

Choice Bancorp
Inc.

CHOICE BANCORP, INC.
2010 ANNUAL REPORT TO SHAREHOLDERS

This 2010 Annual Report to Shareholders (the “Annual Report”) of Choice Bancorp, Inc. (the “Company”) accompanies the Notice of Annual Meeting and Proxy Statement for the annual meeting of the shareholders of the Company to be held on June 16, 2011 (the “Annual Meeting”). This Annual Report contains all information required by applicable rules of the Securities and Exchange Commission (“SEC”) to be included in an annual report to securityholders accompanying an annual meeting proxy statement. However, for the reasons explained below, except where specifically indicated otherwise, all information contained in this Annual Report pertains to the Company’s wholly owned subsidiary, Choice Bank (the “Bank”) rather than to the Company.

The Company was organized to serve as the holding company of the Bank as part of a reorganization (the “Reorganization”) that was approved by the shareholders of the Bank in August 2010 and consummated on March 10, 2011. Upon consummation of the Reorganization, the Bank became a wholly owned subsidiary of the Company and former shareholders of the Bank became shareholders of the Company.

As of December 31, 2010, the date of the financial information contained in this Annual Report, the Reorganization had not been consummated. Thus, as of such date, the Company was a subsidiary of the Bank, had no shareholders other than the Bank, had no assets or liabilities, and had not conducted any business other than of an organizational nature.

Prior to the Reorganization, the Bank had been subject to certain reporting requirements under the Securities Exchange Act of 1934 (“Exchange Act”) and filed financial reports (such as Annual Reports on Form 10-K) and other information with the Federal Deposit Insurance Corporation (“FDIC”). Upon consummation of the Reorganization, the Bank’s reporting obligations under the Exchange Act were terminated.

The Company became subject to Exchange Act reporting requirements in July 2010 and is required to file such reports and information with the Securities and Exchange Commission (“SEC”) rather than with the FDIC. Prior to consummation of the Reorganization, the Company’s reports consisted of copies of the Bank’s reports as filed with the FDIC and provided no separate financial information for the Company. Beginning with the quarterly report on Form 10-Q for the quarter ended March 31, 2011, the Company’s financial statements contained in its periodic Exchange Act reports will be prepared on a consolidated basis with the Bank as its subsidiary. However, as of such date and for the foreseeable future, the assets and liabilities and operations of the Bank will constitute substantially all of the Company’s consolidated assets and liabilities and operations.

This Annual Report consists of excerpts from the Bank’s report on Form 10-K for the year ended December 31, 2010, as filed with the FDIC on March 31, 2010, including audited financial statements for the Bank at and for the periods then ended. The Bank’s 2010 Form 10-K was included as an exhibit to the Company’s Form 10-K report filed with the SEC on March 31, 2010.

AVAILABILITY OF FORM 10-K

The Company will provide a complete copy of the Company's annual report on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission on March 31, 2011, to any person who was a beneficial owner of the Company's common stock as of the May 9, 2011 voting record date for the Annual Meeting. The Form 10-K can be obtained by making written request to Debra K. Fernau, Secretary of the Company, 2450 Witzel Avenue, Oshkosh, Wisconsin 54904. The 2010 annual report on Form 10-K does not constitute proxy soliciting materials.

You may also obtain a complete copy of the Company's quarterly report on Form 10-Q at and for the quarter ended March 31, 2011 by contacting Ms. Fernau as stated above. The Form 10-Q quarterly report does not constitute proxy soliciting materials.

EXCERPTS
from
CHOICE BANK
ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED
DECEMBER 31, 2010
as filed with the
FEDERAL DEPOSIT INSURANCE CORPORATION
on
MARCH 31, 2011

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FORWARD LOOKING STATEMENTS

This Report contains certain statements that are forward-looking within the meaning of section 21E of the Securities Exchange Act of 1934, as amended. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from those expressed in, or implied by, the forward-looking statements. These statements are often, but not always, made through the use of words or phrases such as “may,” “should,” “could,” “predict,” “potential,” “believe,” “will likely result,” “expect,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “projection,” “would” and “outlook,” and other similar expressions or future or conditional verbs. Readers of this annual report should not rely solely on the forward-looking statements and should consider all uncertainties and risks throughout this report. The statements are representative only as of the date they are made, and the Bank undertakes no obligation to update any forward-looking statement.

These forward-looking statements, implicitly and explicitly, include the assumptions underlying the statements and other information with respect to the Bank’s beliefs, plans, objectives, goals, expectations, anticipations, estimates, financial condition, results of operations, future performance and business, including management’s expectations and estimates with respect to revenues, expenses, return on equity, return on assets, efficiency ratio, asset quality and other financial data and capital and performance ratios.

Although the Bank believes that the expectations reflected in the forward-looking statements are reasonable, these statements involve risks and uncertainties that are subject to change based on various important factors, some of which are beyond the Bank’s control. Forward-looking statements are subject to significant risks and uncertainties and the Bank’s actual results may differ materially from the results discussed in such forward-looking statements. Factors that might cause actual results to differ from the results discussed in forward-looking statements include, but are not limited to, the factors set forth under “Risk Factors,” Item 1A to this Report as well as any other risks identified herein. New factors emerge from time to time, and it is not possible for the Bank to predict which factor, if any, will materialize. In addition, the Bank cannot assess the potential impact of each factor on the Bank’s business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

All forward-looking statements contained in this Report or which may be contained in future statements made for or on behalf of Choice Bank are based upon information available at the time the statement is made and Choice Bank assumes no obligation to update any forward-looking statement.

THE COMPANY

In May 2010, the Board of Directors of the Bank adopted, subject to shareholder approval, a plan to reorganize the Bank as a wholly owned subsidiary of the Company. At a special meeting held on August 3, 2010, the shareholders of the Bank adopted a resolution approving the Reorganization, subject to the satisfaction of certain conditions, including the receipt of all applicable regulatory approvals.

As of December 31, 2010, the necessary regulatory approvals had not been received. Such approvals were received in late February 2011.

On and effective as of the close of business on March 10, 2011, the Reorganization was consummated and each issued and outstanding share of Bank common stock was converted solely into the right to receive one (1) share of Company common stock and the outstanding warrants for Choice Bank common stock were converted into warrants to acquire Company common stock.

The Company was organized to serve as the holding company for the Bank and, prior to consummation of the Reorganization on March 10, 2011, had no assets or liabilities, and had not conducted any business other than that of an organizational nature.

EXCEPT WHERE OTHERWISE EXPRESSLY INDICATED, THE INFORMATION IN THIS ANNUAL REPORT PERTAINS SOLELY TO THE BANK AND NOT TO THE COMPANY.

BUSINESS

FROM AND AFTER MARCH 10, 2011, AND FOR THE FORSEEABLE FUTURE, THE COMPANY'S BUSINESS HAS BEEN AND WILL BE CONDUCTED PRIMARILY THROUGH THE BANK.

Choice Bank (the "Bank" or "we" or "us") is a Wisconsin chartered bank that opened for business on July 24, 2006. We are a full service commercial bank located in Oshkosh, Wisconsin. We conduct business from our main office on the west side of Oshkosh, and we have a full-service branch on the north side of the city. As of December 31, 2010, the Bank had total assets of \$163.7 million, net loans of \$137.2 million, deposits of \$150.8 million, and stockholders' equity of \$12.3 million.

Choice Bank is a community-oriented financial services provider that focuses on providing a broad range of lending and deposit products to retail clients and to small and medium sized commercial clients. We emphasize commercial real estate and commercial lending to small and medium sized businesses and professionals. We concentrate on establishing relationships with clients primarily in our market area. We also offer on-line banking and bill pay, bank by phone, debit and credit cards, ATM access at both locations and a network providing free ATM transactions, and safe deposit boxes at the main office.

Our Investment Policy allows us to invest excess funds in treasury and U.S. government agency securities, mortgage-backed pass-through securities, municipal bonds, corporate bonds, and certificates of deposit in other financial institutions.

The Federal Deposit Insurance Corporation (FDIC) insures the Bank's deposits to the fullest extent allowed by law. The Bank is not a member of the Federal Reserve System.

At December 31, 2010, the Bank employed 26 full-time and 3 part-time staff members. The employees are not represented by a union or any collective bargaining agreement. The Bank believes its relationship with its employees is satisfactory.

Market Area

The Bank's primary service area is composed of the City of Oshkosh, Wisconsin and the surrounding Townships of Algoma, Omro, Utica, Black Wolf, and Nekimi, which together make up the Greater Oshkosh area. Our headquarters is located on the west side of Oshkosh and our branch facility is located on the north side of Oshkosh.

Competition

The market for financial services is rapidly changing, intensely competitive and is likely to become more competitive as the number and types of market entrants increase. We compete in both lending and attracting deposits with other commercial banks, savings and loan associations, credit unions, consumer finance companies, pension trusts, mutual funds, insurance companies, mortgage bankers and brokers, brokerage and investment banking firms, asset-based non-bank lenders, government agencies and non-financial institutions that may offer more favorable alternatives than us. Many of these competitors have the advantage of long-term presence in the market area, established customer base, name recognition and greater financial resources. On the other hand, many competitors are local branches of institutions headquartered elsewhere in Wisconsin or out-of-state. Oshkosh, Wisconsin is not necessarily their primary focus or concern, providing an opportunity for a community bank.

We believe that we are well-positioned as a community bank in our market focused primarily on individuals and small and medium-sized businesses who desire a consistent and professional relationship with a local banker. At Choice Bank we combine an intriguing, warm and welcoming atmosphere with high touch and high tech customer service in our effort to provide a comfortable banking environment, a fair profit for our

shareholders, and a rewarding place for our employees to work. We focus on the needs of retail banking consumers as well as small and medium sized businesses that want true relationship banking, and the level of service it represents. We differentiate ourselves from our competitors with timely loan decisions made locally in Oshkosh, flexible terms and customized products delivered in concert with the latest technology. With the recent trend of consolidation in the banking business, we believe many banking customers in our market area want the opportunity to do business at a “hometown” bank, which has roots in the community. We expect to continue providing existing and potential customers with the option of banking with a locally-owned and managed bank that focuses on personalized service and local decision-making.

Lending Activities

The Bank’s lending function entails the evaluation and acceptance of credit and interest rate risk. We manage credit risk by establishing and adhering to underwriting policies and procedures, loan monitoring, and portfolio diversification. In the current economic environment the Bank’s strict underwriting standards remain in place and have become even more conservative due to the economic downturn the country has experienced. Loans above pre-determined dollar limits require the approval of the Bank’s Officers’ Loan Committee, Board Loan Committee, or Board of Directors. A qualified board member also completes an independent review of loans on a regular basis. We monitor our interest rate risk using various modeling techniques, and we manage such risk by making adjustable rate loans and fixed rate loans with limited terms. Major loan categories are discussed below.

Commercial and Industrial Loans. We make loans to small and medium-sized businesses in our primary market area for purposes such as purchasing new, or making upgrades to, plant and equipment, inventory acquisition and various working capital purposes. Factors considered in making commercial loans include the borrower’s cash flow, ability to repay and degree of management expertise. Commercial loans may be subject to many types of risks that will differ depending on the particular industry a borrower is engaged in. General risks to an industry, or industry segment, are monitored by senior management on an ongoing basis. When warranted, individual borrowers who may be subject to risk due to an industry condition may be more closely analyzed and reviewed at a loan committee or board of directors’ level. On a regular basis, commercial and industrial borrowers are required to provide financial statements for our review. These statements are analyzed for trends and the loan is assigned a credit grade accordingly. Based upon this grade, the loan may receive an increased degree of scrutiny by management up to and including the requirement of additional loss reserves. Commercial loans will usually be secured by collateral, generally business assets that may comprise general intangibles, inventory, equipment or real estate. These types of collateral are subject to the risks that it will not be readily convertible into a liquid asset, if necessary, as well as risks associated with degree of specialization, mobility and general collectability in a default situation. To mitigate these kinds of collateral risk, we underwrite commercial loans to very strict standards, including requiring independent valuations of collateral and general acceptability based on our ability to monitor its ongoing value.

Commercial Real Estate Loans. We make loans to borrowers secured by commercial real estate located in our market area. Commercial real estate lending entails certain risks not found in traditional residential real estate lending. Repayment is dependent upon successful management and marketing of properties and on the level of expense necessary to maintain the property. In underwriting this type of loan, we consider the historical and projected future cash flows from the property. We make an assessment of the physical condition and general location of the property securing the loan and the effect these factors will have on its future desirability from a tenant standpoint. We will generally lend up to a maximum 80% loan-to-value ratio and require a minimum debt service coverage ratio of 1.2 or other compensating factors. Repayment of these loans may be adversely affected by conditions in the real estate market or the general economy. Also, commercial real estate loans typically involve relatively large loan balances to a single borrower. To mitigate these risks, we monitor our loan concentration to make sure that they conform to Bank policy levels. Commercial real estate loans generally have a shorter maturity than other loan types, giving us the opportunity to re-price, restructure or decline to renew the loan, as appropriate. As with other loans, all commercial real estate loans are graded depending upon strength of credit and performance. A lower grade will result in increased scrutiny by management and the board of directors.

Construction and Development Loans. We make residential construction and development loans to customers in our market area for both speculative projects and for projects being built with end buyers already secured. This type of loan is subject primarily to market and general economic risk caused by inventory buildup in

periods of economic prosperity. During times of economic stress, this type of loan has typically had a greater degree of risk than other loan types. To mitigate that risk, management reviews our entire construction and development portfolio on a monthly basis. The percentage of our portfolio being built on a speculative basis is tracked very closely. On a quarterly basis, our portfolio is segmented by market area to allow analysis of exposure and a comparison to current inventory levels in these areas. Our Loan Policy also provides for limits on speculative lending on a borrower-by borrower and project-by-project basis.

Residential real estate. Our residential real estate loans consist of residential second mortgage loans, residential construction loans and traditional mortgage lending for one-to-four family residences. All of our long-term fixed rate mortgages are underwritten for potential resale to the secondary market. We offer primarily adjustable rate mortgages. A majority of our fixed rate loans are sold in the secondary mortgage market. All loans are made in accordance with our appraisal policy, with the ratio of the loan principal to the value of collateral as established by independent appraisal not exceeding 80%, unless the borrower “provides” or “obtains” private mortgage insurance. We expect that these loan-to-value ratios will be sufficient to compensate for fluctuations in real estate market value and to minimize losses that could result from a downturn in the residential real estate market.

Consumer Loans. We offer various types of consumer loans to retail customers in the communities we serve. These include vehicle financing, loans secured by deposits, overdraft protection lines, and secured and unsecured personal loans. Consumer loans are generally more risky than traditional residential real estate loans, but less risky than commercial loans. Risk of default is usually determined by the well being of the local economies. During times of economic stress, there is usually some level of job loss both nationally and locally, which directly affects the ability of the consumer to repay debt. We manage our risk on consumer loans by imposing limits on the debt levels that consumer borrowers may carry and on loan terms and amounts, depending upon collateral type.

Loans secured by deposits carry little or no risk, but the other categories of consumer loans all carry varying degrees of risk:

- Home equity lines carry additional risk because of the increased difficulty of converting real estate to cash in the event of a default. We require our customers to carry adequate insurance coverage to pay all mortgage debt in full if the collateral is destroyed.
- Vehicle financing presents additional risks compared to real estate lending because the collateral is declining in value over the life of the loan and is mobile. We attempt to manage the risks inherent in vehicle financing by matching the loan term with the age and remaining useful life of the collateral to ensure the customer always has an equity position and is never “upside down.” Collateral is protected by requiring the customer to carry insurance that lists the Bank as loss payee.
- Secured personal loans are generally smaller and made to borrowers with somewhat limited financial resources and credit histories. These loans are secured by a variety of collateral with varying degrees of marketability in the event of default. We manage risks on these types of loans primarily at the underwriting level, with strict adherence to debt to income ratio limitations and conservative collateral valuations.
- Overdraft protection lines and other unsecured personal loans carry the greatest degree of risk in our consumer lending portfolio. Without collateral, we are completely dependent on the commitment of the borrower to repay and the stability of the borrower’s income stream.

Loan Participations. We sell loan participations in the ordinary course of business when a loan we originate exceeds our legal lending limit as defined by state banking laws. These loan participations have been generally sold to other financial institutions without recourse.

From time to time in the ordinary course of business we also purchase loan participations without recourse from other banks. Purchased loan participations are underwritten in accordance with our Loan Policy. Although the originating financial institution provides much of the initial underwriting documentation, we are responsible for the appropriate underwriting, approval and the ongoing evaluation of the loan. One risk associated with purchasing loan

participations is that we often rely on information provided to us by the selling bank regarding collateral value and the borrower's capacity to pay. To the extent this information is not accurate, we may experience a loss on these participations. Otherwise, we believe that the risk related to purchased loan participations is consistent with similar loans in the portfolio. If a purchased loan participation defaults, we would have no direct recourse against the selling bank but will take other commercially reasonable steps to minimize our loss.

The Bank's gross loans were \$140.2 million at December 31, 2010 compared to \$105.2 million one year earlier. Net loans equaled 83.8% of total assets as of December 31, 2010, a slight decline from the 85.3% reported for the previous year.

The breakdown of our loan portfolio, including loans held for sale, is shown below:

	December 31, 2010	%	December 31, 2009	%
Commercial	\$ 26,428,301	18.8%	\$ 21,502,232	20.4%
Real estate:				
Commercial	62,208,710	44.4%	42,510,972	40.4%
Residential	32,477,382	23.2%	28,520,256	27.1%
Construction & Development	11,514,963	8.2%	5,965,779	5.7%
Second Mortgages	1,903,147	1.3%	2,111,250	2.0%
Equity lines of credit	5,059,613	3.6%	3,800,744	3.6%
Consumer	641,195	0.5%	807,738	0.8%
Subtotals	140,233,311	100.0%	105,218,971	100.0%
Less: Allowance for loan losses	(3,045,732)		(2,122,837)	
Loans, net	<u>\$ 137,187,579</u>		<u>\$ 103,096,134</u>	

Net loans increased \$34.1 million, or 33.1%, during 2010. The Bank took advantage of a special loan growth opportunity in 2010 with the addition of another seasoned commercial lending officer with established ties to the Oshkosh community. This addition had an immediate impact enabling the Bank to increase commercial loans and commercial real estate loans by \$4.9 million and \$19.7 million respectively. The growth in commercial real estate loans in 2010 increased the percentage of loans held in this loan concentration category to 44.4% compared to 40.4% in 2009.

As of December 31, 2010, loan concentrations included approximately 44% to finance commercial real estate, 23% to finance residential property, and 19% to finance commercial loans. There were no other loan concentration categories that exceeded 10% as of December 31, 2010.

The following table provides the breakdown between fixed and variable rate loans as of December 31, 2010. Variable rate loans that include floor interest rates restrictions and that are currently at their respective floor interest rates are reported as fixed interest rate loans.

Types of Loans	Variable (Floating or Adjustable) Rate		Total
	Fixed Rates		
Commercial	\$ 17,698,017	\$ 8,730,284	\$ 26,428,301
Real Estate:			
Commercial	57,367,980	4,840,730	62,208,710
Residential	32,001,041	476,341	32,477,382
Construction	7,745,055	3,769,908	11,514,963
Second Mortgages	1,682,015	221,132	1,903,147
Equity Lines of Credit	14,800	5,044,813	5,059,613
Consumer	641,195	-	641,195
Subtotals	<u>\$ 117,150,103</u>	<u>\$ 23,083,208</u>	<u>\$ 140,233,311</u>

	Loans Maturing		
	Within 1 Year	After 1 Year	Total
Loans with:			
Fixed interest rates	\$ 28,519,843	\$ 88,630,260	\$ 117,150,103
Variable interest rates	20,836,950	2,246,258	23,083,208
	<u>\$ 49,356,793</u>	<u>\$ 90,876,518</u>	<u>\$ 140,233,311</u>

The table below shows maturities of loans by type:

Maturities	One year or less	Over one year to three years	Over three years to five years	Over five years to fifteen years	Over fifteen years	Total
Types of Loans						
Commercial	\$ 12,895,092	\$ 5,651,262	\$ 7,004,282	\$ 877,665	\$ -	\$ 26,428,301
Real Estate:						
Commercial	16,472,863	26,170,711	13,142,399	4,957,673	1,465,064	62,208,710
Residential	4,672,031	16,587,044	10,448,502	575,843	193,962	32,477,382
Construction	9,616,834	1,571,925	326,204	-	-	11,514,963
Second Mortgages	497,292	502,383	622,241	281,231	-	1,903,147
Equity Lines of Credit	5,044,813	-	-	14,800	-	5,059,613
Consumer	157,868	165,548	285,997	31,782	-	641,195
Subtotals	<u>\$ 49,356,793</u>	<u>\$ 50,648,873</u>	<u>\$ 31,829,625</u>	<u>\$ 6,738,994</u>	<u>\$ 1,659,026</u>	<u>\$ 140,233,311</u>

The Bank makes various assumptions and judgments about the collectability of its loan portfolio and provides an allowance for loan and lease losses (“*Allowance*”) based on a number of factors. The Allowance is established by management and is maintained at a level considered adequate by management to absorb loan losses that are probable and inherent in the Bank’s loan portfolio. The provision for loan and lease losses (the “*Provision*”) represents the amount periodically added to the Allowance and charged to earnings in the relevant period.

Activity in the Allowance is detailed below. The charge-offs shown in 2010 relate primarily to three loans. The Bank incurred Provision expense of \$2.6 million, shown below to replenish the Allowance.

<i>(In thousands)</i>	Twelve months	Twelve months
	Ended	Ended
	December 31, 2010	December 31, 2009
Balance at beginning	\$ 2,123	\$ 1,318
Provision for loan losses	2,590	5,501
Charge-offs	(1,794)	(4,698)
Recoveries	127	2
Ending balance	<u>\$ 3,046</u>	<u>\$ 2,123</u>

The breakdown of the Allowance as of December 31, 2010 and 2009 is shown in the table below:

<i>(In thousands)</i>	2010	2009
Types of Loans		
Commercial	\$ 1,130	\$ 754
Real Estate:		
Commercial	1,520	389
Residential	171	150
Construction	121	60
Second Mortgages	38	16
Equity Lines of Credit	54	752
Consumer	12	2
Total	<u>\$ 3,046</u>	<u>\$ 2,123</u>

At December 31, 2010, the Bank had three loans totaling \$260,396 classified as non-accrual. Two of the loans totaling \$225,448 are secured by real estate. While the third \$34,948 loan is secured by inventory and equipment. Management has factored these loans into the allowance at December 31, 2010.

For 2010, no interest payments were received on loans classified as non-accrual. The amount of interest that would have been recorded as interest income had the non-accrual loans been current during the year is approximately \$40,300.

In accordance with our Loan Policy, all loans of \$25,000 and more are assigned a risk rating at the time of closing. The scale runs from "1" (minimal risk) to "10" (loss). Loans are re-evaluated on a regular basis, with adjustments in the risk rating when necessary.

Our loan policy also dictates that Loans 90 days or more delinquent and credits with risk ratings of 8, 9 or 10 that are 60 days or more delinquent be placed on non-accrual status unless the principal and interest is either secured by readily marketable securities or guaranteed by a U.S. Government agency. Restoration to accrual status is allowed only if principal and interest are current to terms and reasonable certainty exists as to the obligor's repayment capacity and with the approval of the Board of Directors Loan Committee.

Investment Activities

Our Investment Policy includes strict standards regarding permissible investments, credit quality, maturity intervals and duration, and investment concentrations. The Asset/Liability Committee (ALCO) is responsible for

making investment decisions in accordance with policies approved by the Board of Directors. All transactions must be made through brokers on a list approved by the Board of Directors as an addendum to the Investment Policy. As of December 31, 2010, the investment portfolio included U.S. government agency debt, mortgage pass-through securities, corporate securities, and taxable municipal bonds.

The estimated fair market value of the investment portfolio as of December 31, 2010 was \$11,762,431, including a pre-tax unrealized gain of \$309,771. As of December 31, 2009, estimated fair market value was \$5,521,099 including pre-tax unrealized gain of \$336,069.

The Bank's investment strategies are aimed at maximizing income, preserving principal, managing interest rate risk, and avoiding credit risk. Although the Bank has no immediate plans to sell any of the securities in its portfolio, all investments are classified as "available for sale." This classification allows management the flexibility to sell securities in the future to adjust the portfolio as conditions change.

The table below shows the amortized cost and estimated fair market value of components of the Bank's available for sale investment portfolio.

	December 31, 2010		December 31, 2009	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
US Agency Securities	\$ 1,100,211	\$ 1,125,928	\$ 596,702	\$ 640,313
Municipal Securities	4,570,615	4,772,394	3,069,587	3,263,977
Mortgage Backed Securities	2,681,834	2,764,109	1,518,741	1,616,809
Corporate Bonds	3,100,000	3,100,000	0	0
Total Securities Available for Sale	<u>\$ 11,452,660</u>	<u>\$ 11,762,431</u>	<u>\$ 5,185,030</u>	<u>\$ 5,521,099</u>

The following table sets forth information regarding the scheduled maturities for the Bank's investment securities as of December 31, 2010, by contractual maturity. The maturities of the mortgage-backed securities are the stated maturity date of each security. The table does not take into consideration the effects of scheduled payments or possible payoffs.

	Within 1 Year		After 1 Year Within 5 Years		After 5 Year Within 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
<i>(In thousands)</i>								
At December 31, 2010:								
US Agency Securities	\$ 624	5.08%	\$ 0	0.00%	\$ 502	1.00%	\$ 0	0.00%
Municipal Securities	0	0.00%	4,242	4.22%	530	5.20%	0	0.00%
Mortgage Backed Securities	1,474	3.89%	1,290	4.84%	0	0.00%	0	0.00%
Corporate Securities	3,100	2.01%	0	0.00%	0	0.00%	0	0.00%
Total	<u>\$ 5,198</u>	<u>2.91%</u>	<u>\$ 5,532</u>	<u>4.36%</u>	<u>\$ 1,032</u>	<u>3.16%</u>	<u>\$ 0</u>	<u>0.00%</u>

	Totals	
	Amount	Yield
<i>(In thousands)</i>		
At December 31, 2010:		
US Agency Securities	\$ 1,126	3.26%
Municipal Securities	4,772	4.33%
Mortgage Backed Securities	2,764	4.33%
Corporate Securities	3,100	2.01%
Total	<u>\$ 11,762</u>	<u>3.62%</u>

Sources of Funds

The Bank uses deposits as the major external source of funding to finance lending and investment activities. In addition, the Bank derives funds from the repayment of loans, maturities of investment securities and certificates of deposit held at other banks. Scheduled loan principal and interest payments and investment maturities are a relatively stable source of funds while deposit flows and loan prepayments are significantly influenced by market interest rates, economic conditions, and competition.

We offer a full line of deposit products, including checking accounts, money market accounts, savings accounts, and certificates of deposit. We also offer Individual Retirement Accounts (“IRA”) and Health Savings Accounts (“HSA”). We offer account access on-line via our web site, www.choicebank.com. On-line bill payment service is also available. Virtually all account holders reside in our primary service area.

The Bank has also utilized funding from the wholesale brokered deposit market and participates in the CDARS program offered by the Promontory Interfinancial Network. These funding sources provide access to deposits often at lower interest rates than we must pay in our local competitive market area. Brokered deposits totaled \$25.5 million, (16.9% of total deposits) at December 31, 2010 compared to \$15.7 million (15.2% of total deposits) at the end of 2009. Our policy allows brokered deposits to be a maximum of 30 percent of total deposits.

The Bank has a \$9.8 million federal funds line of credit from its correspondent, Bankers Bank of Madison, Wisconsin. The line is secured by the Bank’s investment portfolio. The federal funds line has been used at times during the course of 2010 to fund loans and to provide liquidity. The maximum outstanding at any one time was \$1.8 million. At December 31, 2010, there was no outstanding balance on our line of credit.

The Bank’s deposit classifications as of December 31, 2010 and 2009 were as follows:

	December 31, 2010		December 31, 2009	
	Dollars	%	Dollars	%
Deposits				
Non-interest-bearing demand deposits	\$ 6,730,342	4.46%	\$ 5,057,864	4.91%
Interest-bearing demand deposits	3,109,973	2.06%	2,275,636	2.21%
Savings deposits	3,257,156	2.16%	4,053,869	3.93%
Money market deposits	53,571,610	35.52%	32,448,524	31.49%
Certificates of deposit less than \$100,000	36,762,000	24.38%	29,670,671	28.79%
Certificates of deposit \$100,000 and greater	47,387,815	31.42%	29,546,667	28.67%
	<u>\$ 150,818,896</u>	<u>100.00%</u>	<u>\$ 103,053,231</u>	<u>100.00%</u>

Selected maturities of certificates of deposit at December 31, 2010 were as follows:

	Certificates of Deposit \$100,000 and Greater	Certificates of Deposit Less Than \$100,000	Total
Due three months or less	\$ 15,600,509	\$ 6,037,393	\$ 21,637,902
Due more than three months to six months	4,268,706	8,992,328	13,261,034
More than six months to one year	5,369,997	7,219,298	12,589,295
Over one year	22,148,603	14,512,981	36,661,584
	<u>\$ 47,387,815</u>	<u>\$ 36,762,000</u>	<u>\$ 84,149,815</u>

The weighted average interest rate paid on certificates of deposit for 2010 was 2.38%, compared to 3.22% paid during 2009. Our overall cost of funds averaged 2.02% for 2010 which was a decline of 78 basis points from the 2.80% cost of funds paid in 2009. The significant drop in rates reflected the lower rate environment for 2010 relative to the prior year. Our cost of funds was also favorably impacted by core deposit growth combined with the \$14.2 million growth in brokered term deposits at interest rates below local market costs during 2010.

Supervision and Regulation

As a Wisconsin-chartered bank and federally insured depository institution, we are subject to state and federal banking laws and regulations that impose specific requirements or restrictions on and provide for general regulatory oversight with respect to virtually all aspects of our operations. These laws and regulations are generally intended to protect depositors, not shareholders. To the extent that the following summary describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in applicable laws or regulations may have a material effect on our business and prospects. Our operations may be affected by legislative changes and policies of various regulatory authorities. We are unable to predict the nature or the extent of the effect on our business and earnings that fiscal or monetary policies or new federal or state legislation may have in the future.

General

We operate as a Wisconsin-chartered commercial bank subject to examination by the Wisconsin Department of Financial Institutions – Division of Banking (“DFI”). Deposits are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000 per depositor through December 31, 2013 per legislation enacted in 2008, subject to aggregation rules, and \$250,000 for self-directed retirement accounts. The Bank elected to

participate in the FDIC's Transaction Account Guarantee Program whereby, through December 31, 2012, all noninterest bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account.

We are under the supervision of, and subject to regulation and examination by, the DFI and the FDIC. We are subject to various statutes and regulations administered by these agencies that govern, among other things, the following:

- required reserves;
- investments;
- loans and lending limits;
- mergers and consolidations;
- establishment of branch offices; and
- the payment of dividends.

As our primary federal regulator, the FDIC has the authority to impose penalties, initiate civil and administrative actions and take other steps to prevent us from engaging in unsafe and unsound practices.

Payment of Dividends

Statutory and regulatory limitations apply to our ability to pay dividends to our shareholders. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Further, a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Further, in connection with our implementation of certain strategic initiatives (see "MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – Strategic Plans and Initiatives") our banking regulators have advised us that, for the foreseeable future, we should not declare or pay dividends without their prior consent. We do not expect to consider paying dividends unless and until such time as the Bank becomes profitable.

Capital Regulations

The federal bank regulatory authorities have adopted risk-based capital guidelines for banks that are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and to account for off-balance sheet items. The guidelines are minimums, and the federal regulators have noted that banks contemplating significant expansion programs should not allow expansion to diminish their capital ratios and should maintain such ratios in excess of the minimums.

The current guidelines require all federal-regulated banks to maintain a minimum risk-based total capital ratio equal to 8%, of which at least 4% must be tier 1 capital. Tier 1 capital includes common shareholders' equity, qualifying perpetual preferred stock and minority interests in equity accounts of consolidated subsidiaries, but excludes goodwill and most other intangibles and excludes the allowance for loan losses. Tier 2 capital includes the excess of any preferred stock not included in tier 1 capital, mandatory convertible securities, hybrid capital instruments, subordinated debt and intermediate term-preferred stock and general reserves for loan losses up to 1.25% of risk-weighted assets.

Under these guidelines, banks' assets are given risk-weights of 0%, 20%, 50% or 100%. In addition, certain off-balance sheet items are given credit conversion factors to convert them to asset equivalent amounts to which an appropriate risk-weight will apply. These computations result in the total risk-weighted assets. Most loans are assigned to the 100% risk category, except for first mortgage loans fully secured by residential property and, under certain circumstances, residential construction loans, both of which carry a 50% rating. Most investment securities are assigned to the 20% category, except for municipal or state revenue bonds, which have a 50% rating, and direct obligations of or obligations guaranteed by the United States Treasury or United States Government agencies, which have a 0% rating.

The federal bank regulatory authorities have also implemented a leverage ratio, which is equal to Tier 1 capital as a percentage of average total assets less intangibles, to be used as a supplement to the risk-based

guidelines. The principal objective of the leverage ratio is to place a constraint on the maximum degree to which a bank may leverage its equity capital base. The minimum required leverage ratio for top-rated institutions is 4%, but most institutions are required to maintain an additional cushion of at least 100 to 200 basis points. The Bank's leverage ratio was 7.22% 8.39% as of December 31, 2010, providing it with a leverage ratio cushion of 322 basis points. Prompt Corrective Action

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the federal banking regulators (in this case, the FDIC) are required to take prompt corrective action if an insured depository institution fails to satisfy certain minimum capital requirements. All institutions, regardless of their capital levels, are restricted from making any capital distribution or paying any management fees if the institution would thereafter fail to satisfy the minimum levels for any of its capital requirements.

Federal banking regulators have adopted regulations implementing the prompt corrective action provisions of FDICIA. Under these regulations, the federal banking regulators will generally measure a depository institution's capital adequacy on the basis of the institution's total risk-based capital ratio (the ratio of its total capital to risk-weighted assets), tier 1 risk-based capital ratio (the ratio of its core capital to risk-weighted assets) and leverage ratio (the ratio of its core capital to adjusted total assets).

Under the regulations, an institution that is not subject to an order or written directive by its primary federal regulator to meet or maintain a specific capital level will be deemed "well capitalized" if it has: (i) a total risk-based capital ratio of 10% or greater; (ii) a Tier 1 risk-based capital ratio of 6.0% or greater; and (iii) a leverage ratio of 5.0% or greater. An "adequately capitalized" depository institution is an institution that does not meet the definition of well capitalized and has: (i) a total risk-based capital ratio of 8.0% or greater; (ii) a tier 1 risk-based capital ratio of 4.0% or greater; and (iii) a leverage ratio of 4.0% or greater (or 3.0% or greater if the depository institution has a composite 1 CAMEL rating). An "undercapitalized institution" is a depository institution that has (i) a total risk-based capital ratio less than 8.0%; or (ii) a Tier 1 risk-based capital ratio of less than 4.0%; or (iii) a leverage ratio of less than 4.0% (or less than 3.0% if the institution has a composite 1 CAMEL rating). A "significantly undercapitalized" institution is defined as a depository institution that has: (i) a total risk-based capital ratio of less than 6.0%; or (ii) a tier 1 risk-based capital ratio of less than 3.0%; or (iii) a leverage ratio of less than 3.0%. A "critically undercapitalized" institution is defined as a depository institution that has a ratio of "tangible equity" to total assets of less than 2.0%. Tangible equity is defined as core capital plus cumulative perpetual preferred stock (and related surplus) less all intangibles other than qualifying supervisory goodwill and certain purchased mortgage servicing rights.

An institution that fails to meet the minimum level for any relevant capital measure may be: (i) subject to increased monitoring by the appropriate federal banking regulator; (ii) required to submit an acceptable capital restoration plan within 45 days, (iii) subject to asset growth limits; and/or (iv) required to obtain prior regulatory approval of acquisitions, branching and new lines of businesses. A significantly undercapitalized institution may be subject to regulatory demands for recapitalization, broader application of restrictions on transactions with affiliates, limitations on interest rates paid on deposits, asset growth and other activities and possible replacement of directors and officers. The senior executive officers of a significantly undercapitalized institution may not receive bonuses or increases in compensation without prior regulatory approval and the institution is prohibited from making payments of principal or interest on its subordinated debt. A critically undercapitalized institution will be subject to conservatorship or receivership within 90 days unless periodic determinations are made that forbearance from such action would better protect the deposit insurance fund.

Deposit Insurance Premiums

As an FDIC-insured institution, the Bank is required to pay deposit insurance premiums based on the risk it poses to the FDIC Deposit Insurance Fund (the "DIF"). In 2008, the FDIC had the authority to raise or lower assessment rates on insured deposits in order to achieve certain designated reserve ratios in the insurance funds and to impose special additional assessments. The FDIC had adopted a premium rate schedule, which provided for an assessment range in 2008 of 0.05% to 0.43% of domestic deposits, depending on the risk category to which the Bank was assigned based on capital levels, supervisory ratings and other risk measures. For the first quarter of 2009 these ranges were increased by 0.07%.

Under regulations that became effective on April 1, 2009, the assessment system was revised to take into consideration not only each institution's risk category as determined by capital levels, supervisory ratings and other risk measures, but also the institution's unsecured debt, secured liabilities and brokered deposits. In the second quarter of 2009, there was a 70.5 basis point spread between the highest and lowest possible assessment rates. Banks classified by the FDIC in Risk Category I are subject to an assessment ranging from 12-16 basis points, but that range can be adjusted from 7 to 24 basis points under the revised system. Banks classified by the FDIC in Risk Category IV are subject to an assessment of 45 basis points, with possible adjustments ranging from 40-77.5 basis points under the revised system. Risk assessment rates are determined on the last day of each quarter.

In May 2009, the FDIC also voted to levy a .05% special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. The special assessment was collected on September 30, 2009 and was capped at .10% of an institution's domestic deposits. Additional .05% special assessments on each institution's total assets minus Tier 1 capital may also be assessed by the FDIC if the agency believes that the Deposit Insurance Fund is estimated to fall to a level that would adversely affect public confidence.

On November 12, 2009, the FDIC issued new assessment regulations that required FDIC-insured institutions to prepay on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. While the Bank made the full prepayment of \$613,924 in 2009, the quarterly amounts will not be reflected as a charge against earnings until the periods to which they apply.

Community Reinvestment Act and Fair Lending

The Bank is subject to the provisions of the Community Reinvestment Act (the "CRA"). The CRA generally requires federal banking agencies to evaluate whether financial institutions are meeting the credit needs of their local communities, including low- and moderate-income neighborhoods and to rate such institutions and publicly disclose such ratings. State and federal agencies also examine financial institutions compliance with fair lending laws. A bank may be subject to substantial penalties and corrective measures for violating certain fair lending laws. Federal banking agencies are also authorized to take compliance with such laws and a bank's CRA rating into consideration when regulating and supervising other activities of a bank holding company and the Bank, including expansionary activities. As of the date of its most recent examination, the Bank has a CRA rating of satisfactory.

Compliance with Consumer Protection Laws

The Bank is subject to many federal consumer protection statutes and regulations including the Truth in Lending Act, Truth in Savings Act, Equal Credit Opportunity Act, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act of 2003, Fair Housing Act, Real Estate Settlement Procedures Act and Home Mortgage Disclosure Act. Among other things, these acts:

- require the Bank to disclose credit terms in meaningful and consistent ways;
- prohibit discrimination against an applicant in any consumer or business credit transaction;
- prohibit discrimination in housing-related lending activities;
- regulate the manner in which the Bank must deal with customers and certain information about customers;
- require the Bank to collect and report applicant and borrower data regarding loans for home purchases or improvement projects;
- require lenders to provide borrowers with information regarding the nature and cost of real estate settlements;
- prohibit certain lending practices and limit escrow account amounts with respect to real estate transactions; and
- prescribe possible penalties for violations of the requirements of consumer protection statutes and regulations.

Privacy and Security

The Gramm-Leach-Bliley Act (“GLBA”) also establishes a minimum federal standard of financial privacy by, among other provisions, requiring the Bank to adopt and disclose privacy policies with respect to consumer information and setting forth certain rules with respect to the disclosure to third parties of consumer information. The Bank has adopted and disseminated its privacy policies pursuant to the GLBA. Regulations adopted under the GLBA set standards for protecting the security, confidentiality and integrity of customer information, and require notice to regulators, and in some cases, to customers, in the event of security breaches. A number of states have adopted their own statutes requiring notification of security breaches. In addition, the GLBA requires the disclosure of agreements reached with community groups that relate to the CRA, and contains various other provisions designed to improve the delivery of financial services to consumers while maintaining an appropriate level of safety in the financial services industry.

USA PATRIOT Act

The terrorist attacks in September 2001 impacted the financial services industry and led to federal legislation that attempts to address certain related issues involving financial institutions. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “USA PATRIOT Act”), enacted in October 2001, among other things requires each financial institution: (i) to establish an anti-money laundering program; (ii) to establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving foreign individuals and certain foreign banks; and (iii) to avoid establishing, maintaining, administering or managing correspondent accounts in the United States for, or on behalf of, a foreign bank that does not have a physical presence in any country.

State Bank Activities

Under federal law and FDIC regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type or amount, either of which is not permitted for a national bank. Federal law and FDIC regulations also prohibit FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as a principal in any activity that is not permitted for a national bank or its subsidiary, respectively, unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines the activity would not pose a significant risk to the deposit insurance fund of which the bank is a member.

Eligible state banks are authorized to engage through “financial subsidiaries,” in certain activities that are permissible for financial holding companies and certain activities that the Secretary of the Treasury, in consultation with the Federal Reserve, determines to be financial in nature or incidental to any such financial activity.

Change of Control

Federal law restricts the amount of voting stock of a bank or a bank holding company that a person may acquire without the prior approval of banking regulators. The overall effect of such laws is to make it more difficult to acquire a bank by tender offer or similar means than it might be to acquire control of another type of corporation. Consequently, the Bank’s shareholders may be less likely to benefit from the rapid increase in stock prices that might result from tender offers or similar efforts to acquire control of other companies.

Recent Legislative and Regulatory Developments

In response to global credit and liquidity issues involving a number of financial institutions, the United States government, particularly the Treasury Department and the FDIC, have taken a variety of extraordinary measures designed to restore confidence in the financial markets and to strengthen financial institutions, including capital injections, guarantees of bank liabilities and the acquisition of illiquid assets from Bank.

On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 (the “EESA”) enacted by the U.S. Congress. Pursuant to the EESA, the Treasury Department was granted the authority to take a range of actions for the purpose of stabilizing and providing liquidity to the U.S. financial

markets and has proposed several programs, including the purchase by the Treasury Department of certain troubled assets from financial institutions (the “Troubled Asset Relief Program” or “TARP”) and the direct purchase by the Treasury Department of equity of healthy financial institutions (the “Capital Purchase Program” or “CPP”).

Among other programs and actions taken by the Bank regulatory agencies, the FDIC implemented the Temporary Liquidity Guarantee Program (“TLGP”) to strengthen confidence and encourage liquidity in the Banking system. Included in the TLGP is the Transaction Account Guarantee Program (“TAGP”). The TAGP offers full guarantee for noninterest-bearing transaction accounts held at FDIC-insured depository institutions. The unlimited deposit coverage was voluntary for eligible institutions and was in addition to the \$250,000 FDIC deposit insurance per account that was included as part of the EESA. The TAGP coverage became effective on October 14, 2008 and was scheduled to terminate on December 31, 2009, however the FDIC extended the program until December 31, 2012 unless a participating institution opted out of such extension. Institutions remaining in the program are subject to increased assessment rate of between 15 basis points and 25 basis points depending on the institution’s composite regulatory rating. The Bank did not opt out of the TLGP extension period and therefore is subject to such applicable increased assessment rates and will continue to offer transaction accounts with an unlimited FDIC insurance guaranty through December 31, 2012.

Under the Dodd-Frank Act, discussed below, this unlimited coverage was extended for non-interest bearing transaction accounts and IOLTA accounts for all federally-insured financial institutions through January 1, 2014

The Dodd-Frank Act

On July 21, 2010, President Obama signed the Dodd-Frank Act into law, which resulted in sweeping changes in the regulation of financial institutions aimed at strengthening safety and soundness for the financial services sector. A summary of certain provisions of the Dodd-Frank Act is set forth below:

- *Increased Capital Standards and Enhanced Supervision.* The federal banking agencies are required to establish minimum leverage and risk-based capital requirements for banks and bank holding companies. These new standards will be no lower than current regulatory capital and leverage standards applicable to insured depository institutions and may, in fact, be higher when established by the agencies. The Dodd-Frank Act also increases regulatory oversight, supervision and examination of banks, bank holding companies and their respective subsidiaries by the appropriate regulatory agency.
- *Federal Deposit Insurance.* The Dodd-Frank Act makes permanent the \$250,000 deposit insurance limit for insured deposits and provides unlimited federal deposit insurance on non-interest bearing transaction accounts at all insured depository institutions until December 31, 2012. The Dodd-Frank Act also changes the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible equity, eliminates the ceiling on the size of the DIF and increases the floor of the size of the DIF.
- *The Consumer Financial Protection Bureau (“Bureau”).* The Dodd-Frank Act centralizes responsibility for consumer financial protection by creating a new agency, the Bureau, responsible for implementing, examining and, for large financial institutions, enforcing compliance with federal consumer financial laws. Because the Bank has under \$10 billion in total assets, however, the OCC will still continue to examine it at the federal level for compliance with such laws.
- *Interest on Demand Deposit Accounts.* The Dodd-Frank Act repeals the prohibition on the payment of interest on demand deposit accounts effective one year after the date of enactment, thereby permitting depository institutions to pay interest on business checking and other accounts.
- *Mortgage Reform.* The Dodd-Frank Act provides for mortgage reform addressing a customer’s ability to repay, restricts variable-rate lending by requiring the ability to repay to be determined for variable rate loans by using the maximum rate that will apply during the first five years of a variable-rate loan term, and makes more loans subject to requirement for higher-cost loans, new disclosures and certain other restrictions.

We expect that many of the requirements called for in the Dodd-Frank Act will be implemented over time, and most will be subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on financial institutions' operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose more stringent capital, liquidity and leverage ratio requirements on us or otherwise adversely affect our business. These changes may also require us to devote significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements.

Future Legislation

Various legislation is from time to time introduced in Congress and state legislatures with respect to the regulation of financial institutions. Such legislation may change the banking statutes and the operating environment of the Bank in substantial and unpredictable ways. We cannot determine the ultimate effect that potential legislation, or implementing regulations, if enacted, would have upon the financial condition or results of operations of the Company or the Bank.

THE LAWS AND REGULATIONS DISCUSSED ABOVE, AS WELL AS THOSE NOT DISCUSSED HEREIN, ADD SIGNIFICANTLY TO THE COST OF THE BANK'S OPERATIONS AND THUS HAVE A NEGATIVE AND INDETERMINATE IMPACT ON ITS PROFITABILITY. THERE HAS ALSO BEEN AN EXPANSION IN RECENT YEARS OF THE NUMBER OF FINANCIAL SERVICES PROVIDERS THAT ARE NOT SUBJECT TO SOME OR ALL OF THE SAME RULES AND REGULATIONS AS THE BANK IS. THOSE INSTITUTIONS, BECAUSE THEY ARE NOT AS HIGHLY REGULATED AS THE BANK, HAVE A COMPETITIVE ADVANTAGE OVER THE BANK AND MAY CONTINUE TO DRAW FUNDS AWAY FROM TRADITIONAL BANKING INSTITUTIONS.

LEGAL PROCEEDINGS

We may be involved from time to time in various routine legal proceedings incidental to our business. To our knowledge, there are no pending legal proceedings to which the Bank is a party and which may have a materially adverse effect on the Bank's property, business, financial condition, or results of operations.

DIVIDENDS AND MARKET FOR OUR COMMON STOCK

Prior to consummation of the Reorganization on March 10, 2011 the Bank's common stock was traded over the counter on the OTC Bulletin Board ("OTCBB") under the symbol "CBKW.OB." Trading on the OTCBB began on July 24, 2006, prior to which there was no established market for the Bank's common stock. Since the Bank's stock became listed on the OTC Bulletin Board, trading activity has been light, and there is no expectation that trading activity will increase in the future. The following table sets forth the high and low OTCBB bid quotations for the Bank's common stock by quarter for the past two years:

	Quarter ended			
	12/31/2010	9/30/2010	6/30/2010	3/31/2010
High bid	\$8.00	\$8.60	\$8.60	\$8.50
Low bid	\$6.15	\$7.75	\$7.70	\$7.00
	12/31/2009	9/30/2009	6/30/2009	3/31/2009
High bid	\$9.30	\$9.25	\$9.25	\$10.25
Low bid	\$7.25	\$7.80	\$8.80	\$8.00

Following consummation of the Reorganization on March 10, 2011, the Holding Company's stock is traded on the OTCBB under the same "CBKW.OB" symbol that represented the Bank's stock prior to that date.

At March 1, 2011, there were approximately 933 Bank shareholders of record, with 2,160,620 shares outstanding. The number of shares outstanding included 2,160,000 shares sold in the Bank's initial public offering and 620 shares issued upon the exercise of shareholder warrants. On that date there were outstanding warrants to purchase 431,370 shares of Bank stock that were awarded to the Bank's initial shareholders based on one warrant for every five shares of stock purchased, each having an exercise price of \$12.50 per share and expiring on July 24, 2012. Finally, on March 1, 2011, the Bank had outstanding warrants to purchase 213,750 shares of Bank stock that were awarded to the Bank's organizers, each having an exercise price of \$10.00 per share and expiring on July 24, 2016.

Effective with the consummation of the Reorganization on March 10, 2011, each issued and outstanding share of Bank common stock was converted solely into the right to receive one (1) share of Holding Company common stock and the outstanding warrants for Choice Bank common stock were converted into substantially identical warrants to acquire Holding Company common stock.

Dividends and Dividend Policy

Historically, we have not paid cash dividends on our common stock and we do not expect to pay cash dividends on our common stock in the foreseeable future. We believe that it is in the best interest of our shareholders to reinvest our earnings in the Bank. Our dividend policy could change in the future, however, there are substantial restrictions and limitations on our ability to pay dividends.

Since organizing in 2006, the Bank has not declared or paid dividends on its common stock, and none are anticipated during the upcoming year. As a relatively new financial institution, the Bank is subject to significant regulatory restrictions on the payment of cash dividends. At the present time, we have no plans to pay dividends but, instead, we expect to reinvest earnings to expand and grow the Bank. Dividend decisions in the future will be made by our Board of Directors, taking into account growth potential, earnings, capital requirements, economic conditions, and any other factors deemed relevant.

The Choice Bank Stock Incentive Plan was approved by our shareholders on July 11, 2006. The table below shows warrants awarded to Bank organizers and options granted to executive officers as of December 31, 2010. Options vest ratably over a three year period, are exercisable at \$10 per share, and have a ten-year term. As of December 31, 2010, 76,667 of the 123,333 options granted were exercisable.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities shown in column a)
<u>Equity compensation plans</u>	<u>a</u>	<u>b</u>	<u>c</u>
approved by shareholders	123,333 (1)	\$10.00	236,667
not approved by shareholders	<u>213,750 (2)</u>	\$10.00	<u>0</u>
Total	<u>337,083</u>	\$10.00	<u>236,667</u>

(1) Includes options awarded under the Choice Bank Stock Option Plan. Options granted include:

Keith C. Pollnow	Former director, President & CEO (resigned February 25, 2011)	50,000
Stanley G. Leedle	Director, Interim President	40,000
Scott Sitter	Senior Vice President	10,000
Debra K. Fernau	Vice President & COO	10,000
John F. Glynn	Senior Vice President & CFO	5,000
Mark D. Troudt	Director, Risk Management Officer	5,000
David A. Hayford	Former Bank Officer	<u>3,333</u>
		<u>123,333</u>

(2) Includes organizer warrants issued to our Bank organizers.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the audited financial statements appearing in this Annual Report.

Critical Accounting Policies

Our accounting and reporting policies are in accordance with GAAP and conform to general practices within the banking industry. Our significant accounting policies are described in the notes to the financial statements. Certain accounting policies require management to make significant estimates and assumptions, which have a material impact on the carrying value of certain assets and liabilities, and we consider these to be critical accounting policies. The estimates and assumptions used are based on historical experience and other factors that management believes to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and results of operations for the reporting periods. We believe the following critical accounting policies require the most significant estimates and assumptions that are particularly susceptible to a significant change in the preparation of our financial statements.

Income Taxes

Deferred income taxes and liabilities are determined using the liability method. Under this 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.

Allowance for Loan and Lease Losses

Management considers the policies related to the Allowance critical to the financial statement presentation. The Allowance represents management's assessment of the risk associated with extending credit and its evaluation of the quality of the loan portfolio. Management's assessment of the adequacy of the Allowance is determined based on evaluation of individual loans as well as the general risk factors inherent to the extension of credit. At December 31, 2010 and 2009, our allowance was 2.17% and 2.02% of our gross loan portfolio respectively.

A provision for loan losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors affecting the adequacy of the Allowance.

The following factors are considered in maintaining the Allowance:

- the asset quality of individual loans;
- changes in the national and local economy and business conditions/development, including underwriting standards, collections, charge off and recovery practices;
- changes in the nature and volume of the loan portfolio;
- changes in the experience, ability and depth of our lending staff and management;
- possible deterioration in collateral segments or other portfolio concentrations;
- changes in the quality of our loan review system and the degree of oversight by our board of directors;
- the effect of external factors such as competition and the legal and regulatory requirements on the level of estimated credit losses in our current loan portfolio; and
- off-balance sheet credit risks.

These factors are evaluated at least quarterly and changes in the asset quality of individual loans will be evaluated more frequently as needed. We establish minimum general reserves based on the asset quality of the loan. General reserve factors applied to each type of loan are based upon management's experience and common industry and regulatory guidelines. After a loan is underwritten and booked, loans are monitored or reviewed by the account officer, management, and external loan review personnel during the life of the loan. Payment performance is monitored monthly for the entire loan portfolio. Account officers contact customers during the course of business and may be able to ascertain if weaknesses are developing with the borrower, external loan personnel perform an independent review annually, and federal and state banking regulators perform periodic reviews of the loan portfolio. If weaknesses develop in an individual loan relationship and are detected, the loan will be downgraded and higher reserves will be assigned based upon management's assessment of the weaknesses in the loan that may affect full collection of the debt. If a loan does not appear to be fully collectible as to principal and interest, the loan will be recorded as a non-accruing loan and further accrual of interest will be discontinued while previously accrued but uncollected interest is reversed against income. If a loan will not be collected in full, the Allowance is increased through a loan loss provision charged to earnings to reflect management's estimate of potential exposure of loss.

In 2010, the Bank charged off approximately \$1.8 million related to three loans. Management elected to provide regular and special loan loss provisions in the amount of \$2.6 million to replace depleted loan loss reserves and bolster our reserves to support loan growth in 2010. As of December 31, 2010, the Bank has three loans classified as non-accrual. Two of the loans, totaling \$225,448, are secured by real estate. The remaining loan totals \$34,948 and is secured primarily by inventory and equipment. Management has factored these loans into the Allowance reported as of December 31, 2010.

Management believes that resolution of these credits will be achieved without substantial additional impact to earnings.

Historical performance is not an indicator of future performance, particularly considering our very short operating history. Future results could differ materially. However, management believes, based upon known factors, management's judgment, and regulatory methodologies, that the current methodology used to determine the adequacy of our Allowance is reasonable.

The Allowance is also subject to regulatory examinations and determinations as to adequacy, which may take into account such factors as the methodology used to calculate the Allowance and the size of the Allowance in comparison to a group of peer banks identified by the regulators. During their routine examinations of banks, regulatory agencies may require a bank to make additional provisions to its allowance for loan and lease losses when, in the opinion of the regulators, credit evaluations and methodology differ materially from those of management. While it is our policy to charge off in the current period loans for which a loss is considered probable, there are additional risks of future losses that cannot be quantified precisely or attributed to particular loans or classes of loans.

General

Our results of operations depend primarily on net interest income, which is the difference between interest earned on interest-earning assets such as loans and securities, and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. We also generate non-interest income such as service charges, secondary market fees for mortgage loans, and other fees. Non-interest expenses consist primarily of employee compensation and benefits, occupancy expenses, marketing expenses, data processing costs, and other operating expenses. We are subject to losses from our loan portfolio if borrowers fail to meet their obligations. Results of operations can also be significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory agencies.

The following discussion focuses on the major components of the Bank's operations. This discussion should be read in conjunction with our financial statements and accompanying notes. Current performance may not be indicative of our future performance.

Strategic Plans and Initiatives

As a result of a recent regulatory examination, the Bank, in consultation with its banking regulators, has implemented or is in the process of implementing the following strategic plans and initiatives, among others:

1. The Bank will formulate a written plan of action to lessen the Bank's risk position in each asset which is classified as "Substandard" by the Banking Regulators and which aggregated \$200,000 or more. Such plan will include establishing dollar levels to which the Bank will strive to reduce each asset and the submission of monthly written progress reports to the Bank's board of directors for review.
2. Prior to submission of Reports of Condition and Income required by the FDIC, the board of directors of the Bank will review the adequacy of the Bank's allowance for loan and lease losses, provide an adequate allowance, and report such allowance.
3. The Bank will ensure ongoing compliance with the FFIEC Advisory on Interest Rate Risk Management issued on January 6, 2010.

4. The Bank will ensure ongoing compliance with the Interagency Statement Policy on Funding and Liquidity Risk Management, issued March 22, 2010.
5. The Bank will take steps to reduce certain concentrations of credit within its portfolio.
6. The Bank will insure that all watch list credits and “Troubled Debt Restructures” are properly reported to the board of directors.
7. The Bank will develop a written plan to address goals and strategies for improving and sustaining earnings. Such plan will be consistent with the Bank’s loan, investment, and funds management policies. It will include, among other things, areas of potential operational improvement, realistic and comprehensive budgets, a budget review process, a description of operating assumptions, and a periodic salary review for staff.
8. The Bank will strive to achieve a Tier 1 Leverage Capital ratio at a level equal to or exceeding 8% of the Bank’s total assets and a Total Risk-Based Capital ratio level equal to or exceeding 11% of the Bank’s 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.

ALTHOUGH THESE STRATEGIC INITIATIVES ARE DESIGNED TO STRENGTHEN THE BANK’S FINANCIAL CONDITION, MANAGEMENT AND STRATEGIC PLANNING FUNCTIONS, THERE CAN BE NO ASSURANCE THAT WE WILL IMPLEMENT THESE STRATEGIC INITIATIVES SUCCESSFULLY OR THAT IMPLEMENTING THEM WILL RESULT IN ANY IMPROVEMENTS IN OUR FINANCIAL CONDITION OR RESULTS OF OPERATIONS. MOREOVER, THERE ARE SIGNIFICANT RISKS ASSOCIATED WITH OUR EFFORTS TO IMPLEMENT THESE INITIATIVES OR OUR FAILURE TO IMPLEMENT THEM SUCCESSFULLY, SEE “RISK FACTORS.”

Comparisons of Operating Results for the periods ended December 31, 2010 and 2009

The Bank recorded a net loss of \$5.1 million, or \$2.35 per share for the year ended December 31, 2010, compared to a net loss of \$2.8 million or \$1.32 per share in 2009. 2010 operating results were impacted by asset quality issues associated with losses on problem loans and the devaluation of real estate property held as other real estate owned. The Bank also established a valuation allowance against the Bank's deferred tax asset that had a negative impact on earnings for 2010.

The Bank charged off approximately \$1.8 million in loans during 2010 related to the downturn in the housing market and general decline in the economy. The level of charge-offs combined with regular assessments of credit risk required a \$2.6 million provision for loan losses charged to our earnings for 2010. The Bank also incurred a charge of \$1.5 million related to the devaluation of real estate property held as other real estate owned.

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 increased to \$3.7 million. Based on current and prior year losses, a 100% valuation allowance was determined to be necessary at December 31, 2010. The establishment of a valuation allowance on deferred tax assets resulted in income tax expense of \$2.8 million for 2010.

Although the Bank experienced asset quality issues during 2010, there were a number of positive results to report. Total assets increased by \$42.9 million, or 35.5% compared to year-end 2009. Included in total asset growth was an increase of \$34.1 million in the loan portfolio compared to year-end 2009. As of December 31, 2010, nonperforming loans were \$260,396 representing 0.19% of total loans. As of December 31, 2009, nonperforming loans were \$3.8 million representing 3.61% of total loans. Nonperforming loans declined by \$3.5 million compared to the prior year-end.

In addition to achieving significant balance sheet growth, the Bank's average net interest spread and average net interest margin improved by 82 basis points and 56 basis points respectively from the average ratios reported for 2009. Contributing to this positive performance was the expansion of the commercial loan portfolio that helped increase the yield on earning assets and the growth in core deposits and brokered term deposits that helped lower the Bank's cost of funds during 2010.

Net interest income for 2010 was \$4.9 million compared to \$3.5 million during 2009. The \$1.4 million, or 40.0%, increase in net interest relative to 2009 is attributed to the combination of growth in earning assets and the increase in net interest spread during 2010.

Non-interest revenues for 2010 were up \$0.2 million from 2009 due to rental income and mortgage financing fees.

Although non-interest expenses increased by approximately \$2.0 million from the prior year, about 75% of this increase relates to the noted devaluation of other real estate held by the Bank.

The Bank's capital position remains strong with a 9.58% Tier I risk-based capital ratio for 2010. The Bank's capital position, when combined with the Allowance, provides ample cushion in the event of additional loan charge-offs.

Basic ratios measuring performance for the year ended December 31, 2010 are shown below:

Return on Assets (net income divided by average total assets)	\$ (5,082,656)	=	<u><u>-3.53%</u></u>
	\$ 143,843,226		
Return on Equity (net income divided by average equity)	\$ (5,082,656)	=	<u><u>-28.80%</u></u>
	\$ 17,648,857		
Equity to Assets Ratio (average equity divided by average assets)	\$ 17,648,857	=	<u><u>12.27%</u></u>
	\$ 143,843,226		

Net interest income

Net interest income is the difference between the income earned on assets and interest paid on deposits and borrowings used to support such assets. Net interest income is determined by the yields earned on our interest-earning assets and the rates paid on our interest-bearing liabilities, the relative amounts of interest-earning assets and interest-bearing liabilities, and the degree of mismatch and the maturity and repricing characteristics of our interest-earning assets and interest-bearing liabilities. Net interest income divided by average interest-earning assets represents our net interest margin. Competition for loans and deposits has a direct effect on net interest margin.

The following table represents the average volume of interest-earning assets, interest-bearing liabilities, average yields and rates for the years ended December 31, 2010 and 2009:

Year ended December 31, 2010

Year ended December 31, 2009

Assets:	Average Balance	Income/Expense	Annualized Yield/Cost	Average Balance	Income/Expense	Annualized Yield/Cost
Deposits in banks	\$ 0	\$ 0	0.00%	\$ 690,345	\$ 15,321	2.22%
Investment securities	8,799,591	322,504	3.66%	5,708,438	284,052	4.98%
Federal Funds sold	4,046,666	5,680	0.14%	1,291,868	1,999	0.15%
Loans (1)	121,231,407	6,942,878	5.73%	107,931,479	5,933,376	5.50%
Total interest-earning assets	134,077,664	\$ 7,271,062	5.42%	115,622,130	\$ 6,234,748	5.39%
Allowance for Loan Losses	(2,273,751)			(1,324,158)		
Cash and due from banks	1,205,812			1,330,347		
Other assets	10,820,769			6,056,015		
Total Assets	\$ 143,830,494			\$ 121,684,334		

Liabilities and Shareholders' Equity:

Interest-bearing demand	\$ 44,847,591	\$ 692,987	1.55%	\$ 24,393,214	\$ 452,215	1.85%
Savings deposits	4,524,375	54,457	1.20%	3,344,056	55,737	1.67%
Certificates of deposit	69,956,662	1,662,223	2.38%	67,574,990	2,176,051	3.22%
Borrowed Funds	147,529	972	0.66%	500,534	3,329	0.67%
Total interest-bearing liabilities	119,476,157	\$ 2,410,639	2.02%	95,812,794	\$ 2,687,332	2.80%
Non interest-bearing deposits	6,098,917			4,832,955		
Other liabilities	619,295			844,831		
Shareholders equity	17,636,125			20,193,754		
Total liabilities and stockholders equity	\$ 143,830,494			\$ 121,684,334		
Net interest income		\$ 4,860,423			\$ 3,547,416	
Net interest spread (2)			3.41%			2.59%
Net interest margin (3)			3.63%			3.07%

- (1) Non-accrual loans are included in the average daily loan balance, but interest income associated with these loans is recognized under the cash basis method of accounting.
- (2) Interest rate spread is the weighted average yield on interest-earning assets minus the average rate on interest-bearing liabilities.
- (3) Net interest margin is net interest income divided by average interest-earning assets. The Bank currently does not hold any tax-exempt bonds, which would affect this calculation.

The following table presents a summary of the changes in interest income and expense attributed to both rate and volume for the periods indicated.

2010 Compared to 2009: Increase (decrease) due to:

Assets:	Volume	Rate	Net Change
Deposits in banks	\$ (15,321)	\$ -	\$ (15,321)
Investment securities	153,816	(115,364)	38,452
Federal Funds sold	4,263	(582)	3,681
Loans	731,144	278,358	1,009,502
	\$ 873,902	\$ 162,412	\$ 1,036,314
Liabilities and Shareholders' Equity:			
Interest-bearing demand	\$ 379,195	\$ (138,423)	\$ 240,772
Savings deposits	\$ 19,673	\$ (20,953)	\$ (1,280)
Certificates of deposit	76,695	(590,523)	(513,828)
Borrowed Funds	(2,348)	(9)	(2,357)
Total interest expense	\$ 473,215	\$ (749,908)	\$ (276,693)
Net Interest Income	\$ 400,687	\$ 912,320	\$ 1,313,007

The increase in net interest income for 2010 relative to 2009 is due to the combination of growth in earning assets and the increase in net interest spread. Average earning assets for 2010 were \$18.5 million greater than the average earning assets held during 2009. The growth in earning assets generated \$873,902 in additional interest income and provided a \$400,687 increase to net interest income when offset by \$473,215 in interest expense tied to the growth in deposit balances. The increase in net interest spread for 2010 relative to 2009 generated additional net interest income of \$912,320 for 2010. The net interest spread for 2010 was 3.41% compared to net interest spread of 2.59% for 2009.

The improvement in net interest spread for 2010 is attributed to a reduction in cost of funds combined with an increase in yield on earning assets. The reduction in cost of funds during 2010 enabled the Bank to generate additional net interest income of \$749,908. The net impact of changing interest rates on net interest income was an increase of \$912,320 for 2010 including a \$162,412 increase related to a rise in yield on earning assets.

Growth of interest-earning assets and interest-bearing liabilities contributed \$400,687 of the increase in net interest income for 2010 relative to 2009.

The Bank's average interest-earning assets of \$134.1 million for 2010 yielded an average return of 5.42%, compared to average interest-earning assets of \$115.6 million and a 5.39% average return for 2009. The growth from 2009 to 2010 in average interest-earning asset balances totaled \$18.5 million including a \$13.3 million increase in average loan balances and a \$5.2 million increase in combined average balances for overnight funds and investment securities. Loan growth was derived from expansion of the commercial loan portfolio due to the addition of another experienced commercial lender in 2010. The growth in commercial loans, which typically carry a higher interest rate, is also credited with increasing the yield on average interest-earning assets.

Interest-bearing liabilities averaged \$119.5 million for 2010 with an average interest rate of 2.02%. The average balance and average interest rate paid on interest-bearing liabilities were \$95.8 million and 2.80% respectively for 2009. The growth from 2009 to 2010 in average interest-bearing liabilities totaled \$23.7 million including \$20.5 million in interest-bearing demand accounts. The influx of lower cost demand deposits

combined with the repricing of term deposits in a low rate environment enabled the Bank to decrease its cost of funds by 78 basis points during 2010.

The Bank's net interest margin was 3.63% for 2010 compared to 3.07% for 2009. The 56 basis point rise in net interest margin reflects the noted improvement in funding and earning asset management for 2010.

Interest Rate Sensitivity

The Bank is subject to interest rate risk inherent in its lending, investing, and financing activities. Fluctuations in market interest rates will impact both interest income and interest expense on all interest-bearing assets and interest-paying liabilities. The Bank's primary objective in managing interest rate risk is to minimize any adverse impact of changes in interest rates on the net interest income while maintaining an asset/liability structure that maximizes net interest income. Our Asset Liability committee ("ALCO") actively manages the Bank's interest rate exposure using a simulation model to measure Economic Value of Equity ("EVE") and gap analysis.

EVE is defined as the present value of the expected cash flow of assets minus the present value of expected cash flows of liabilities. It measures a Bank's long-term interest rate risk and identifies what the long-term effects of interest rate shocks, defined as immediate and permanent changes in rates, on the Bank's balance sheet at a point in time. Typical shock testing measures 100 and 200 basis points increase and decrease in rates.

The interest rate-sensitivity gap is the difference between the interest-earning assets and interest-bearing liabilities scheduled to mature or re-price within such time period. A gap is considered positive when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities. A gap is considered negative when interest rate-sensitive liabilities exceed interest rate-sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to adversely affect net interest income. If our assets and liabilities were equally flexible and moved concurrently, the impact of any increase or decrease in interest rates on net interest income would be minimal.

A simple interest rate "gap" analysis by itself may not be an accurate indicator of how net interest income will be affected by changes in interest rates. Accordingly, we also evaluate how the repayment of particular assets and liabilities is impacted by changes in interest rates. Income associated with interest-earning assets and costs associated with interest-bearing liabilities may not be affected uniformly by changes in interest rates. In addition, the magnitude and duration of changes in interest rates may have a significant impact on net interest income. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. Interest rates on certain types of assets and liabilities fluctuate in advance of changes in general market rates, while interest rates on other types may lag behind changes in general market rates. In addition, certain assets, such as adjustable rate mortgage loans, have features (generally referred to as "interest rate caps") which limit changes in interest rates. Prepayment and early withdrawal levels also could deviate significantly from those assumed in calculating the interest rate gap. The ability of many borrowers to service their debts also may decrease in the event of an interest rate increase.

The following table sets forth the amount of the Bank's interest earning assets and interest-bearing liabilities at December 31, 2010, using the static gap method, which are expected to mature or re-price in each of the time periods shown.

Repricing Periods

	Up to 1 Year	1 - 3 Years	3 - 5 Years	5 - 15 Years	More than 15 years	Total
<u>Interest-earning assets</u>						
Federal funds sold	\$ 6,438,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,438,000
Deposits in banks	3,723,836	4,725,001	991,751	2,321,843	0	11,762,431
Securities	49,356,793	50,648,873	31,829,625	6,738,994	1,659,026	140,233,311
Loans, gross						
Total Interest-earning assets	\$ 59,518,629	\$ 55,373,874	\$ 32,821,376	\$ 9,060,837	\$ 1,659,026	\$ 158,433,742

<u>Interest-bearing liabilities</u>						
Interest-bearing demand deposits	\$ 3,109,973	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,109,973
Savings and money markets	56,828,766	0	0	0	0	56,828,766
Time deposits	47,488,231	24,067,789	7,685,951	4,907,844	0	84,149,815
Total interest-bearing deposits	\$ 107,426,970	\$ 24,067,789	\$ 7,685,951	\$ 4,907,844	\$ 0	\$ 144,088,554
Federal Funds Purchased						
Total interest-bearing liabilities	\$ 107,426,970	\$ 24,067,789	\$ 7,685,951	\$ 4,907,844	\$ 0	\$ 144,088,554

Interest rate sensitivity gap	\$ (47,908,341)	\$ 31,306,085	\$ 25,135,425	\$ 4,152,993	\$ 1,659,026	\$ 14,345,188
Cumulative interest rate sensitivity gap	\$ (47,908,341)	\$ (16,602,256)	\$ 8,533,169	\$ 12,686,162	\$ 14,345,188	
Ratio of cumulative gap to interest-earning assets	-30.24%	-10.48%	5.39%	8.01%	9.05%	

Adjustable rate loans are included in the period in which their interest rates are scheduled to adjust. Fixed rate loans are included in the periods in which they are anticipated to be repaid based on scheduled maturities. Investment securities are included in their period of maturity while mortgage backed securities are included according to expected repayment. Certificates of deposit are presented according to contractual maturity.

As shown above, as of December 31, 2010, the Bank is highly liability sensitive over the next twelve month period. That means that our interest rate spread would decrease if rates rise during that period. But, it is essential to note that the loans re-pricing are tied to an index (generally 30-day LIBOR or Wall Street Prime) and would automatically increase if and as those rates increase. The rates we pay on our interest-bearing liabilities (primarily deposits), on the other hand, are not tied to an index, but are adjusted by management based on local market rates, need for funds, and other considerations, such that the rates of interest we pay are somewhat within our control and typically do not re-price as quickly or dramatically as loans.

Non-interest Income

Non-interest income increased \$225,621, or 32.7%, for 2010 relative to 2009. An increase in the volume of mortgage financing activity had the most notable impact on non-interest income for 2010 relative to 2009. Secondary market fees, which are heavily tied to mortgage financing volume, increased \$172,392 for 2010 relative to 2009. Rental income on other real estate owned increased \$111,648 for 2010 compared to rental income earned in 2009. Rental income was a source of revenue throughout 2010 compared to rental income as a source of revenue for only the last eight months of 2009. We do not anticipate rental income in 2011 as the related rental property was sold in December 2010.

<u>Non-interest income</u>	Twelve-month period ended		
	<u>December 31, 2010</u>	<u>December 31, 2009</u>	<u>Change-%</u>
Loan document preparation fees	\$ 109,581	\$ 181,581	-39.7%
Other customer service fees	128,336	114,755	11.8%
Total Customer service fees	237,917	296,336	-19.7%
Secondary market fees	309,904	137,512	125.4%
Rental income on other real estate	367,228	255,580	43.7%
Total non-interest income	<u>\$ 915,049</u>	<u>\$ 689,428</u>	<u>32.7%</u>

Non-interest Expense

Non-interest expense increased from \$3.5 million in 2009 to \$5.5 million in 2010.

Non-interest Expense	Twelve-month period ended		
	<u>December 31, 2010</u>	<u>December 31, 2009</u>	<u>Change-%</u>
Salaries and benefits	\$ 2,037,366	\$ 1,539,648	32.3%
Occupancy and equipment	398,584	355,482	12.1%
Data processing	197,939	182,074	8.7%
Marketing	102,409	97,502	5.0%
Professional fees	480,750	339,942	41.4%
FDIC Premium	182,016	247,388	-26.4%
Loss on devaluation of other assets	1,544,855	405,000	281.4%
Other	510,109	285,212	78.9%
	<u>\$ 5,454,028</u>	<u>\$ 3,452,248</u>	<u>58.0%</u>

The increase in salaries and benefits is due to staff expansion, additional commissions related to increased mortgage financing activity, and merit-based pay increases for Bank personnel. Salaries and benefits for 2010 also include about \$97,000 related to severance wages paid to a former officer of the Bank.

Occupancy and equipment expenditures increased due to targeted facility maintenance and equipment upgrades completed in 2010. An additional \$15,900 in real estate taxes related a leased facility was also incurred in 2010.

Data processing expenses increased due to the continued growth in number of customer accounts and volume of banking transactions compared to the prior year.

Professional fees paid in 2010 included legal fees for additional compliance work to comply with SEC reporting requirements and legal expense related to the settlement of the arbitration action initiated by a former officer of the Bank.

FDIC premium expense decreased by \$65,372 for 2010 relative to the FDIC premium expensed in 2009. The 2009 expense included a "special assessment" that drew additional premium dollars from insured institutions.

The Bank incurred an expense of \$1,544,855 related to the devaluation of three real estate properties held as other real estate owned. The devaluations were recognized during the fourth quarter of 2010 based on revised appraisals.

The increase in other non-interest expense included \$124,271 to maintain other real estate properties acquired in 2011. The increase also includes Director Fees totaling \$72,550. The Bank first began paying Director Fees in 2011.

Allowance for Loan Losses

The Allowance at December 31, 2010 was \$3,045,732, compared to \$2,122,837 at December 31, 2009. During the fourth quarter of 2010, management took action to increase reserves available to offset potential loan losses given the economic uncertainty experienced during recent recessionary periods. The adequacy of the Allowance is determined based on evaluation of individual loans as well as the general risk factors inherent to all extensions of credit. As of December 31, 2010, the Bank's Allowance was 2.17% of the Bank's gross loan portfolio, compared to 2.2% at December 31, 2009.

The charge-off and recovery activity shown in the table below relates primarily to three loans. The Bank incurred provision expense of \$2.6 million during 2010 that brought the Allowance to the required level.

As of December 31, 2010, the Bank has three loans classified as non-accrual. Two of the loans totaling \$225,000 are secured by real estate. The remaining \$35,000 loan is secured by inventory and equipment. The Bank will classify loans as non-accrual when payments become past due more than 90 days. Classifying loans as non-accrual involves reversing the 90 days of interest income accrued, but not received, up to that point, as well as not accruing any income after that point. Management has factored these loans into the Allowance reported as of December 31, 2010, and has recognized specific reserves of \$67,000.

As of December 31, 2010, the Bank identified \$9.9 million in loans subject to individual evaluation for impairment. The Bank identified five loans, totaling \$855,000 as impaired which required a related allowance for loan losses of \$322,000 at year-end 2010. As of December 31, 2010 all impaired loans were current and performing according to agreed terms.

The Allowance represents the most significant estimate in a bank's financial statements and regulatory reports. Because of its significance, the Bank realizes a responsibility for developing, maintaining, and documenting a comprehensive, systematic, and consistently applied process for determining the amount of the Allowance. The

Bank has implemented policies and procedures to ensure that this analysis complies with GAAP and relevant supervisory guidelines.

Our policies and procedures will result in an Allowance based on management's evaluation of economic conditions, volume and composition of the loan portfolio, the level of nonperforming and past due loans, and other indicators derived from reviewing the loan portfolio. Management will perform such reviews quarterly and adjust the level of the Allowance accordingly.

The Allowance is subject to regulatory review in the examination process to determine its adequacy. Regulators will take into consideration such factors as methodology used to calculate the Allowance and comparison of the Allowance level to our peers. Regulatory agencies, during the examination process, may require a bank to make additional provisions to their allowance for loan losses when the examiners' assessment of credit evaluations and methodology differ materially from those of management.

Management believes that the Allowance as of December 31, 2010 was adequate to cover future losses incurred in the current loan portfolio. Activity in the Allowance for the years ended December 31, 2010 and 2009 are shown:

	Twelve months Ended December 31, 2010	Twelve months Ended December 31, 2009
Allowance at beginning of year	\$ 2,122,837	\$ 1,317,590
Charge-offs:		
Commercial	(672,537)	(4,288,567)
Real Estate - Commercial	(20,000)	(407,685)
Consumer	(1,101,748)	(1,533)
Total Charge-offs	<u>(1,794,285)</u>	<u>(4,697,785)</u>
Recoveries:		
Commercial	126,763	0
Consumer	417	2,460
Total Recoveries	<u>127,180</u>	<u>2,460</u>
Net charge-offs	<u>(1,667,105)</u>	<u>(4,695,325)</u>
Provision for loan losses charged to operating expense	<u>2,590,000</u>	<u>5,500,572</u>
Allowance at end of year	<u>\$ 3,045,732</u>	<u>\$ 2,122,837</u>
Ratio of net charge-offs to average loans outstanding	<u>1.38%</u>	<u>4.35%</u>
Allowance as a percent of total loans	<u>2.17%</u>	<u>2.02%</u>

	At December 31,	
	<u>2010</u>	<u>2009</u>
Nonperforming Assets:		
Nonaccrual loans	\$ 260,396	\$ 3,793,286
Loans past due 90 days or more and still accruing	0	0
Foreclosed assets	1,892,200	3,304,761
	<u>\$ 2,152,596</u>	<u>\$ 7,098,047</u>

Income Taxes

The basic principles for accounting for income taxes requires that deferred income taxes be analyzed to determine if a valuation allowance is required. A valuation allowance is required “if it is more likely than not that some portion of the deferred tax asset will not be realized.”

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 Bank has state and federal net operating loss carryforwards totaling approximately \$5.2 million that may be applied against future federal and state taxable income earned. If not used, the benefits will begin to expire on December 31, 2026 for federal, and December 31, 2021 for Wisconsin tax purposes.

Comparison of Financial Condition at December 31, 2010 and 2009

Total assets at December 31, 2010 were \$163.7 million, a \$42.9 million increase over total assets of \$120.8 million at December 31, 2009.

Assets	December 31, 2010		December 31, 2009	
	Dollar Amount	%	Dollar Amount	%
Cash and cash equivalents	\$ 9,091,935	5.55%	\$ 1,462,962	1.21%
Securities available for sale	11,762,431	7.19%	5,521,099	4.57%
Loans held for sale	638,131	0.39%	1,422,733	1.18%
Loans	137,187,579	83.81%	103,096,134	85.34%
Prepaid FDIC Premium	413,116	0.25%	574,737	0.48%
Deferred Tax Asset	-	0.00%	2,727,045	2.26%
Other Real Estate Owned	1,892,200	1.15%	3,304,761	2.73%
Other assets	2,712,482	1.66%	2,698,011	2.23%
Total assets	\$ 163,697,874	100.00%	\$ 120,807,482	100.00%
Liabilities and Equity				
Deposits	\$ 150,818,896	92.13%	\$ 103,053,231	85.31%
Other Liabilities	623,533	0.38%	365,575	0.30%
Stockholders' equity	12,255,445	7.49%	17,388,676	14.39%
Total Liabilities and Equity	\$ 163,697,874	100.00%	\$ 120,807,482	100.00%

Total assets at December 31, 2010, were \$163.7 million. This represents an increase of \$42.9 million, or 35.5% from year-end 2009. Cash and cash equivalents increased \$7.6 million for 2010, including a \$1.7 million increase in cash balances and a \$5.9 million increase in federal funds sold as compared to balances held at December 31, 2009. Total loans increased \$34.1 million, or 33.1% compared to year-end 2009. The increase in the loan portfolio is attributed to the addition of another seasoned commercial lending officer with established ties to the Oshkosh community. The deferred tax asset decreased \$2.8 million, or 100% based on the deferred tax valuation allowance established at year-end 2010. Total deposits at December 31, 2010 were \$47.8 million, or 46.3%, higher than year-end 2009, primarily through growth in money market accounts. Deposit growth was primarily from our local market area.

Other real estate owned (OREO) totaled \$1.9 million at December 31, 2010. The other real estate owned at December 31, 2010, consists of one residential property recorded at \$0.9 million and three commercial real estate

properties totaling \$1.0 million. The Bank records other real estate at fair value, less costs to sell the property, with any difference between the fair value of the property and the carrying value of the loan being charged to the Allowance. A subsequent change in fair value on three of the properties resulted in the recognition of a charge of \$1.5 million against noninterest expense.

Regulatory capital requirements

We are subject to minimum capital standards as set forth by federal bank regulatory agencies. Our capital for regulatory purposes differs from our equity as determined under GAAP. Generally, “Tier 1” regulatory capital will equal capital as determined under generally accepted accounting principles less any unrealized gains or losses on securities available for sale while “Tier 2” capital includes the allowance for loan losses up to certain limitations. Total risk based capital is the sum of Tier 1 and Tier 2 capital. Our capital ratios and required minimums are shown below.

<u>As of December 31, 2010</u>	<u>Actual</u>		
	<u>Amount</u>	<u>Ratio</u>	<u>Requirement</u>
Total Capital/Risk Weighted Assets	\$ 13,660,000	10.85%	≥ 8.00%
Tier 1 Capital/Risk Weighted Assets	\$ 12,068,000	9.58%	≥ 4.00%
Tier 1 Leverage Ratio	\$ 12,068,000	7.22%	≥ 4.00%

<u>As of December 31, 2009</u>	<u>Actual</u>		
	<u>Amount</u>	<u>Ratio</u>	<u>Requirement</u>
Total Capital/Risk Weighted Assets	\$ 16,038,000	16.62%	≥ 8.00%
Tier 1 Capital/Risk Weighted Assets	\$ 14,820,000	15.36%	≥ 4.00%
Tier 1 Leverage Ratio	\$ 14,820,000	12.18%	≥ 4.00%

Our total capital also has an important effect on the amount of FDIC insurance premiums paid. Institutions not considered well capitalized are subject to higher rates for FDIC insurance.

Off-Balance Sheet Obligations

As of December 31, 2010 and 2009, we have the following commitments which do not appear on our balance sheet.

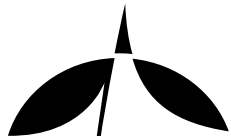
	<u>2010</u>	<u>2009</u>
Commitments to extend credit	\$ 34,927,673	\$ 8,983,094

Further discussion of these commitments is included in Note 9, “Commitments, Contingencies, and Credit Risk” of the Notes to Financial Statements.

Liquidity

Liquidity represents the ability to meet the needs of customers to withdraw funds from deposit accounts, to borrow funds and to meet their credit needs. We manage our liquidity needs in such a way that the needs of depositors and borrowers are met on a timely basis so that our operations are not interrupted. Sources of liquidity available to meet these needs include cash on deposit, federal funds, securities available for sale, maturities of securities and principal payments on loans. Growth in our deposit base provides an additional source as does access to funds through relationships with correspondent banks. Our liquidity needs can also be met through loan participations sold to other financial institutions. At December 31, 2010 and 2009 our liquidity position was considered adequate and within guidelines set forth in our liquidity policy.

Management of the liquidity needs and requirements of the Bank is performed by our Asset Liability Committee (ALCO), which is comprised of the five senior officers of the Bank. ALCO sets deposit prices, based on market rates and liquidity requirements. The loan pipeline is constantly monitored to ensure that adequate funds are available to meet commitments. Excess funds are invested in short-term interest-earning instruments.



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