



# 2018

## ANNUAL REPORT

PSB Holdings, Inc.

# 2018

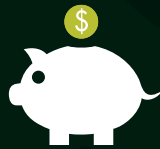
AT A GLANCE



**\$49.7 million**  
net commercial  
loan growth



**\$112.2 million**  
residential mortgage  
loan volume



**\$27.7 million**  
in net local deposit growth



**\$1.31 million**  
wealth management  
gross revenue



**31 WI counties**  
with \$1 million+  
in loan commitments



**\$488.6 million**  
in-house and secondary  
serviced mortgage loans

## To our Shareholders,

2018 was an exciting and productive year with record earnings and growth. With a focus on the future, we reinforced our foundation to ensure continued excellence in service and strategic growth. We achieved many milestones and are poised to continue building our customer base, community presence and returns for shareholders. Here are a few 2018 highlights:

- Earnings of \$2.29 per share, up 45% over 2017, with average return on shareholder equity of 13.41% and cash dividends of \$0.36 per share, up 12.5%.
- Bank-wide total assets closed the year above \$900 million for the first time.
- We reached nearly \$50 million in net commercial loan growth in a competitive environment while increasing net interest margin, driving net interest income higher.
- Key operating platforms were implemented including a new regulatory compliance monitoring system, new residential mortgage loan origination system and new commercial credit underwriting system.
- Successful transition of Rhinelander commercial banker Craig Lau into the role of Northern Market President following the retirement of Tom Knudsen.

Giving back to support the local economy and organizations is ingrained in Peoples culture. It is our responsibility to provide not only outstanding banking services but to actively help within the communities we serve.

- Peoples State Bank received the State Bankers Promoting Literacy Award from the Wisconsin Bankers Foundation.
- We were voted "Best Local Bank" for the seventh year in a row by the Wausau Daily Herald 2018 Best of Marathon County Awards.

- PSB Holdings was ranked as the 50<sup>th</sup> top performing community bank in the nation by American Banker Magazine and among their Top 200 Community Banks for the ninth consecutive year.
- Mortgage Loan Officer Brandon Karaba was named one of the Forward Rhinelander Top 10 Under 40 award winners.
- Our more than 170 employees volunteered 8,010 hours in their communities—an average of 47 hours per employee—with every employee participating in one or more volunteer activities during and outside the workday.

### Customer Experience

Soliciting customer feedback is important to maintaining service levels and long-term relationships. Our annual customer survey scores for 2018 increased across the board. We are proud of our Net Promoter Score (NPS) achieved in this year's survey. The NPS gauges a customer's overall satisfaction and loyalty to a brand.

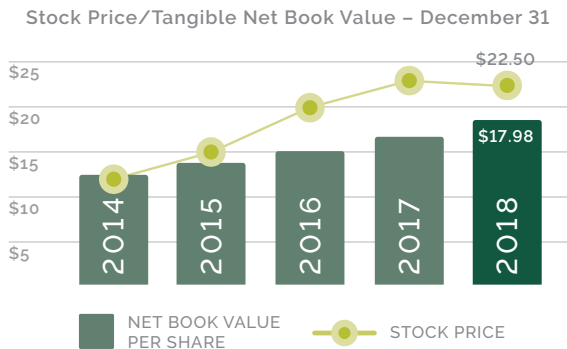


**SCOTT CATTANACH**  
PRESIDENT & CEO



“ **It felt like we were coming back home when we bought the business and went back to Peoples for our banking.** We can see they truly want us to succeed. We value the personal care we receive, the understanding of our needs, and how those needs are met. You don't get that with every bank. Other banks often ask if we want to switch, and we say no. We appreciate being able to go online and know we can get information right away on our accounts. We look at it daily, print out reports, and work together on financials. We meet with our Peoples team regularly to discuss our financials.”

– **Jereme & Brenda Londerville**  
Londerville Steel and Concrete Supply



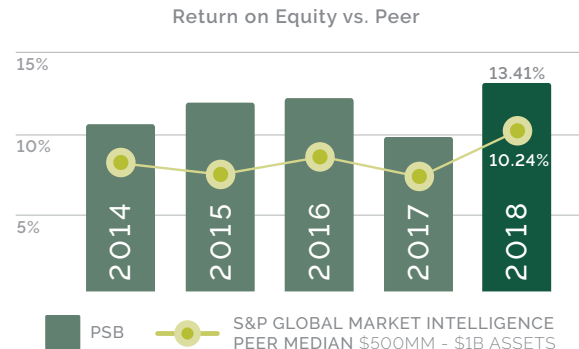
According to a benchmark study done in 2018 by Tempkin Group, the average NPS for the banking industry is 21. Our average of 62—up from 58 in 2017—indicates our customers are almost three times more likely to recommend Peoples to a friend than the customers of other banks.

Survey results also indicate our customers desire a more integrated online and mobile banking experience. With that in mind, we intend to upgrade our current mobile and online banking platforms in 2019. This new product will give customers the same look, feel, functionality and experience regardless of whether they are accessing their accounts on a computer, smartphone or tablet, in addition to more self-service options to manage debit card fraud protections and conduct instant person-to-person funds transfers.

### Peoples And Processes – Moving Technology Forward

New technology makes it possible to deliver greater customer value even faster than before. The new commercial loan origination platform allows us to quickly and consistently review customer commercial credit risks and trends. The platform can quickly collect and analyze large amounts of customer information and move credit requests through the approval process. Helping customers increase business cash flow to meet operational and growth needs without taking unnecessary risk is a strength of our commercial banking services.

Our new and improved website at [bankpeoples.com](http://bankpeoples.com) was released in 2018. It features an updated look, improved navigation, financial calculators, PeoplesTalk blog, real-time



interest rate indications and contact information for our service bankers and branch locations.

Bringing vast experience of operational strategy disciplines from working 20 years with a national insurance company, Tim Dively joined Peoples State Bank as Chief Operations Officer. He is responsible for the security of all information managed by Peoples using industry-best practices, and data integration and reporting. Tim also leads the bank's day-to-day operations and is a great addition to the Peoples executive team.

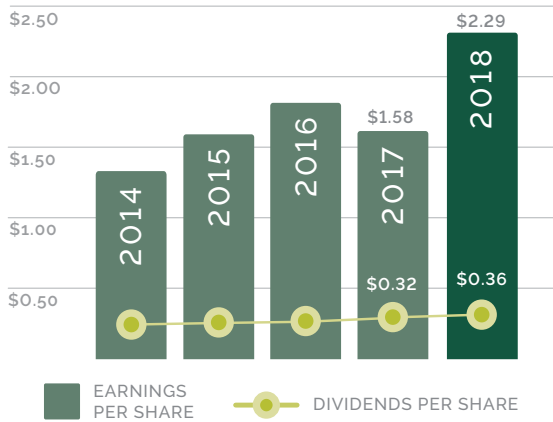
### Investor Relations

During 2018 we began to meet regularly with existing and potential institutional investors to share Peoples' story and success, along with where we're going and how this benefits our shareholders. We also keep investors up-to-date through our quarterly earnings releases, which can be found at our investor relations website [psbholdingsinc.com](http://psbholdingsinc.com). Sharing our story and strategy with a wider investor audience is expected to increase interest in our stock and achieve our goal of increasing PSBQ stock trading multiples to levels enjoyed by banks of our size and performance.

On July 31, we completed a 3-for-1 stock split. The split spread our market value over more shares, making it easier for smaller investors to acquire shares. Some current shareholders who received additional shares may also sell some of the new shares, creating more stock liquidity. Often perceived as a sign of success and health, our 3-for-1 stock split was well received.

During 2019, we look to transition the trading of our stock from the Over the Counter (OTC) pink sheets to the OTC QX

Earnings and Dividends per Share



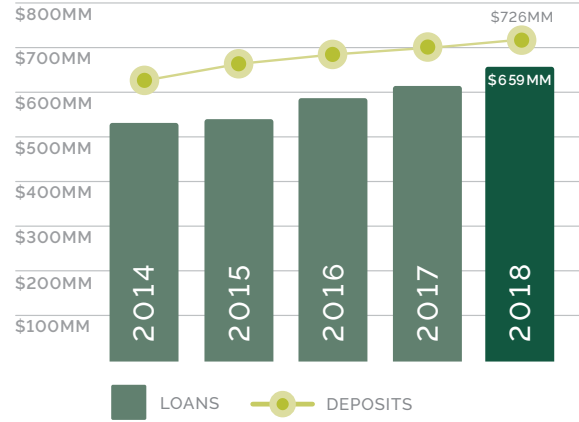
Exchange. While the “pink sheets” are often associated with a mix of risky start-ups and established companies, OTC QX companies must pass strict criteria regarding financial health, established operations, and strong governance. Trading on the OTC QX signals to investors we are a reliable company with proven financial performance. The move to OTC QX may also streamline transactions in our stock among all security brokers.

**Continuing Growth**

Opened in April 2016, our Milwaukee Lending Office has supported nearly 50% of bank-wide net loan growth since opening. Our team, led by Milwaukee native Jeff Musa, serves a niche of delivering flexible and responsive lending to local business owners. We continue to add staff to the Milwaukee team to offer residential mortgage loans and expect to open a deposit-taking branch during 2019. We will continue to invest within the Milwaukee area, which represents stronger growth potential than available in our traditional northern Wisconsin market.

Our Stevens Point Lending Office was opened in June 2018 and is under the direction of Dale Sankey, a Portage County native and financial services industry veteran. We are committed to serving our large base of existing Stevens Point area customers and expanding commercial and residential mortgage lending services in Portage County.

Total Loans and Deposits – December 31



“It’s about you.” We take our mission statement seriously, and our staff are the foundation supporting our service to existing customers and for growth in new markets. Our 2019 focus remains on exploring new markets to diversify our growth opportunities and to expand wallet-share with existing customers. These efforts bring value to customers, as well as development opportunities for employees and increased returns for our shareholders.

Thanks for your ongoing confidence and support of Peoples.

Sincerely,

**Scott M. Cattanach**  
 President & Chief Executive Officer  
 PSB Holdings Inc. & Peoples State Bank





## 2018 BOARD OF DIRECTORS

FRONT ROW: Timothy Sonnentag, Charles Ghidorzi  
 MIDDLE ROW: Lee Guenther, Scott Cattnach, William Fish, Kevin Kraft  
 BACK ROW: Karla Kieffer, Thomas Polzer, William Reif, Peter Knitt

**WILLIAM J. FISH**  
 Chairman of PSB Holdings, Inc.  
 & Peoples State Bank  
 Retired President  
 BILCO, Inc.

**CHARLES A. GHIDORZI**  
 Managing Member  
 Ghidorzi Construction  
 Company, LLC

**LEE A. GUENTHER**  
 Retired CEO  
 T.A. Solberg Co., Inc.

**KARLA M. KIEFFER**  
 Co-owner and VP Sales  
 SUN Printing

**PETER W. KNITT**  
 Retired President & CEO  
 PSB Holdings, Inc.  
 & Peoples State Bank

**SCOTT M. CATTANACH**  
 President & CEO  
 PSB Holdings, Inc.  
 & Peoples State Bank

**KEVIN J. KRAFT**  
 Managing Director  
 Wisconsin River Partners, LLC

**THOMAS R. POLZER**  
 President & CEO  
 Polzer of Wausau, LLC  
 M&J Sports, Inc.

**WILLIAM M. REIF**  
 CEO  
 Roastar, Inc.  
 Former CEO  
 Wausau Coated Products, Inc.

**TIMOTHY J. SONNENTAG**  
 President & CEO  
 County Materials Corporation

### NEW STEVENS POINT OFFICE

In June of 2018, Peoples State Bank opened a lending office in Stevens Point, Wisconsin offering commercial lending and business banking, as well as residential mortgage services by appointment. Stevens Point is an extension of our home market, and Peoples already had relationships with customers based in Portage County with over \$35 million in loan balances. It was the right time to invest more resources in the area to provide superior customer service for these important current, new and potential relationships.

The first step to supporting that customer base was to hire an experienced banking professional.



SANKEY

Assistant Vice  
 President –  
 Commercial  
 Banking, Dale  
 Sankey, was  
 selected to lead  
 the office. Dale  
 is a Portage

County native and has been active in financial services industries for the past 27 years. His knowledge of the community, its businesses and their needs made him a perfect fit for the new location.

The Stevens Point office is Peoples' first location in Portage County. Our goal is to help customers build wealth and business growth potential, through our flexible and responsive commercial services delivery process.

## PEOPLES NORTHERN MARKET LEADERSHIP TRANSITION



KNUDSEN

2018 was a year of transition for Peoples State Bank's northern market. Senior Vice President and Northern Market President Tom Knudsen retired after a remarkable career serving Rhinelander and other Northwoods communities for more than 45 years.

Tom had a tremendous influence on growth in our northern Wisconsin market. During his 11 years overseeing the Rhinelander, Eagle River and Minocqua locations, collectively these locations grew to \$162 million in loans and \$169 million in deposits. He was also involved in Peoples' successful purchase of Northwoods National Bank's Rhinelander branch in 2014.



LAU

As Tom moved toward retirement, Peoples needed someone with commercial banking experience who also understood northern Wisconsin and embodied the Peoples culture. Craig Lau, Peoples commercial banker for more than ten years in our Rhinelander office, was exactly that individual and now serves as our new Northern Market President.

Like Tom, Craig understands how to deliver value to our customers. Craig's 20 years of banking experience and leadership skills will continue the legacy of service and responsiveness that Tom began in the Northwoods.

Thank you, Tom, for your guidance and service, and of course, congratulations on your retirement.

## 2018 SENIOR MANAGEMENT

**LENORE BREIT**  
Vice President  
Director of Compliance and Internal Audit

**SCOTT CATTANACH**  
President &  
Chief Executive Officer

**TIM DIVELY**  
Vice President  
Chief Operations Officer

**PAT HEIER**  
Senior Vice President  
Group Leader  
Commercial Banking

**MAUREEN JORGENSEN**  
Senior Vice President  
Retail Sales & Service

**MARK OLDENBERG**  
Vice President  
Chief Financial Officer

**DONNA STAPLES**  
Senior Vice President  
Human Resources Director



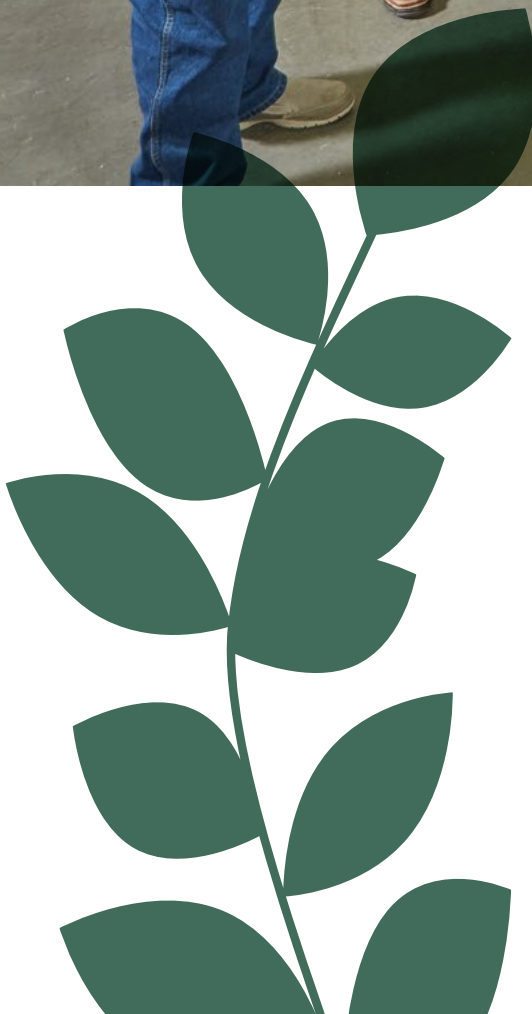
**BACK ROW ►**

Tim Dively,  
Lenore Breit,  
Scott Cattanaach,  
Pat Heier,  
Maureen Jorgensen

**FRONT ROW ►**

Donna Staples,  
Mark Oldenberg





“ We’ve been working on a building project for the last five years. Tony Braun and Peoples works with us. When we talk projects, I know they’ll look for ways to make things happen. Tony is like a consultant with the financial backing of Peoples behind him.

When we were ready to finance the building project, every bank in the area approached us. But Tony has his finger on the pulse of our company. He understands us. It’s always been a good fit.

**We have confidence in Tony, and we have confidence in Peoples.”**

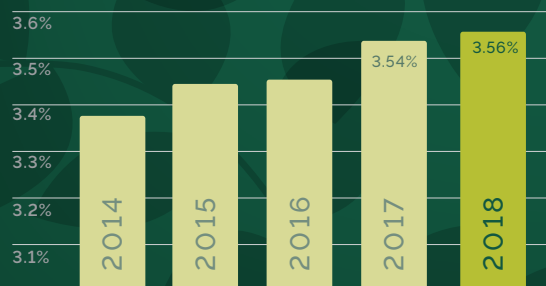
**– Mike Hafner**  
Managing Member  
Aluminum Fabricated Products

# SUMMARY STATEMENTS OF INCOME

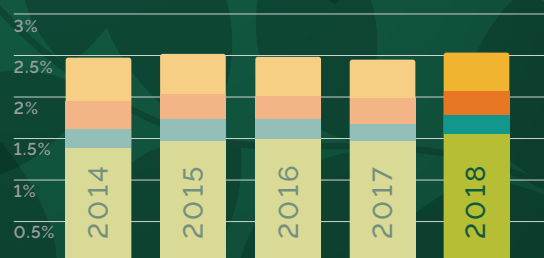
(dollars in thousands, except per share data)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net interest income	\$28,828	\$27,176	\$24,997
Provision for loan losses	130	385	55
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Net interest income after loan loss provision	28,698	26,791	24,942
Noninterest income	6,476	6,107	6,969
Operating expenses	21,713	20,346	19,505
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Net income before income taxes	13,461	12,552	12,406
Provision for income taxes	3,149	5,365	3,970
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<b>NET INCOME</b>	<b>\$10,312</b>	<b>\$7,187</b>	<b>\$8,436</b>
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Diluted earnings per share	\$2.29	\$1.58	\$1.83
Cash dividends per share	\$0.36	\$0.32	\$0.30
Average common shares outstanding	4,496,525	4,558,569	4,619,955
Return on average assets	1.19%	0.87%	1.07%
Return on average equity	13.41%	9.82%	12.39%

Net Interest Margin (tax adjusted)



Operating Expenses to Average Assets



## SUMMARY BALANCE SHEETS

December 31, 2018, 2017 and 2016. (dollars in thousands, except per share data)

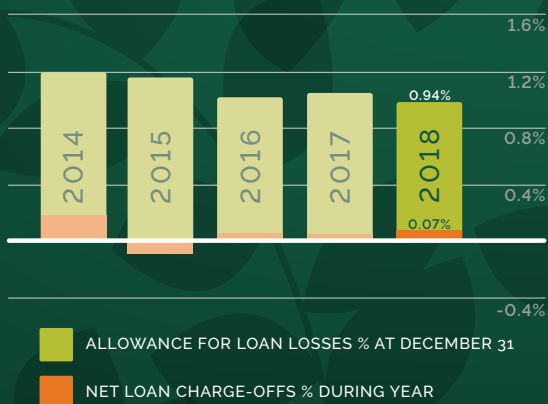
<i>Assets</i>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$43,978	\$28,107	\$34,994
Securities	175,108	173,812	169,476
Loans receivable, net	658,481	610,076	586,109
Premises and equipment, net	10,209	10,453	10,427
Other assets	28,222	25,233	26,522
<b>TOTAL ASSETS</b>	<b>\$915,998</b>	<b>\$847,681</b>	<b>\$827,528</b>

### *Liabilities*

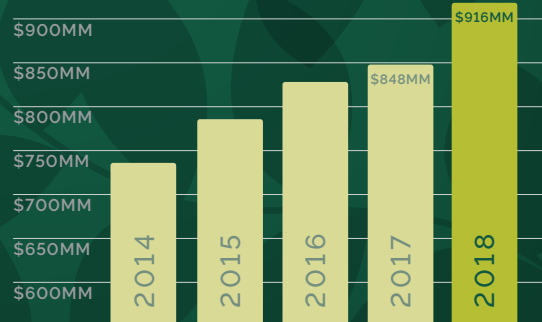
Total deposits	\$725,826	\$702,303	\$686,760
Federal Home Loan Bank advances	81,071	49,448	37,769
Other borrowings	8,379	2,636	14,860
Senior subordinated notes	2,500	2,500	2,500
Junior subordinated debentures	7,732	7,732	7,732
Other liabilities	9,650	9,280	8,855
Stockholders' equity	80,840	73,782	69,052
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$915,998</b>	<b>\$847,681</b>	<b>\$827,528</b>

<i>Tangible net book value per share</i>	<b>\$17.98</b>	<b>\$16.28</b>	<b>\$15.08</b>
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Allowance for Loan Losses & Charge-offs to Gross Loans



Total Assets at December 31





## PSB Holdings, Inc.

**AT PEOPLES, IT'S ABOUT YOU:**  
our customers, employees and shareholders.

stock symbol - PSBQ  
investor site - [psbholdingsinc.com](http://psbholdingsinc.com)  
phone - 888.929.9902

