

PSB Holdings, Inc.

ADAPTING TO
CHANGING
NEEDS

2020
ANNUAL
REPORT



PSB HOLDINGS, INC. 2020 ANNUAL REPORT

Peoples continually seeks new opportunities to bring our unique brand of banking to new markets to support increased shareholder value and returns.

Peoples' customers say they appreciate our employees' customer service and the value the customers receive in banking with us. Our brand is built on providing superior banking products backed by expert assistance to help customers achieve their financial success. No matter how they bank with us, through our digital platforms, walking in, driving up, or by phone, they find a warm smile and thank you for banking at Peoples.

PSB Holdings, Inc.



REACHING NEW HEIGHTS



33 Wisconsin counties
with \$1 million+ in
loan commitments

PRESIDENT'S LETTER

We all agree 2020 was a historic year. Like the rest of the world, we prepared for and weathered a pandemic, but we never lost our focus. Our team overcame their concerns regarding COVID-19 to work together for the good of our customers. Taking recommended safety precautions, we reopened our bank lobbies as soon as the Wisconsin Safer at Home Order was lifted, so customers had the option to come in, use drive-ups, bank online,



Scott M. Cattanach
President &
Chief Executive Officer

PSB Holdings Inc. &
Peoples State Bank



\$170.2 million
in net local
deposit growth



\$119.8 million
commercial net
loan growth



\$1.3 million wealth
management
gross revenue



\$288 million
new residential
mortgage
loan volume

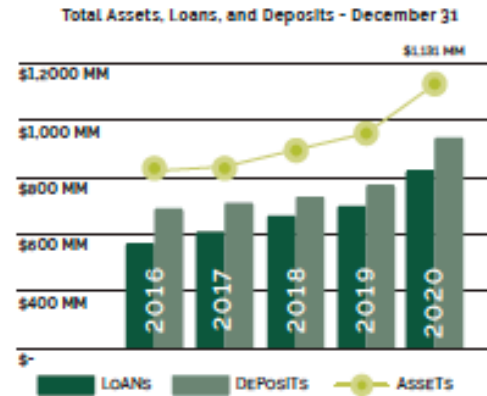
or set appointments both in-person and virtual. We continue to keep the needs of our customers, employees, and shareholders at the forefront of our decision-making. Thanks to our solid foundation, responsive planning, and forward-thinking, we stand today, more vital than ever and ready to continue growing.

GOALS AND GROWTH

This year, we reached a long-time bank goal of \$1 billion in total assets, which you can read more about on pages 10 and 11. An essential step in achieving this milestone came through the tireless work of our commercial bankers and loan processing team during the pandemic. Together with the Small Business Administration (SBA), we helped 757 small- and mid-size businesses impacted by COVID-19 with \$117 million in Paycheck Protection Program (PPP) loans to continue payroll for their nearly 12,000 employees. Of publicly traded Wisconsin banks, PSB originated the second largest amount of PPP loans relative to our existing portfolio. The SBA guarantees PPP loans, and customers who spend the loan proceeds on authorized uses (primarily continuing payroll) receive debt forgiveness from the SBA who repays the loan directly to Peoples.

Our mortgage team also played a crucial role in helping customers by lowering monthly housing costs. Thanks to record-low mortgage loan rates and our team's can-do attitude, they helped more than 1,200 families purchase or refinance their homes. That's double our previous five-year average and a new record.

Our full-service bank in West Allis opened in March despite the state-wide shut-down and serves



customers in southeastern Wisconsin. By the end of the year, the new location had already attracted \$16.9 million in deposits along with the existing \$105 million loan portfolio. This full-service location offers personal and commercial banking products and services, including checking and savings accounts, mortgages, small- and mid-sized business loans, and commercial treasury management services.

And we're excited about the pending acquisition of Waukesha based Sunset Bank & Savings to continue our growth in southeastern Wisconsin. Following the acquisition, Sunset customers will see a conversion to the Peoples brand. It's an exciting step for Peoples when it comes to mergers and acquisitions. The combined bank is expected to have over \$1.25 billion in total assets, including \$250 million of assets in southeastern Wisconsin.

Part of the uncertainty in the banking industry is related to future pandemic related loan losses, both the timing and extent of losses. Therefore, we increased our financial strength during 2020 through



West Allis bank location.



Location of Sunset Bank & Savings of Waukesha.

SIGNIFICANT STEPS FORWARD

After months of renovation work, our West Allis bank location— at 10725 West National Avenue— opened in March. The bank opened with little fanfare, but West Allis residents didn't seem to mind. Growth has been steady, with new customers telling us they appreciate our customer service. And our existing customers are excited to have a location they can visit to meet and talk to one of our banking experts.



Branch Manager Barbara Jones and her team built upon the already successful lending office established in Wauwatosa in 2016. "I have no doubt customers who choose Peoples will feel the difference in the style of banking," said Jones. "Peoples truly does care about its customers and the communities they serve."

"Success in the Milwaukee area is more about making an impact in the region," said Peoples Southeastern Market President Jeff Musa, who established the bank's presence in 2016 with the commercial banking team. "Our community banking model provides the impetus to do what's right for people every day."

In December 2020, PSB Holdings, Inc. announced an agreement to purchase Sunset Bank & Savings of Waukesha and its parent company Waukesha Bankshares, Inc., meaning an additional bank location in the Milwaukee suburbs. Sunset was formed in 1999 and has grown to be a \$140 million asset bank.

"This merger is another example of our growth strategy into southeastern Wisconsin," said Peoples President and CEO Scott Cattanach. "We're confident in the benefits to Sunset's customers through our robust lending capabilities and treasury management services while creating value for our shareholders."

robust loan loss reserve provisioning of \$5.6 million compared to \$850,000 in 2019, growing our total allowance for loan losses to \$10.8 million, or 1.30% of loan principal. Much of the additional loan loss provisions were offset by increased residential mortgage income of \$5.7 million in 2020 compared to \$1.9 million in 2019.

PSB Holdings, Inc. (parent of Peoples State Bank) bottom-line performance saw 2020 earnings of \$2.40 per share, down 4% from \$2.51 per share in 2019. Our 2020 return on equity of 10.83% remained in the top 33% percent of similar-sized banks. Unfortunately, small bank stock prices were driven lower this past year due to concerns over uncertain pandemic loan losses. PSB was among them, as our stock price declined 25% to \$20.57 per share on December 31, 2020, despite our strong financial performance. Shareholder dividends continued their 28-year run of increases and were \$0.42 per share in 2020, up 5% over that paid in 2019.

As we continue to grow, we've focused our efforts to spread the Peoples story with potential new investors to increase share purchase demand and reach a stock price that appropriately reflects our past earnings and future growth potential.

CUSTOMER SERVICE HIGHLIGHTS

The COVID-19 pandemic allowed us a unique opportunity to help our communities, and we provided temporary interest-only payment modifications or full principal and interest payment deferral periods for many of our business customers experiencing stress. This flexibility helped customers weather the storm. Actions made to support our customers' long-term goals are one reason that most of our customers would recommend us to a friend or colleague. Our annual customer satisfaction survey continues to indicate our customers are over 50% more likely to recommend Peoples than customers of a typical bank.

Survey responses indicate customers are pleased with our digital banking capabilities, including online banking and the Bank Peoples mobile app. Following our 2019 updates to digital bank platforms, we were well-positioned to weather COVID 19 social distancing requirements. Our digital

platforms saw thousands of transactions completed each day, and mobile phone deposits increased 61% since April 2020, now averaging over \$5 million per month. Customers were also able to set up in-person or virtual appointments with a banker through bankpeoples.com.

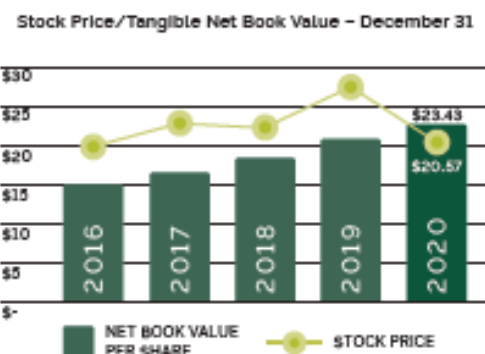
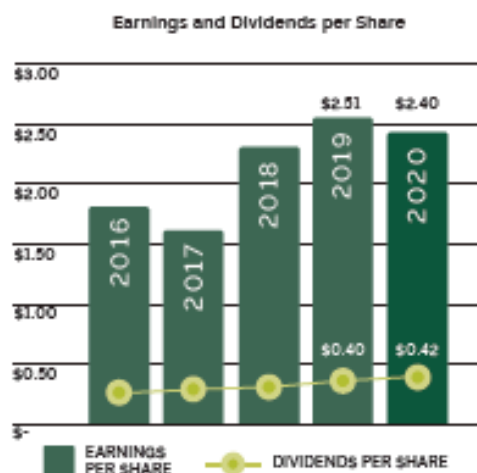
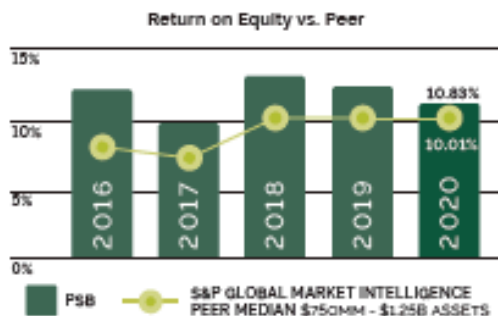
We'll continue to adapt and enhance these offerings as our customer's needs evolve. We believe it is essential to provide multiple channels of interaction through which customers can get their needs met while allowing our customers to decide which channel or channels work best for them.

COMMITMENT TO COMMUNITY

As a community bank, we are not successful unless our communities are also successful. It is vital for our employees to give back, and 2020 was no different.

The Wausau Daily Herald's readers voted Peoples State Bank "Best Bank or Credit Union" and "Best Mortgage Company" in their 2020 Best of Marathon County Awards. And readers voted Peoples Wealth Management "Best Financial Planning." It's the second straight year Peoples was honored with all three awards and the ninth year in a row that Peoples has been honored as the best bank.

PSB Holdings, Inc. was ranked as the top-performing community bank in Wisconsin for 2020 by American Banker Magazine. Their "Top 200 Community Banks" list noted PSB as the 60th top-performing bank in the nation, the highest-ranking of any Wisconsin bank this year. It's the 11th consecutive year PSB



Holdings, Inc. has made the list. This continued ranking recognizes our approach that doing the right things for our customers with valuable banking products supports community growth and drives above-average return on equity for shareholders.

Peoples continued our generous support of non-profit organizations, schools, and other agencies with over \$240,000 in total contributions and public support. These beneficiaries included Rhinelander's recently constructed Hodag Dome as a Platinum Sponsor and the MC United Soccer Club, as the sponsor of the player uniforms or "kit" as they're called in the soccer world. We highlight more of our community involvement on page 13.

LOOKING FORWARD

Along with maintaining our strong market share in northcentral Wisconsin, we will focus on growth opportunities in southeastern Wisconsin following our planned Sunset Bank and Savings acquisition—a substantial area of loan growth the past few years. To diversify our future growth opportunities, we continue to research new markets and new banking partners to achieve the size and scale necessary to meet customer and community needs while expanding investor interest in PSBQ.

Thank you for your ongoing investment in and support of Peoples State Bank, and we look forward to working with you throughout 2021.

Sincerely,

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

AMERICAN BANKER.**BEST BANKS TO WORK FOR**

American Banker magazine named Peoples as one of the Best Banks to Work For in 2020. It's the second year in a row Peoples has been honored, and our #55 ranking is 14 spots better than in 2019.

AMERICAN BANKER.**TOP 200 COMMUNITY BANK**

American Banker magazine ranked PSB Holdings, Inc. as a Top 200 Community Bank for 11 straight years. In 2020, we're ranked as the 60th top performing community bank in the nation.

**BEST OF MARATHON COUNTY**

Wausau Daily Herald readers rated Peoples as the "Best Bank or Credit Union" and the "Best Mortgage Company" in 2020. The honor marks the ninth year in a row Peoples has been named as best bank.

BOARD OF DIRECTORS

Scott M. Cattanach
President & CEO
PSB Holdings, Inc. &
Peoples State Bank



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.



Patricia M. Hanz
Retired
Briggs & Stratton
U.S. Consumer Product
Safety Commission



Karla M. Kieffer
Co-owner & VP Sales
SUN Printing



Peter W. Knitt
Retired President & CEO
PSB Holdings, Inc. &
Peoples State Bank



Kevin J. Kraft
Managing Director
Wisconsin River
Partners, LLZC



Corey B. Vanderpoel
Managing Director & Owner
Taureau Group, LLC

HELPING BUSINESSES SURVIVE

As Earl Faulkner, Jr. tells the story, there's no doubt in his mind that without the assistance of Peoples State Bank, his hair salons would be out of business. "During the COVID-19 statewide shutdown, I found my hair salons at zero revenue, while all my expenses kept accumulating," said Faulkner, G-F Corporation/ADC President. "My employees had families to feed; we were all in terrible shape." Faulkner owns more than 15 Cost Cutters and The Barbers hair salons throughout Wisconsin.

Faulkner was just one of many business owners who received assistance from Peoples State Bank on the Small Business Administration's (SBA) Paycheck Protection Program (PPP) loans during the pandemic.

Peoples helped 737 businesses throughout Wisconsin—including a few outside of the state—with the PPP loans. During the shutdown, the commercial banking and loan processing team assisted with \$117 million in loans, with an average \$159,000 loan. Some of the team worked right through the Easter weekend, ensuring loan documents were uploaded to the SBA's website for processing.

Business owners had strict guidelines to follow regarding their use of the money. A majority had to be

used to pay employees and keep them paid during the shutdown. Businesses that followed the guidelines would have their loan forgiven. The companies that Peoples assisted had close to 12,000 people employed, who may have lost their jobs if not for the PPP loans.

Faulkner used the money to pay his hair salon employees. "Peoples stepped up and helped us through the PPP application process," said Faulkner. "It seems as though Peoples staff anticipated our needs before we even knew what we might need. I had hope that my businesses would survive, and Peoples made that happen."

"Our PPP success is a testament to the hard work of our entire commercial banking and processing team," said Peoples SVP Commercial Division Leader Pat Heier. "Our customer-driven focus helped our entire team respond, with assistance from several young tech-savvy employees who provided significant assistance to the entire team."

Of publicly traded Wisconsin banks, PSB originated the 2nd largest number of PPP loans relative to our existing portfolio. And the hard work continued with another round of PPP loans through the SBA made available to businesses in early 2021.



Peoples helped
737 businesses throughout
Wisconsin — including a few
outside of the state — with
the PPP loans.

SENIOR MANAGEMENT

THE 2020 LEADERSHIP TEAM



Scott Cattanach
President
Chief Executive Officer



Tim Dively
Vice President
Chief Operating Officer



Pat Heier
Senior Vice President
Group Leader
Commercial Banking



Maureen Jorgensen
Senior Vice President
Retail Sales & Service



Robert McPherson
Vice President
Risk Management



Mark Oldenberg
Vice President
Chief Financial Officer



Donna Staples
Senior Vice President
Human Resources Director

RETIREMENTS

Community banking is a people business, and we recognize some long-time colleagues who retired in 2020. Thank you, and we wish you all the best!

Dan "Morty" Mortensen
VP Mortgage Lender
23 years of service

Stuart Krause
Facilities Specialist
17 years of service

Sandy Dreger
Customer Service Representative
17 years of service

Jan Mueller
Retail Sales & Business
Development Officer
16 years of service

Donna Staples
SVP Human Resources
14 years of service

Lynn Kosina
Executive Administrative Assistant
12 years of service

Val Dreger
VP Mortgage Lender
11 years of service

Terry Geurink
VP Commercial Banker
7 years of service

STEADY GROWTH TO \$1 BILLION

Peoples achieved a significant milestone in 2020, reaching \$1 billion in total assets. The achievement is due to our customers' trust and patronage and the hard work of our employees and board of directors. It's an important milestone for our shareholders, as it provides opportunities for the bank while showing our stability as a well-managed operation.

"It's not just the bank's current employees who should be proud of this milestone," said Scott Cattanaich, Peoples State Bank President & CEO. "We recognize the more than 700 employees, bank leaders, and board members throughout the bank's 58-year history. Growing from a single location on Wausau's west side with \$450,000 in original shareholder investment shows the hard work and dedication throughout our history."

Our digital banking platforms have become a workhorse for customers who prefer to do their banking online instead of in-person. We continue to look for opportunities to enhance and improve our digital banking tools by providing the flexibility and customer service to help our customers reach their financial goals. And we have our eye on growing and expanding our footprint to serve our current and new customers better.

Our focus on knowing and helping our customers isn't going to change as we grow. Our employees will continue to go the extra mile to help customers throughout the pandemic. Our dedication to our customers' success was our focus back in 1962 when we opened our doors right up until today.



1962
Peoples State Bank opened with **\$450,000** in original shareholder investment

1967
Reached **\$10 million** in total assets

1989
Reached **\$100 million** in total assets
Rib Mountain location opened

1991
Marathon location opened



1995
Wausau Eastside (6th Street) location opened





1998
Rhineland location opened

2001
Eagle River location opened



2005
Reached **\$500 million** in total assets
Weston location opened

2004
Minocqua location opened
Stewart Avenue home office rebuilt

2012
Acquired Marathon State Bank

2014
Acquired Northwoods National Bank Rhineland location



2016
Milwaukee Lending Office opened

2018
Stevens Point Lending Office opened

2020
Reached **\$1 billion** in total assets

West Allis location opened
Announcement to purchase Waukesha's Sunset Bank & Savings



HARDWORKING MORTGAGE TEAM

To say the Peoples' mortgage department was busy in 2020 is an understatement. What started as an average year turned into an even more critical time to help customers. Coupled with the typical spring thaw home purchase demand, interest rates dropped in tandem with the stock market downturn in March, spurring customers in home purchases and refinancing existing mortgages. By the end of 2020, our mortgage lending team finished the year with \$288 million in new loan volume for all real estate originations, double the average of the previous five years.

Throughout the COVID-19 shutdown, our mortgage staff was inundated with requests to review refinancing options, as well as the purchase season that comes with warmer temps. In all, they helped 957 families or individuals with refinancing during the year. In addition to the rate drop in March, interest rates trended downward through the year and held considerably lower than years past throughout the second half of the year.

"The rates are as low as I've ever seen in my years in the business," said Jeffrey Saxton, Peoples' vice president mortgage lending. "Those low rates kept our lenders, underwriters, and loan processing staff busy all year long." Peoples prides itself on running a very efficient operation, and the mortgage team is no different. The mortgage department had been taking advantage of technology far in advance of COVID-19. Still, the pandemic forced many aspects of the process to go paperless or develop unique ways to close loans.

The department answered the bell and the demand for what customers needed to help them in the middle of the pandemic.

Of the \$288 million noted in the first paragraph, the Peoples mortgage team closed \$83 million in home purchases and \$160 million in first lien refinance transactions in 2020. Customers refinanced to lower their payments or cash out some of their home's equity to provide money for remodeling or other projects. And the home mortgages were not just first-time buyers but

included families looking to add a vacation home or move into a larger house with more affordable payments.

"With the initial rate drop in March 2020, an estimated more than 80% of the nation's homeowners could see significant savings through refinancing," said Saxton. "And early in 2021, we are still seeing customers asking about rates, refinancing, and beginning the home purchase process, so our work isn't done yet. I'm very proud of this group. And I'm fortunate to have such a dynamic, hardworking team."



Chao Lee & Longly Xiong prepare a meal together in their Wausau home, financed by Peoples State Bank.

PHILANTHROPY

MC UNITED

MC United Soccer Club serves the entire Wausau metro area offering both developmental and competitive soccer programs. Peoples State Bank serves as the official uniform—or “kit” as they are called in soccer—sponsor, helping offset the cost to families to purchase.



SUPPORTING ONE ANOTHER

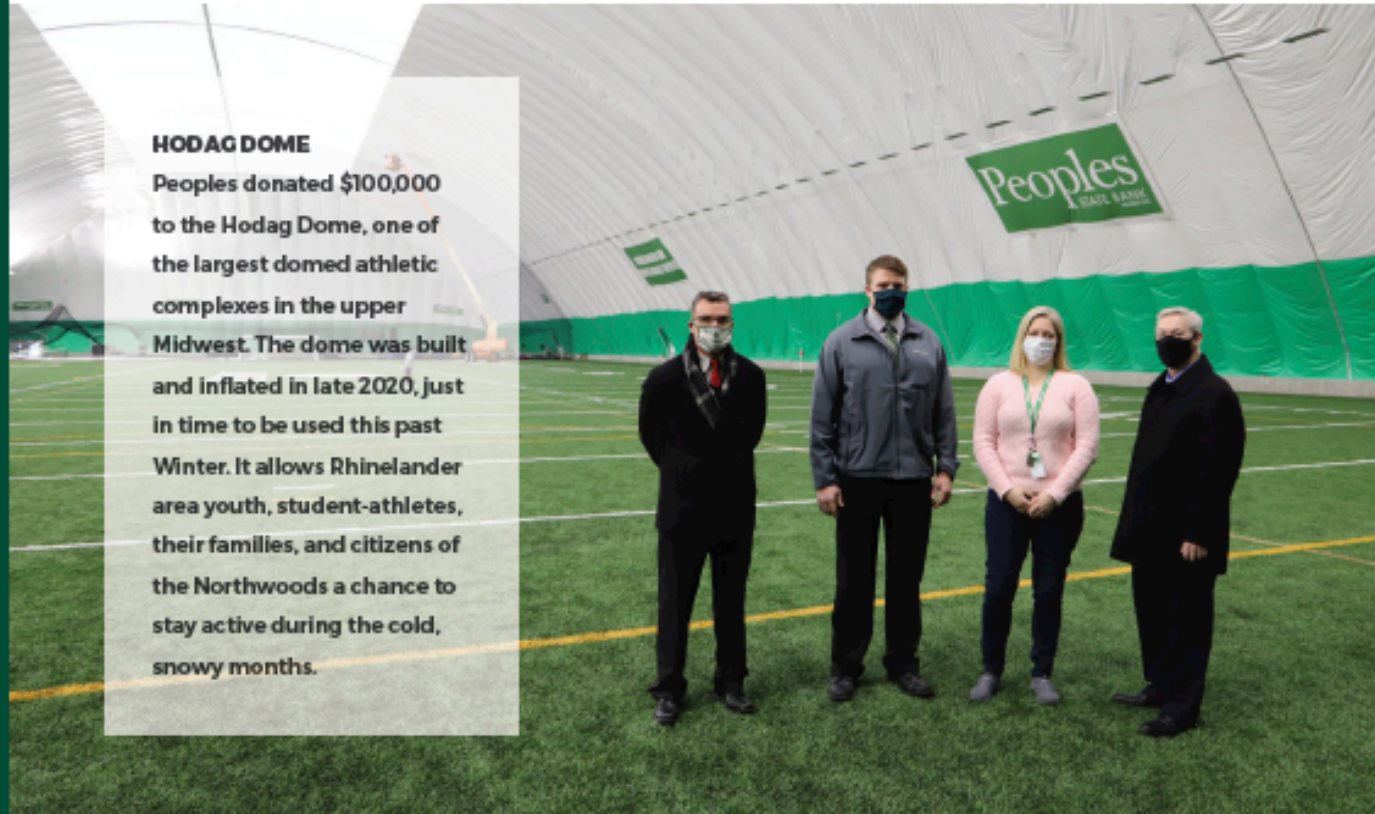
We have a big heart. Peoples and our employees gave both financially and through volunteer efforts in 2020. The pandemic changed many aspects of our community efforts with fewer events and fundraisers. Our employees donated 5,675 hours of time helping others through religious, school, sports, or non-profit organizations.



Peoples teamed up with the Federal Home Loan Bank of Chicago—of which we’re a member—to provide \$45,000 in donations to non-profits and businesses in Wisconsin impacted by the pandemic.

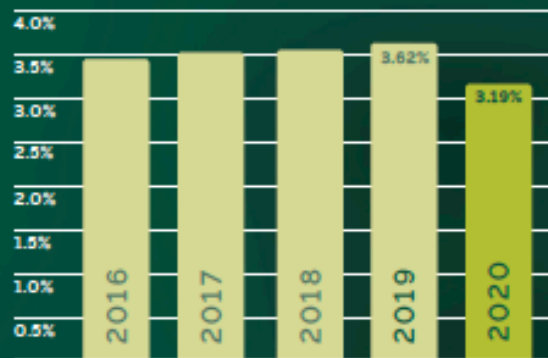
HODAG DOME

Peoples donated \$100,000 to the Hodag Dome, one of the largest domed athletic complexes in the upper Midwest. The dome was built and inflated in late 2020, just in time to be used this past Winter. It allows Rhinelander area youth, student-athletes, their families, and citizens of the Northwoods a chance to stay active during the cold, snowy months.

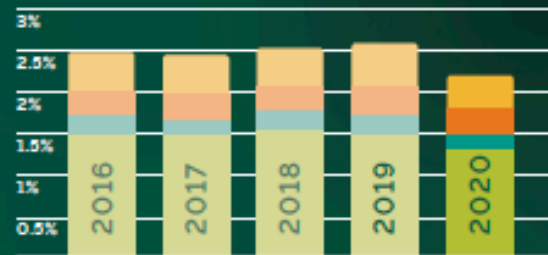


STATS AT A GLANCE

Net Interest Margin (tax adjusted)



Operating Expenses to Average Assets



SUMMARY STATEMENTS OF INCOME

(dollars in thousands, except per share data)

	2020	2019	2018
Net interest income	\$31,879	\$31,283	\$28,828
Provision for loan losses	5,575	850	130
Net interest income after loan loss provision	26,304	30,433	28,698
Noninterest income	11,413	7,661	6,476
Operating expenses	23,744	23,296	21,713
Net income before income taxes	13,973	14,798	13,461
Provision for income taxes	3,284	3,551	3,149
NET INCOME	\$10,689	\$11,247	\$10,312
Diluted earnings per share	\$2.40	\$2.51	\$2.29
Cash dividends per share	\$0.42	\$0.40	\$0.36
Average common shares outstanding	4,455,670	4,481,251	4,496,525
Return on average assets	1.01%	1.22%	1.19%
Return on average equity	10.83%	12.77%	13.41%

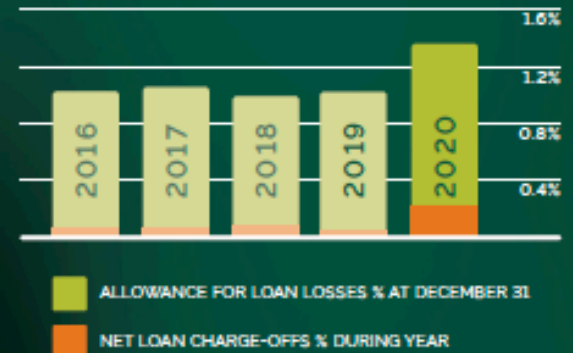
SUMMARY BALANCE SHEETS

December 31, 2020, 2019 and 2018. (dollars in thousands, except per share data)

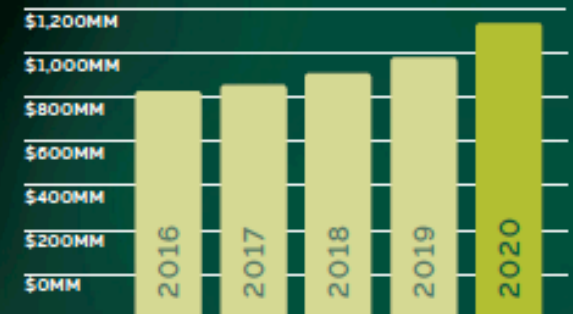
<i>Assets</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$38,528	\$49,028	\$43,978
Securities	229,527	179,431	175,108
Loans receivable, net	821,910	708,196	658,839
Premises and equipment, net	10,920	10,457	10,209
Other assets	31,070	27,781	27,864
TOTAL ASSETS	\$1,131,955	\$974,893	\$915,998
<i>Liabilities</i>			
Total deposits	\$932,137	\$781,790	\$725,826
Federal Home Loan Bank advances	62,000	73,496	81,071
Other borrowings	12,239	6,131	8,379
Senior subordinated notes	2,500	2,500	2,500
Junior subordinated debentures	7,732	7,732	7,732
Other liabilities	10,920	10,553	9,650
Stockholders' equity	104,427	92,691	80,840
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$1,131,955	\$974,893	\$915,998
Tangible net book value per share	\$23.43	\$20.72	\$17.98

STATS AT A GLANCE

Allowance for Loan Losses & Charge-offs to Gross Loans



Total Assets at December 31



PSB Holdings, Inc.

REACHING
NEW HEIGHTS



PSBQ
888.929.9902



PSBHOLDINGSINC.COM