



PSB Holdings, Inc.

2022

ANNUAL REPORT

IMPACT IN AGILITY

PSB Holdings, Inc. 2022 Annual Report

Impact in Agility

SIXTY YEARS AGO, PEOPLES STATE BANK OPENED ITS DOORS AS A BANK DESIGNED TO HELP PEOPLE WITH THEIR FINANCIAL NEEDS. IT'S WHY WE'RE NAMED PEOPLES STATE BANK.

Our goal has always been to help our customers pursue their financial dreams. For six decades, Peoples State Bank has provided financial solutions to business owners, consumers, and home buyers. Putting people first in their financial pursuits keeps staff focused on providing excellent customer service. And as technology and customer needs change, Peoples is changing, too, providing multiple service channels no matter how customers choose to bank with us.

60 Years of Growth



\$1,647,919 - value of bank assets when Peoples opened
\$1,337,689,000 - value of bank assets at 60 years



6 - # of employees when Peoples opened with one location
(Charles Anderson, Glenn Resheske, Harold Telschow, Gladys Beese, Joyce Lazewski, Lucille Ward - Gordon Connor was first president but was not an employee)
206 - # of employees at 60 years with 12 locations



1 - # of Wisconsin counties with loans when Peoples opened
53 - # of Wisconsin counties (out of 72) with loans at 60 years



Scott M. Cattanach

President & CEO

PSB Holdings, Inc. & Peoples State Bank

- **Impact in Agility:** *a concerted effort to provide value to our customers in the face of changing markets.*
- *Opening our doors on Wausau's west side in August 1962, was the first step in what has become a rich history of community banking. Sixty years later, most experiences in banking have changed, except our commitment to providing customers with excellent personal service.*

The President's Letter

Despite adversity in the 2022 financial markets, Peoples employees provided impact for our customers and shareholders by being agile in our solutions.

2022 GROWTH AND RETURN HIGHLIGHTS

Our loan growth was strong during 2022, up \$85.5 million, or 9.8%, and we achieved record earnings of \$3.07 per share on net income of \$13.5 million. On December 31, 2022, total assets reached \$1.34 billion, and total deposits closed at a new milestone of \$1.15 billion.

The nation's economic growth stumbled a bit during 2022 as the Federal Reserve increased interest rates to contain rising inflation. These higher rates decreased home purchase and refinance activity, and our mortgage banking revenue declined \$1.9 million, or 60.5% in 2022. In addition, the Small Business Administration's pandemic-related Paycheck Protection Program (PPP) concluded in 2022, during which we recognized \$360,000 of PPP origination fees, down significantly from \$3.4 million recorded in 2021.

However, net interest income increased \$1.4 million despite the reduction in PPP fee income. If these non-

recurring SBA PPP loan origination fees are excluded, 2022 net interest margin was 3.25% compared to 3.01% in 2021. Also supporting net income was continued strong credit quality, which required no provision for loan losses during 2022 after expensing \$1 million in 2021.

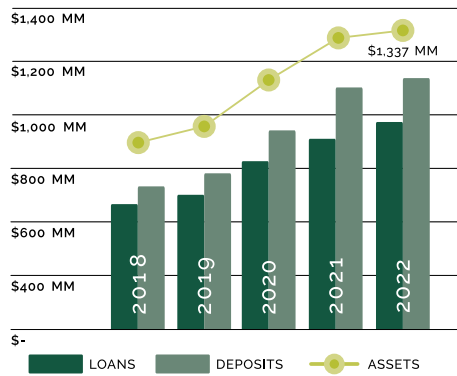
Rising interest rates also reduced the value of our existing fixed-rate investment securities, with those unrealized securities losses recorded as a reduction to stockholders' equity as part of comprehensive income, reducing net book value per share. However, unrealized security losses do not reduce net income unless they are sold prior to maturity and changes in value do not impact earnings per share.

Return on shareholder equity grew to 13.47% during 2022 compared to 11.63% during 2021. Strong results permitted the company to again increase cash dividends declared to shareholders during 2022, which increased 8.6% to \$0.50 per share. The cash dividend rate per share has increased 56% over the past five years.

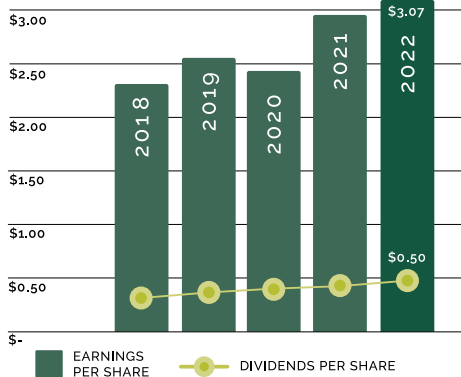
TECHNOLOGICALLY SPEAKING

We are committed to expanding our traditional customer delivery channels to include more digital banking options. Our recent customer research shows that more than

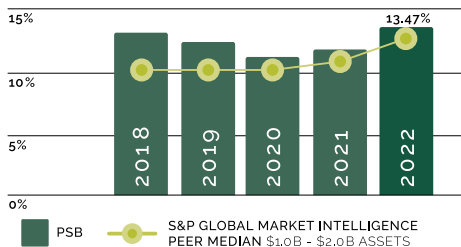
Total Assets, Loans, and Deposits - December 31



Earnings and Dividends per Share



Return on Equity vs. Peer



65% of our customers prefer to bank with Peoples using our digital banking tools. While many of our customers value traditional face-to-face interaction, digital options are increasingly important, particularly in our more metro Milwaukee area markets. In 2022, we added the following:

- Zelle® allows you to send money using your mobile phone to a friend or family member in minutes with high security.
- Our digital “OpenNow” permits retail customers to open a deposit account via mobile phone or online in minutes, including funding the new account.
- Allpoint ATM Network provides 55,000 fee-free ATMs worldwide, including 560 in Wisconsin.
- Autobooks for businesses provides a convenient mobile phone app to bill and collect customer payments on-site, with lower interchange costs, improving the speed of business cash flow.

Demand for ACH and Positive Pay commercial deposit treasury management fraud protection tools continues to grow, allowing us to protect customer deposits from fraudulent payments and transfers. During 2022, these tools were used to protect customers from over \$587,000 in deposit losses from fraud attempts.

COMMITMENT TO COMMUNITY

It's always been essential for us to give back to the communities we serve. Besides our monetary donation

and public support to local organizations, there are many other ways we support our neighbors.

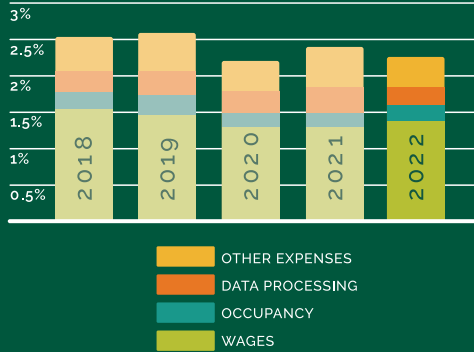
In 2022, we added the Peoples Balance Banking account to our retail checking account lineup. Peoples Balance Banking offers those without a banking relationship a low-cost account that prevents overdrafts, providing them with a safe and secure way to manage and grow their finances. The Cities for Financial Empowerment Fund approved our Peoples Balance Banking product under the BankOn National Account Standards designed to help provide financial stability to those who need assistance.

We've also created a series of essential financial information blogs, which we've dubbed our Money 101 series. We want our customers to understand money, bank accounts, and how their financial decisions can impact their futures.

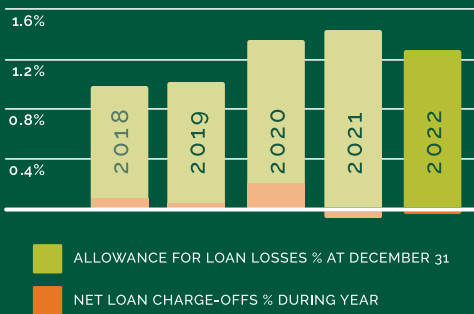
These new initiatives are in addition to the myriad of community involvement activities you've come to expect from Peoples and our employees, which you can learn more about on pages 6 and 7.

We earned three significant honors in this year's Wausau Daily Herald “Best of Marathon County” contest, finishing as the Best Bank, Best Mortgage Company, and Best Financial Planning Company by the newspaper's readers. It's the 11th year in a row their readers have voted us as the Best Bank in Marathon County, and the fourth straight year we've been named Best Mortgage Company.

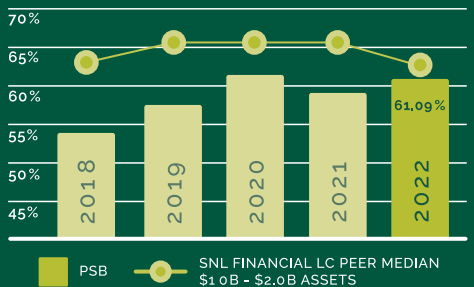
Operating Expenses to Average Assets



Allowance for Loan Losses & Charge-offs to Gross Loans



Efficiency Ratio* vs. Peer



*Operating expenses as a % of revenue

In addition, American Banker Magazine named PSB Holdings, Inc. one of the Top 200 Community Banks for the 13th year in a row, recognizing the above-average return on equity results over a three-year period for our shareholders. American Banker Magazine also honored Peoples as one of the Best Banks to Work For in 2022. It's the fourth year in a row for that honor, which is awarded to banks that create exceptional work environments based on an anonymous survey of our staff.

LOOKING AHEAD

Our Stevens Point loan production office, started in 2017, now has \$55 million in loans. We will expand this office to a full-service branch in 2023. The new site is being designed to include new technology to expand our customer service channels.

In addition to our Stevens Point expansion, we look to add to our strong SBA 504 lending program, under which we are already a leading Wisconsin lender. Our commercial banking team is building the foundation and procedures to also offer SBA 7(a) guaranteed loans to businesses. The SBA 7(a) loans provide financing for customers with start-up businesses, those with a collateral shortfall, or operating in a challenging industry not well served with traditional bank financing. This product expands our growth opportunities with new business leaders and

industries not currently served by Peoples while still managing credit risk.

Our new residential mortgage origination system brought us several benefits, including improved customer regulatory disclosures, increased customer self-service options, and staff efficiencies from fewer manual inputs and processes. Continued process efficiencies are essential for us to continue favorable expense and efficiency ratios to deliver competitive loan and deposit pricing. In 2023, we are updating our commercial loan origination system to provide faster approvals, fewer customer steps, and fewer manual processes for small to medium-sized commercial loan requests.

SHAREHOLDER LIQUIDITY

During 2022, we took actions to increase our stock trading liquidity and introduced new options to buy and sell shares. Through our transfer agent, a new dividend reinvestment plan and direct stock purchase plan are now available for shareholders.

We have a lot to be thankful for in looking back at 2022. Peoples celebrated 60 years of banking with another outstanding year for our shareholders, customers, and employees. Thank you for your trust and ongoing support.

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

The Board of Directors

Our board members ensure Peoples State Bank's financial security and dedication to our customer's and shareholders' best interests.

William J. Fish

Chairman of PSB Holdings, Inc. & Peoples State Bank
Retired President BILCO, Inc.

Scott M. Cattanaach

President & CEO
PSB Holdings, Inc. & Peoples State Bank

Kevin J. Kraft

Managing Director
Wisconsin River Partners, LLC

Lee A. Guenther

Retired CEO
T.A. Solberg Co., Inc.

Karla M. Kieffer

Co-owner & VP Sales
SUN Printing

Peter W. Knitt

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

Corey B. Vanderpoel

Managing Director & Owner
Taureau Group, LLC

Patricia M. Hanz

Retired
Briggs & Stratton
U.S. Consumer Product Safety
Commission

Robert F. Eastman, Jr.

Retired CEO
Sunset Bank & Savings



Front row – Karla Kieffer, Peter Knitt, Corey Vanderpoel

Back row – Lee Guenther, Scott Cattanaach, Kevin Kraft, William Fish, Patricia Hanz *Not pictured: Robert Eastman, Jr.*



EASTMAN

A special "thank you" to Bob Eastman on his retirement from the PSB Holdings, Inc. board of directors in 2023. Without Bob's support, the bank's acquisition of Sunset Bank & Savings in 2021, and transition to Peoples State Bank - Waukesha could not have happened. Eastman spent many years in Milwaukee area residential mortgage banking and other financial services, and formed Sunset Bank & Savings in 1999.

RETIREMENTS

Community banking is a people business, and we recognize colleagues who retired in 2022. Thank you, and we wish you all the best!

Cindy Wright

VP Retail Team Leader Northern Market
17 years of service

Patty Duberstein

Commercial Loan Post Closer
4 years of service

Heidi Fleurant

VP Senior Private Banker
43 years of service

Kevin Smith

Retail Loan Underwriting Specialist
6 years of service

Angela Vinnedge

Customer Service Representative
1 year of service



WRIGHT



FLEURANT



Left to Right - Tim Dively, Jeff Saxton, Jessica Brown, Pat Heier, Robert McPherson, Erik Rajek, Scott Cattanach, Tina Seidl

The Executive Management Team

Working together on a common goal, Peoples' Executive Management Team is responsible for ensuring the board's directives are achieved, providing success for our customers, employees, and shareholders.

Scott Cattanach
President
Chief Executive Officer

Robert McPherson
Vice President
Risk Management

Jessica Brown
Senior Vice President
Chief Financial Officer

Jeffrey Saxton
Vice President
Retail Sales & Service

Tim Dively
Senior Vice President
Chief Technology & Operating Officer

Tina Seidl
Vice President
Human Resources

Pat Heier
Senior Vice President
Commercial Banking

Erik Rajek
Vice President
Chief Credit Officer

Giving back & supporting our community

WE SUPPORT THE COMMUNITIES AND PEOPLE WE SERVE.

Our employees routinely volunteer their time and talent to help others in the community. In 2022, our employees donated more than 5,400 hours to non-profit organizations, community service clubs, athletic clubs, schools, and church organizations in the communities where they live. For Peoples, it's the definition of being a community bank!



A Shining Star

Peoples received a Shining Star award from the United Way of Marathon County for our support of the United Way Annual Campaign. Peoples was honored for our campaign growth, participation growth, per capita gift amount, leadership giving, corporate gift, and volunteerism.

Financial Assistance

Peoples State Bank contributes more than \$250,000 every year in donations and sponsorships of events and organizations that impact their communities. Some of our West Allis leadership presented a \$1,500 check to Junior Achievement of Wisconsin in 2022. The money was used to provide financial education to young students in West Allis area schools.





Raising Money

Peoples employees pride themselves on helping to raise money for non-profits and community organizations. Our Rhinelander team coordinates three fundraisers each year, this one to raise money for the Humane Society of Oneida County.



Investing in the Future

In 2022, Peoples provided \$1 million to support affordable housing development through Cinnaire's 2022 Community Fund, a low-income housing tax credit equity fund. The investments reinforce Peoples' commitment to expanding access to high-quality affordable housing—a key driver of economic mobility and family stability. Peoples' investment helped build 40 new apartments in Lac du Flambeau, a community in need of affordable housing.

SUMMARY STATEMENTS OF INCOME

Years ended December 31 (dollars in thousands, except per share data)

	2022	2021	2020	2019	2018
Net interest income	\$40,003	\$38,601	\$31,879	\$31,283	\$28,828
Provision for loan losses	-	1,000	5,575	850	130
Net interest income after loan loss provision	40,003	37,601	26,304	30,433	28,698
Noninterest income	7,444	9,418	11,413	7,661	6,476
Operating expenses	29,516	30,110	23,744	23,296	21,713
Net income before income taxes	17,931	16,909	13,973	14,798	13,461
Provision for income taxes	4,294	4,092	3,284	3,551	3,149
NET INCOME	\$13,637	\$12,817	\$10,689	\$11,247	\$10,312
Preferred stock dividends declared	\$81	-	-	-	-
Net income available to common shareholders	\$13,556	\$12,817	\$10,689	\$11,247	\$10,312
Diluted earnings per share	\$3.07	\$2.88	\$2.40	\$2.51	\$2.29
Cash dividends per share	\$0.50	\$0.46	\$0.42	\$0.40	\$0.36
Return on average assets	1.05%	1.03%	1.01%	1.22%	1.19%
Return on average equity	13.47%	11.63%	10.83%	12.77%	13.41%

SUMMARY BALANCE SHEETS

Years ended December 31 (dollars in thousands, except per share data)

ASSETS	2022	2021	2020	2019	2018
Cash and cash equivalents	\$29,409	\$53,543	\$38,528	\$49,028	\$43,978
Securities and certificates of deposit	282,045	310,690	229,527	179,431	175,108
Loans receivable, net	961,865	876,337	820,956	707,651	658,481
Premises and equipment	13,164	12,695	10,920	10,457	10,209
Other assets	51,206	45,446	32,024	28,326	28,222
TOTAL ASSETS	\$1,337,689	\$1,298,711	\$1,131,955	\$974,893	\$915,998
LIABILITIES	2022	2021	2020	2019	2018
Deposits	\$1,148,755	\$1,105,240	\$932,137	\$781,790	\$725,826
Federal Home Loan Bank advances	43,000	47,000	62,000	73,496	81,071
Other borrowings	12,985	6,677	12,239	6,131	8,379
Senior subordinated notes	5,549	2,500	2,500	2,500	2,500
Junior subordinated debentures	12,819	12,717	7,732	7,732	7,732
Other liabilities	12,639	13,315	10,920	10,553	9,650
Stockholders' equity	101,942	111,262	104,427	92,691	80,840
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$1,337,689	\$1,298,711	\$1,131,955	\$974,893	\$915,998
Common shares outstanding at year end	4,297,279	4,440,329	4,452,287	4,467,217	4,487,895
Tangible net book value per share	\$21.37	\$24.36	\$23.43	\$20.72	\$17.98

PSB Holdings, Inc.

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