of deposit at December 31, 2010 are summarized as follows:

2011	\$ 47,488,231
2012	12,238,172
2013	11,829,617
2014	605,957
Thereafter	11,987,838
Total	\$ 84,149,815

Deposits from directors, executive officers, principal stockholders, and their affiliates totaled approximately \$3,721,000 and \$4,362,000 as of December 31, 2010 and 2009, respectively.

Choice Bank

Notes to Financial Statements

Note 7 Income Taxes

The components of the provision for income taxes are as follows:

	2010	2009
Deferred tax expense (credit):		
Federal	\$ (670,400)	\$ (1,623,100)
State	(175,900)	(243,000)
Total deferred	\$ (846,300)	\$ (1,866,100)
Change in valuation allowance	3,660,400	0
Total provision (credit) for income taxes	\$ 2,814,100	\$ (1,866,100)

A summary of the sources of differences between income taxes at the federal statutory rate and the provision for income taxes for the years ended December 31 follows:

	2010		2009	
	Amount	% of Pretax Income	Amount	% of Pretax Income
	<i>(Dollars in Thousands)</i>			
Tax credit at statutory rate	\$ (771,300)	(34.0)	\$ (1,603,000)	(34.0)
Increase (decrease) in taxes resulting from:				
Stock option compensation	3,700	0.2	11,000	0.2
Other	41,100	1.8	114,900	2.4
Change in valuation allowance	3,660,400	161.4	0	-
State tax	(119,800)	(5.3)	(389,000)	(8.2)
Total provision (credit) for income taxes	\$ 2,814,100	124.1	\$ (1,866,100)	(39.6)

Choice Bank

Notes to Financial Statements

Note 7 Income Taxes (Continued)

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Bank's assets and liabilities.

Primarily due to the write down of other real estate owned and the provision for loan losses recognized in 2010, the Bank's net deferred tax asset (prior to any valuation allowance) increased to \$3,660,400. All available evidence, both positive and negative, was considered to determine whether any impairment of this asset should be recognized. Based on consideration of the available evidence including historical losses which must be treated as substantial negative evidence and an uncertain economy and the potential effect on the Bank's asset quality, a valuation allowance was determined to be necessary at December 31, 2010.

The major components of the net deferred tax asset (liability) as of December 31 are presented below:

	2010	2009
Deferred tax assets:		
Allowance for loan losses	\$ 585,400	\$ 454,000
Net operating loss	2,037,600	1,982,100
Organization and start-up expenses	270,400	296,000
Other real estate valuation allowance	770,800	165,000
Other	70,600	-
Total deferred tax assets	\$ 3,734,800	\$ 2,897,100
Deferred tax liabilities:		
Unrealized gain on securities available for sale	(122,400)	(87,055)
Fixed assets and prepaid expenses	(74,400)	(83,000)
Total deferred tax liabilities	(196,800)	(170,055)
Valuation allowance	(3,660,400)	0
Net deferred tax asset (liability)	\$ (122,400)	\$ 2,727,045

Choice Bank

Notes to Financial Statements

Note 7 Income Taxes (Continued)

The Bank has federal and state net operating loss carryforwards totaling approximately \$5,200,000 that may be applied against future federal and state taxable income earned. The carryforwards begin to expire in December 31, 2026 for federal purposes and December 31, 2021 for Wisconsin purposes.

Income tax returns for the calendar years 2007 through 2009, with few exceptions, remain open to examination by federal and state taxing authorities.

Choice Bank

Notes to Financial Statements

Note 8 Stockholders' Equity and Regulatory Matters

The declaration and payment of cash dividends by the Bank to stockholders is restricted by certain statutory and regulatory limitations. These limitations state that the Bank may not declare or pay a dividend if the total of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of the Bank's net income during the current calendar year and the retained net income of the prior two calendar years. Prior written regulatory approval must be obtained to make an exception. There were no cash dividends paid to stockholders by the Bank in 2010 or 2009.

The Bank is subject to various regulatory capital requirements administered by federal and state 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, 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 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, 2010, that the Bank meets all applicable capital adequacy requirements.

Choice Bank

Notes to Financial Statements

As of December 31, 2010, 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.

In consultation with our Banking Regulators we have recently implemented or are in the process of implementing several strategic initiatives designed to strengthen the Bank's financial condition. One of our strategic initiatives is to achieve a Tier 1 Leverage Capital ratio of at least 8 percent of total assets and a Total Risk-Based Capital ratio level of at least 11 percent of total assets within approximately two months and a Tier 1 Leverage Capital ratio of 9% and Total Risk-Based Capital ratio of 12% within approximately five months. However, at December 31, 2010, our Tier 1 Leverage Capital ratio was 10.85% and our Total Risk-Based Capital ratio was 7.22%.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(In Thousands)</i>						
2010						
Total Risk-based Capital (to risk-weighted assets)	\$ 13,660	10.85%	\$ 10,075	≥ 8.00%	\$ 12,594	≥ 10.00%
Tier 1 Capital (to risk-weighted assets)	\$ 12,068	9.58%	\$ 5,038	≥ 4.00%	\$ 7,556	≥ 6.00%
Tier 1 Capital (to average assets)	\$ 12,068	7.22%	\$ 6,686	≥ 4.00%	\$ 8,357	≥ 5.00%
2009						
Total Risk-based Capital (to risk-weighted assets)	\$ 16,038	16.62%	\$ 7,720	≥ 8.00%	\$ 9,650	≥ 10.00%
Tier 1 Capital (to risk-weighted assets)	\$ 14,820	15.36%	\$ 3,860	≥ 4.00%	\$ 5,790	≥ 6.00%
Tier 1 Capital (to average assets)	\$ 14,820	12.51%	\$ 4,740	≥ 4.00%	\$ 5,925	≥ 5.00%

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Notes to Financial Statements

Note 9 Commitments, Contingencies, and Credit Risk

Financial Instruments With Off-Balance-Sheet Credit Risk

The Bank is a 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 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:

	Notional Amount	
	2010	2009
Commitments to extend credit	\$ 25,091,078	\$ 1,918,454
Unfunded commitments under lines of credit	9,836,595	7,064,640

Commitments to extend credit are agreements to lend to a customer at fixed or variable rates as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, home equity lines of credit, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit may or may not require collateral and may or may not contain a specific maturity date. Commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements.

Choice Bank

Notes to Financial Statements

Note 9 Commitments, Contingencies, and Credit Risk (Continued)

Legal Contingencies

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 financial statements.

Concentration of Credit Risk

The majority of the Bank's loans, commitments, and standby 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 during the economic downturn, but the portfolio is monitored on a continuous basis.

Unused Lines of Credit

As of December 31, 2010, the Bank has \$9,800,000 at Bankers' Bank, Madison to be drawn as needed. The maximum outstanding at any one time during 2010 was \$1.8 million. The weighted rate on average outstanding balances for 2010 was 0.66%. At December 31, 2010, there was no outstanding balance on our line of credit.

Note 10 Employee Benefit Plan

The Bank sponsors a 401(k) profit sharing plan covering substantially all employees. Employees are allowed to make voluntary contributions to the plan up to 15% of their compensation, subject to limits imposed by federal tax laws.

During 2010 and 2009, the Bank made matching contributions on behalf of each employee participant. The Bank contributed an amount equal to 100% of the amount of each employee elective contribution that did not exceed 3% of the employee participant's compensation and 50% of the amount of the employee participant's contribution that exceeded 3% of the employee participant's compensation up to a maximum Bank contribution of 5% of the employee participant's compensation.

The Bank expensed contributions of \$60,001 for 2010 and expensed contributions of \$40,095 for 2009.

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Notes to Financial Statements

Note 11 Stock Compensation Plan

Under the stock incentive plan, the Bank may grant options to its directors, officers, and employees for up to 360,000 shares of common stock. The plan requires that options granted qualify as incentive options. The exercise price equals the market value of the Bank's stock at the grant date. The vesting period ranges from one to three years, and the maximum term is ten years. Compensation cost relates to share-based payment transactions being recognized in the financial statements with measurement based on the fair value of the equity instrument at time of grant. For the years ended December 31, 2010 and 2009, the Bank recognized \$11,028 and \$33,700, respectively, in compensation expense for stock options. 60,000 stock options were granted in 2010 that will vest proportionately over a period of three years.

Following is a summary of stock option transactions for the year ended December 31, 2010:

	Number of Options	Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at beginning of year	63,333	\$ 10.00	7.56 yrs
Granted during the year	60,000	\$ 10.00	7.19 yrs
Outstanding at end of year	123,333	\$ 10.00	7.38 yrs
Exercisable at end of year	76,667	\$ 10.00	6.38 yrs

Information pertaining to options outstanding at December 31, 2010, is as follows:

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Amount
\$ 10.00	123,333	7.38 yrs	\$ 10.00	76,667	\$ 766,670

Choice Bank

Notes to Financial Statements

Note 11 Stock Compensation Plan (Continued)

As of December 31, 2010, the Bank has 46,666 in nonvested shares. The Bank issued 60,000 options in 2006, 5,000 options in 2009, and 60,000 options in 2010 of which 76,667 were fully vested and 1,667 were forfeited as of December 31, 2010. As of December 31, 2010, no options were exercised.

As of December 31, 2010, there were total unrecognized compensation costs of \$22,371 related to nonvested share-based compensation arrangements, which are expected to be recognized in years 2011 through 2013.

The fair value of each option granted is estimated on the grant date using the Black-Scholes methodology. The following assumptions were used in estimating the fair value for options granted in 2010:

	January 2010	March 2010
<i>Fair Value</i>	\$ 0.49	\$ 0.46
Stock Asset Price	\$ 8.25	\$ 8.10
Option Strike Price	\$ 10.00	\$ 10.00
Maturity	10.0	10.0
Risk-free interest rate	0.06%	0.16%
Volatility	10.00%	10.00%

The weighted average grant date fair value for granted shares in 2010 totaled \$29,100. There was no aggregate intrinsic value for outstanding stock options as of December 31, 2010 because the strike price on granted options exceeded the market price for Bank stock.

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Notes to Financial Statements

Note 12 Warrants

In the initial stock offering, all stockholders were granted one warrant for every 5 shares of common stock purchased. The warrants allow the holder to purchase an additional share of stock at \$12.50 per share. They are exercisable at any time and originally expired three years after the date of the Bank opening. The expiration date was extended to July 24, 2012, during 2008.

Warrants issued	431,990
Exercised	(620)
<hr/>	
Remaining balance	431,370
<hr/>	

The 19 Bank organizers, now directors, assumed substantial financial risk by investing funds and guaranteeing loans to fund the charter application process and capital campaign. Each received 11,250 warrants to purchase shares of Bank stock at \$10 per share. The warrants are exercisable immediately and expire after ten years. A total of 213,750 organizer warrants were issued. None have been exercised as of December 31, 2010 and 2009.

Both types of warrants are transferable.

Note 13 Earning (Loss) per Share

Calculation of earnings (loss) per share:

	2010	2009
<hr/>		
Net income (loss)	\$ (5,082,656)	\$ (2,849,876)
Average shares outstanding	2,160,620	2,160,620
Basic earnings (loss) per share	\$ (2.35)	\$ (1.32)

Choice Bank

Notes to Financial Statements

Note 14 Fair Value Measurements

Accounting standards describe three levels of inputs that may be used to measure fair value (the fair value hierarchy). The level of an asset or liability within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement of that asset or liability.

Following is a brief description of each level of the fair value hierarchy:

Level-1 - Fair value measurement is based on quoted prices for identical assets or liabilities in active markets.

Level-2 - Fair value measurement is based on: (1) quoted prices for similar assets or liabilities in active markets; (2) quoted prices for identical or similar assets or liabilities in markets that are not active; or (3) valuation models and methodologies for which all significant assumptions are or can be corroborated by observable market data.

Level-3 - Fair value measurement is based on valuation models and methodologies that incorporate at least one significant assumption that cannot be corroborated by observable market data. Level 3 measurements reflect the Bank's estimates about assumptions market participants would use in measuring fair value of the asset or liability.

Some assets and liabilities, such as securities available for sale, are measured at fair value on a recurring basis under accounting principles generally accepted in the United States. Other assets and liabilities, such as impaired loans, may be measured at fair value on a nonrecurring basis.

Following is a description of the valuation methodology used for each asset and liability measured at fair value on a recurring or nonrecurring basis, as well as the classification of the asset or liability within the fair value hierarchy.

Securities available for sale - Securities available for sale are classified as Level 2 measurements within the fair value hierarchy. Level 2 securities include U.S. government and agency securities, obligations of states and political subdivisions, corporate debt securities, and mortgage-related securities. The fair value measurement of a Level 2 security is obtained from an independent pricing service and is based on recent sales of similar securities and other observable market data.

Loans held for sale - Loans held for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value. The fair value measurement of a loan held for sale is based on current secondary market prices for similar loans, which is considered a Level 2 measurement.

Choice Bank

Notes to Financial Statements

Note 14 Fair Value Measurements (Continued)

Loans - Loans are not measured at fair value on a recurring basis. However, loans considered to be impaired (see Note 1) may be measured at fair value on a nonrecurring basis. The fair value measurement of an impaired loan that is collateral dependent is based on the fair value of the underlying collateral. All other impaired loan measurements are based on the present value of expected future cash flows discounted at the applicable effective interest rate and, thus, are not fair value measurements. Fair value measurements of underlying collateral that utilize observable market data, such as independent appraisals reflecting recent comparable sales, are considered Level 2 measurements. Other fair value measurements that incorporate estimated assumptions market participants would use to measure fair value are considered Level 3 measurements.

Other real estate owned - Real estate and other property acquired through or in lieu of loan foreclosure are not measured at fair value on a recurring basis. However, foreclosed assets are initially measured at fair value (less estimated costs to sell) when they are acquired and may also be measured at fair value (less estimated costs to sell) if they become subsequently impaired. The fair value measurement for each asset may be obtained from an independent firm or prepared internally. Fair value measurements obtained from independent firms are generally based on sales of comparable assets and other observable market data and are considered Level 2 measurements. Fair value measurements prepared internally are based on observable market data but include significant unobservable data and are therefore considered Level 3 measurements.

Choice Bank

Notes to Financial Statements

Note 14 Fair Value Measurements (Continued)

Information regarding the fair value of assets and liabilities measured at fair value on a recurring basis as of December 31 follows:

	Assets Measured at Fair Value	Recurring Fair Value Measurements Using		
		Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2010				
Assets:				
Securities available for sale	\$ 11,762,431	\$ 0	\$ 11,762,431	\$ 0
Loans held for sale	638,131	0	638,131	0
Total Assets	\$ 12,400,562	\$ 0	\$ 12,400,562	\$ 0
2009				
Assets:				
Securities available for sale	\$ 5,521,099	\$ 0	\$ 5,521,099	\$ 0
Loans held for sale	1,422,733	0	1,422,733	0
Total Assets	\$ 6,943,832	\$ 0	\$ 6,943,832	\$ 0

Choice Bank

Notes to Financial Statements

Note 14 Fair Value Measurements (Continued)

Information regarding the fair value of assets measured at fair value on a nonrecurring basis as of December 31 follows.

	Assets Measured at Fair Value	Nonrecurring Fair Value Measurements Using		
		Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2010				
Impaired loans	\$ 533,000	\$ 0	\$ 533,000	\$ 0
Other real estate owned	1,892,200	0	1,892,200	0
Totals	\$ 2,425,200	\$ 0	\$ 2,425,200	\$ 0
2009				
Impaired loans	\$ 860,814	\$ 0	\$ 860,814	\$ 0
Other real estate owned	3,304,761	0	3,304,761	0
Totals	\$ 4,165,575	\$ 0	\$ 4,165,575	\$ 0

Loans with a carrying amount of \$855,000 were considered impaired and were written down to their fair value of \$533,000. As a result, the Bank recognized a specific valuation allowance against these impaired loans totaling \$322,000 during the year ended December 31, 2010.

Other real estate owned with a carrying amount of \$3,437,055 was written down to a fair value of \$1,892,200. As a result, an impairment charge of \$1,544,855 was included in earnings for the year ended December 31, 2010.

Choice Bank

Notes to Financial Statements

Note 14 Fair Value Measurements (Continued)

The Bank estimates fair value of all financial instruments regardless of whether such instruments are measured at fair value. The following methods and assumptions were used by the Bank to estimate fair value of financial instruments not previously discussed.

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

Interest-bearing deposits - Fair value is estimated using discounted cash flow analyses based on current rates for similar types of deposits.

Loans - Fair value of variable rate loans that reprice frequently is 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 is estimated using discounted expected future cash flows or the fair value of underlying collateral, if applicable.

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

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

Choice Bank

Notes to Financial Statements

Note 14 Fair Value Measurements (Continued)

The carrying value and estimated fair value of financial instruments at December 31 follows:

	2010		2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	\$ 9,091,935	\$ 9,091,935	\$ 1,492,962	\$ 1,492,962
Securities available for sale	11,762,431	11,762,431	5,521,099	5,521,099
Loans held for sale	638,131	638,131	1,422,733	1,422,733
Loans, net	137,187,579	140,611,518	103,096,134	109,543,048
Accrued interest receivable	509,594	509,594	357,723	367,723
Total financial assets	\$ 159,189,670	\$ 162,613,609	\$ 111,890,651	\$ 118,347,565
Financial liabilities:				
Deposits	\$ 150,818,896	\$ 151,490,301	\$ 103,053,231	\$ 103,011,580
Accrued interest payable	188,195	188,195	203,195	203,195
Total financial liabilities	\$ 151,007,091	\$ 151,678,496	\$ 103,256,426	\$ 103,214,775

Limitations - The fair value of a financial instrument is the current amount that would be exchanged between market participants, 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 Bank'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 Bank

Choice Bank

Notes to Financial Statements

Note 14 Fair Value Measurements (Continued)

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 Bank's entire holdings of a particular instrument. Because no market exists for a significant portion of the Bank'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. 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 balance sheets. 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.



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