



# 2024

## Audited Financial Statements

**PSB Holdings, Inc.**  
Wausau, Wisconsin

Consolidated Financial Statements  
Years Ended December 31, 2024, 2023, and 2022

## **Independent Auditor's Report**

Audit Committee  
PSB Holdings, Inc. and Subsidiary  
Wausau, Wisconsin

### ***Opinions on the Consolidated Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated financial statements of PSB Holdings, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years ended December 31, 2024, 2023 and 2022, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of PSB Holdings, Inc. and Subsidiary as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years ended December 31, 2024, 2023 and 2022 in accordance with accounting principles generally accepted in the United States of America ("GAAP").

We also have audited the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with instructions to the Federal Financial Institutions Examination Council Consolidated Reports of Condition and Income ("Call Report"), as of December 31, 2024, based on criteria established in Internal Control—Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2024 and 2023, based on criteria established in Internal Control—Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

### ***Basis for Opinions***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and Internal Control Over Financial Reporting section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Responsibilities of Management for the Consolidated Financial Statements and Internal Control Over Financial Reporting***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management Report.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audits of the Consolidated Financial Statements and Internal Control Over Financial Reporting***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of financial statements or an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit of financial statements or an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the financial statement audit in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control over financial reporting relevant to the audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### ***Definition and Inherent Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements

of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of the Company's internal control over financial reporting included controls over the preparation of financial statements in accordance with GAAP and with Call Report instructions.

A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A handwritten signature in black ink that reads "Wipfli LLP". The script is cursive and fluid, with the letters "W", "i", "p", "f", "l", and "i" being particularly prominent and connected.

Wipfli LLP  
Eau Claire, Wisconsin

February 14, 2025

**Consolidated Balance Sheets**  
**December 31, 2024 and 2023**  
(dollars in thousands except per share data)

<i>Assets</i>	<b>2024</b>	<b>2023</b>
Cash and due from banks	\$ 21,414	\$ 20,887
Interest-bearing deposits	3,724	1,431
Federal funds sold	15,360	5,462
Cash and cash equivalents	40,498	27,780
Debt securities available for sale, at fair value (amortized cost of \$212,404 and \$188,795, respectively, net of allowance for credit loss of \$0 and \$0, respectively)	189,086	164,024
Debt securities held to maturity (fair value of \$79,654 and \$82,514 respectively, net of allowance for credit loss of \$0 and \$0, respectively)	86,748	87,081
Equity securities	2,782	1,474
Loans held for sale	217	230
Loans receivable, net (allowance for credit losses of \$12,342 and \$12,302 respectively)	1,078,204	1,078,475
Accrued interest receivable	5,042	5,136
Real estate foreclosed or held for sale	-	-
Premises and equipment, net	13,805	13,098
Federal Home Loan Bank stock (at cost)	8,825	6,373
Cash surrender value of bank-owned life insurance	24,732	24,085
Goodwill and other intangibles	4,478	4,478
Other assets	11,539	11,866
<b>TOTAL ASSETS</b>	<b>\$1,465,956</b>	<b>\$1,424,100</b>

**Consolidated Balance Sheets**  
**December 31, 2024 and 2023**  
(dollars in thousands except per share data)

<i>Liabilities and Stockholders' Equity</i>	<b>2024</b>	<b>2023</b>
Deposits:		
Non-interest-bearing	\$ 259,515	\$ 266,829
Interest-bearing	887,834	874,973
Total deposits	1,147,349	1,141,802
Federal Home Loan Bank advances	162,250	134,000
Other borrowings	6,872	8,058
Senior subordinated notes	4,781	4,774
Junior subordinated debentures	13,023	12,921
Allowance for credit losses on unfunded commitments	672	577
Accrued expenses and other liabilities	14,723	12,681
Total liabilities	1,349,670	1,314,813
Stockholders' equity:		
Preferred stock - No par value:		
Authorized - 30,000 shares; Issued – 7,200 shares		
Outstanding – 7,200 shares	7,200	7,200
Common stock - No par value with a stated value of \$1.00 per share:		
Authorized - 18,000,000 shares		
Issued - 5,490,798 shares	1,830	1,830
Outstanding – 4,092,977 and 4,164,735 shares, respectively		
Additional paid-in capital	8,610	8,460
Retained earnings	139,838	132,666
Accumulated other comprehensive loss, net of tax	(19,314)	(20,689)
Treasury stock, at cost – 1,397,821 and 1,326,063 shares, respectively	(21,878)	(20,180)
Total stockholders' equity	116,286	109,287
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$1,465,956</b>	<b>\$1,424,100</b>

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Income**  
**Years Ended December 31, 2024, 2023, and 2022**  
(dollars in thousands except per share data)

	2024	2023	2022
Interest and dividend income:			
Loans, including fees	\$61,822	\$53,633	\$39,825
Securities:			
Taxable	5,382	4,919	3,817
Tax-exempt	2,091	2,137	2,149
Other interest and dividends	2,255	851	398
Total interest and dividend income	71,550	61,540	46,189
Interest expense:			
Deposits	23,852	16,993	4,439
Federal Home Loan Bank advances	7,238	4,417	779
Other borrowings	232	215	58
Senior subordinated notes	235	238	139
Junior subordinated debentures	1,010	985	771
Total interest expense	32,567	22,848	6,186
Net interest income	38,983	38,692	40,003
Provision for credit losses	195	450	-
Net interest income after provision for credit losses	38,788	38,242	40,003
Noninterest income:			
Service fees	1,415	1,448	1,570
Residential mortgage banking, net	1,588	1,228	1,215
Investment and insurance sales commissions	799	910	1,715
Net loss on sale of securities	(1,006)	(576)	-
Increase in cash surrender value of bank-owned life insurance	647	615	616
Life insurance death benefit	-	533	-
Other operating income	2,627	2,562	2,328
Total noninterest income	6,070	6,720	7,444
Noninterest expense:			
Salaries and employee benefits	19,752	18,648	17,940
Occupancy and facilities	2,902	2,761	2,622
Loss (gain) on real estate foreclosed	1	(45)	-
Data processing and other office operations	4,284	3,785	3,589
Advertising and promotion	605	733	690
Legal and professional fees	841	687	746
Other operating expense	4,488	3,979	3,929
Total noninterest expense	32,873	30,548	29,516
Income before income taxes	11,985	14,414	17,931
Provision for income taxes	1,696	4,845	4,294
Net income	\$ 10,289	\$ 9,569	\$ 13,637
Preferred stock dividends declared	\$ 486	\$ 486	\$ 81
Net income available to common shareholders	\$ 9,803	\$ 9,083	\$ 13,556
Basic earnings per share	\$ 2.37	\$ 2.16	\$ 3.07
Diluted earnings per share	\$ 2.37	\$ 2.16	\$ 3.07

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2024, 2023, and 2022**  
(dollars in thousands except per share data)

	2024	2023	2022
Net income	\$10,289	\$9,569	\$13,637
Other comprehensive income (loss):			
Unrealized gain (loss) on debt securities, net of tax	352	2,641	(25,451)
Reclassification adjustment for net loss on sale of debt securities, included in net income, net of tax	795	500	-
Reclassification adjustment for amounts realized related to stranded tax effects associated with the tax adjustment for Wisconsin Act 19	(111)	(33)	-
Accretion of unrealized loss on debt securities available for sale transferred to debt securities held to maturity, net of tax	360	418	361
Unrealized gain on interest rate swap, net of tax	125	141	172
Reclassification adjustment of interest rate swap settlements included in earnings, net of tax	(146)	(136)	70
Other comprehensive income (loss)	1,375	3,531	(24,848)
Comprehensive income (loss)	\$11,664	\$13,100	(\$11,211)

See accompanying notes to consolidated financial statements.



**Consolidated Statements of Changes in Stockholders' Equity**  
**Years Ended December 31, 2024, 2023, and 2022**  
(dollars in thousands except per share data)

			Additional		Accumulated Other		
	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Comprehensive Income (Loss)	Treasury Stock	Totals
Balance, December 31, 2021	\$ 0	\$1,830	\$8,059	\$114,627	\$628	(\$13,882)	\$111,262
Net income				13,637			13,637
Other comprehensive loss					(24,848)		(24,848)
Issuance of preferred stock	7,200		(51)				7,149
Purchase of treasury stock						(3,303)	(3,303)
Grants of restricted stock			(30)			30	-
Vesting of restricted stock			151				151
Forfeiture of unvested restricted stock grants			74			(74)	-
Directors fees paid in grants of stock			33			35	68
Vesting of stock options			64				64
Exercise of stock options						23	23
Cash dividends declared \$0.50 per share				(2,172)			(2,172)
Cash dividends declared on unvested restricted stock				(8)			(8)
Cash dividends declared on preferred stock				(81)			(81)
Balance, December 31, 2022	\$ 7,200	\$1,830	\$8,300	\$126,003	(\$24,220)	(\$17,171)	\$101,942
	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Totals
Balance, December 31, 2022	\$ 7,200	\$1,830	\$8,300	\$126,003	(\$24,220)	(\$17,171)	\$101,942
Cumulative effect of ASU 2013-13 adoption (CECL)				87			87
Net income				9,569			9,569
Other comprehensive income					3,531		3,531
Purchase of treasury stock			(29)			(3,000)	(3,029)
Grants of restricted stock			(50)			50	-
Vesting of restricted stock			54				54
Forfeiture of unvested restricted stock grants			76			(76)	-
Directors fees paid in grants of stock			8			17	25
Vesting of stock options			101				101
Cash dividends declared \$0.60 per share				(2,501)			(2,501)
Cash dividends declared on unvested restricted stock				(6)			(6)
Cash dividends declared on preferred stock				(486)			(486)
Balance, December 31, 2023	\$ 7,200	\$1,830	\$8,460	\$132,666	(\$20,689)	(\$20,180)	\$109,287

**Consolidated Statements of Changes in Stockholders' Equity (Continued)**  
**Years Ended December 31, 2024, 2023, and 2022**  
(dollars in thousands except per share data)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Totals
Balance, December 31, 2023	\$ 7,200	\$1,830	\$8,460	\$132,666	(\$20,689)	(\$20,180)	\$109,287
Net income				10,289			10,289
Other comprehensive income					1,375		1,375
Purchase of treasury stock			(17)			(1,763)	(1,780)
Grants of restricted stock			(49)			49	-
Vesting of restricted stock			71				71
Forfeiture of unvested restricted stock grants			22			(22)	-
Directors fees paid in grants of stock			4			9	13
Vesting of stock options			113				113
Issuance of restricted employee stock purchase plan stock grants			6			29	35
Cash dividends declared \$0.64 per share				(2,626)			(2,626)
Cash dividends declared on unvested restricted stock				(5)			(5)
Cash dividends declared on preferred stock				(486)			(486)
Balance, December 31, 2024	\$7,200	\$1,830	\$8,610	\$139,838	(\$19,314)	(\$21,878)	\$116,286

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2024, 2023, and 2022**  
(dollars in thousands except per share data)

	2024	2023	2022
Increase (decrease) in cash and cash equivalents:			
Cash flows from operating activities:			
Net income	\$ 10,289	\$ 9,569	\$ 13,637
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for depreciation and net amortization	3,002	3,073	3,356
Amortization of operating lease right of use asset	141	41	55
Provision (benefit) for deferred income taxes	(88)	2,770	495
Provision for credit losses	195	450	-
Deferred net loan origination costs	(173)	(269)	(304)
Proceeds from sales of loans held for sale	40,669	19,818	39,355
Originations of loans held for sale	(40,113)	(19,820)	(35,757)
Gain on sale of loans	(1,322)	(541)	(613)
Recapture of mortgage servicing rights valuation allowance	-	(118)	(28)
Net (gain) loss on sale and provision for write-down of premises and equipment	(10)	(16)	3
Realized loss on sale of debt securities available for sale	1,006	576	-
Net gain on sale and provision for write-down of real estate foreclosed or held for sale	-	(58)	(17)
Increase in cash surrender value of bank-owned life insurance	(647)	(615)	(616)
Changes in operating assets and liabilities:			
Accrued interest receivable	94	(1,130)	(750)
Other assets	(123)	(674)	(224)
Operating lease liability	(138)	41	66
Accrued expenses and other liabilities	1,760	3	(373)
Net cash provided by operating activities	\$ 14,542	\$ 13,100	\$ 18,285
Cash flows from investing activities:			
Proceeds from maturities of debt securities available for sale	16,853	14,260	22,472
Proceeds from sale of debt securities available for sale	15,331	21,658	491
Proceeds from maturities of debt securities held to maturity	1,430	1,826	3,600
Payment for purchase of debt securities available for sale	(57,309)	(5,130)	(28,434)
Payment for purchase of debt securities held to maturity	(1,013)	(931)	(5,711)
Change in fair value of equity securities	(316)	(325)	(331)
Proceeds from sale of equity securities	-	940	-
Payment for purchase of equity securities	(992)	-	-
Net redemption of bank certificates of deposit	-	-	245
Net (purchase) redemption of Federal Home Loan Bank stock	(2,452)	(3,857)	130
Net (increase) decrease in loans	653	(115,945)	(84,827)
Purchases of premises and equipment	(1,739)	(1,226)	(1,540)
Proceeds from sale of premises and equipment	16	15	14
Proceeds from sale of real estate foreclosed or held for sale	-	218	960
Proceeds from bank-owned life insurance	-	1,984	-
Life insurance death benefit gain	-	(533)	-
Net cash used in investing activities	(\$29,538)	(\$87,046)	(\$92,931)

**Consolidated Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2024, 2023, and 2022**  
(dollars in thousands except per share data)

	2024	2023	2022
Cash flows from financing activities:			
Net (decrease) increase in non-interest-bearing deposits	\$ (7,314)	\$ (25,509)	\$ 7,861
Net increase in interest-bearing deposits	12,861	18,556	35,654
Net increase (decrease) in Federal Home Loan Bank advances	28,250	91,000	(4,000)
Net increase (decrease) in other borrowings	(1,186)	(4,927)	6,308
Issuance of senior subordinated notes	-	-	4,800
Repayment of senior subordinated notes	-	(781)	(1,719)
Issuance of preferred stock	-	-	7,149
Dividends declared	(3,117)	(2,993)	(2,261)
Proceeds from exercise of stock options	-	-	23
Purchase of treasury stock	(1,780)	(3,029)	(3,303)
Net cash provided by financing activities	\$ 27,714	\$ 72,317	\$ 50,512
Net increase (decrease) in cash and cash equivalents	12,718	(1,629)	(24,134)
Cash and cash equivalents at beginning	27,780	29,409	53,543
Cash and cash equivalents at end	\$ 40,498	\$ 27,780	\$ 29,409
<b>Supplemental cash flow information:</b>			
Cash paid during the year for:			
Interest	\$ 32,226	\$ 21,738	\$ 5,986
Income taxes	1,138	3,055	3,575
<b>Noncash activities:</b>			
Transfer of securities available for sale to securities held to maturity	\$ -	\$ -	\$ 87,450
Grants of unvested restricted stock at fair value	71	76	59
Grants of stock to directors at fair value	13	25	68
Vesting of restricted stock grants	71	54	151
Vesting of stock option grants	113	101	64
Right-of-use assets obtained in exchange for lease obligations	468	-	122

See accompanying notes to consolidated financial statements.

## **Notes to Consolidated Financial Statements (dollars in thousands except per share data)**

### **NOTE 1                      Summary of Significant Accounting Policies**

#### **Principal Business Activity**

PSB Holdings, Inc. operates Peoples State Bank (the “Bank”), a full-service financial institution chartered as a state commercial bank headquartered in Wausau, Wisconsin with twelve locations in a primary service area including Marathon, Oneida, Vilas, Portage, Milwaukee, and Waukesha counties and a loan production office in Dane county in Wisconsin. PSB operates as a community bank and provides a full range of traditional retail consumer and commercial banking products, including uninsured investment and insurance products, long-term fixed-rate residential mortgages, and commercial treasury management services.

#### **Principles of Consolidation**

The consolidated financial statements include the accounts of PSB Holdings, Inc. and its subsidiary, Peoples State Bank. Peoples State Bank owns and operates a Nevada subsidiary, PSB Investments, Inc., to manage the Bank’s investment securities. All significant intercompany balances and transactions have been eliminated. The accounting and reporting policies of PSB conform to accounting principles generally accepted in the United States (“GAAP”) and to the general practices within the banking industry. Any reference to “PSB” refers to the consolidated or individual operations of PSB Holdings, Inc. and its subsidiary, Peoples State Bank.

#### **Use of Estimates in Preparation of Financial Statements**

The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Significant estimates are used when measuring the reported amounts of the following: the fair value of financial instruments, securities and other financial instruments using Level 3 inputs, the allowance for credit losses, and mortgage servicing rights.

#### **Cash and Cash Equivalents**

For purposes of reporting cash flows in the consolidated financial statements, cash and cash equivalents include cash and due from banks, interest-bearing deposits, money market funds, and federal funds sold, all of which have original maturities of three months or less.

#### **Debt Securities Held to Maturity and Available for Sale**

Debt securities are assigned an appropriate classification at the time of purchase in accordance with management’s intent. Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Accretion of the net unrealized loss on securities held to maturity that were transferred from securities available for sale is recognized in other comprehensive income using the interest method over the estimated lives of the securities. Debt securities not classified as securities held to maturity are considered available for sale and reported at fair value, determined from estimates of brokers or other sources. Unrealized gains and losses are excluded from earnings but are reported as other comprehensive income, net of income tax effects. Amortization of premiums and accretion of discounts is recognized in interest income using the interest method over the estimated lives of the securities.

Gains and losses on the sale of debt securities are recorded on the trade date and determined using the specific-identification method.

Declines in fair value of debt securities that are deemed to be other than temporary, if applicable, are reflected in earnings as realized losses. Prior to January 1, 2023, in estimating other-than-temporary impairment losses, management considered the length of time and the extent to which fair value had been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of PSB to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

**Allowance for Credit Losses – Debt Securities Held to Maturity:** Management measures expected credit losses on debt securities held to maturity on a collective basis by major security type. Accrued interest receivable on debt securities held to maturity is excluded from the estimate of credit losses. The held to maturity portfolio consists of taxable and nontaxable municipal securities from local governmental entities. The estimate of expected losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. At December 31, 2024 and 2023, respectively, the estimated reserve was immaterial.

## **Notes to Consolidated Financial Statements (dollars in thousands except per share data)**

Allowance for Credit Losses – Debt Securities Available for Sale: For available for sale securities in an unrealized loss position, PSB first assesses whether it intends to sell, or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written to fair value through income. For debt securities available for sale that do not meet the aforementioned criteria, PSB evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any decline in fair value that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of applicable taxes.

Changes in the allowance for credit losses are recorded as credit loss expense (or recovery). Losses are charged against the allowance when management believes the uncollectibility of a debt security available for sale is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on debt securities available for sale is excluded from the estimate of credit losses. The accrual of interest on a security available for sale is discontinued whenever management believes the issuer will be unable to make payments as they become due. When securities are placed on nonaccrual status, all unpaid accrued interest is reversed against interest income.

### **Equity Securities**

Equity securities include common stock in Bankers' Bancorporation, an investment in a CRA Fund, and an investment in an affordable housing limited partnership. The investment in Bankers' Bancorporation, the CRA Fund, and affordable housing limited partnership do not have readily determinable fair values and are carried at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

### **Loans Held for Sale**

PSB sells most 15-, 20-, and 30-year long-term fixed-rate single-family mortgage loans it originates into the secondary market. The gain or loss associated with sales of single-family mortgage loans is recorded as a component of residential mortgage banking revenue.

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. Gains and losses on the sale of loans held for sale are determined using the specific identification method using quoted market prices.

For sales of mortgage loans to the Federal Home Loan Bank ("FHLB") prior to 2009 and after January 1, 2023, PSB retained a secondary portion of the credit risk on the underlying loans in exchange for a credit enhancement fee. When applicable, PSB records a recourse liability to provide for potential credit losses. PSB also provides representations and warranties regarding all originated loans sold to secondary market buyers including the FHLB and the Federal National Mortgage Association ("FNMA"). These representations and warranties can lead to additional credit risk for which PSB records a recourse liability. Because the loans involved in these transactions are similar to those in PSB's loans held for investment portfolio, the review of the adequacy of the recourse liability is similar to the review of the adequacy of the allowance for credit losses (refer to "Allowance for Credit Losses").

### **Loans**

Loans that management has the intent to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for credit losses, and any deferred fees or costs on originated loans. Interest on loans is credited to income as earned. Interest income is not accrued on loans where management has determined collection of such interest is doubtful or those loans which are past due 90 days or more as to principal or interest payments. When a loan is placed on nonaccrual status, previously accrued but unpaid interest deemed uncollectible is reversed and charged against current income. After being placed on nonaccrual status, all payments received are applied to reduce principal, and additional income is recorded only after the principal has been satisfied. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Interest income recognition on loans considered to be individually evaluated is consistent with the recognition on all other loans.

Loan origination fees and certain direct loan origination costs are deferred and recognized as an adjustment of the related loan yield using the interest method.

## **Notes to Consolidated Financial Statements (dollars in thousands except per share data)**

### **Allowance for Credit Losses**

The allowance for credit losses (“ACL”) is a valuation allowance that is deducted from the loans’ amortized cost basis to present the net amount expected to be collected on the loans. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

PSB excludes interest receivable from the amortized cost basis of loans when estimating credit losses and when presenting required disclosures in the financial statements. Accrued interest on loans totaling \$3,385 and \$3,655 at December 31, 2024 and 2023, respectively, was excluded from the amortized cost basis of loans.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as changes in external conditions, such as changes in unemployment rates, property values, or other relevant factors.

The allowance for credit losses is measured on a collective pool basis when similar risk characteristics exist. PSB has identified the following portfolio segments and measures the allowance for credit losses using the following methods:

Portfolio Segment (Federal Call Code)	Pool	Methodology	Loss Driver
1a1. 1-4 family residential construction loans	Residential construction and development	Discounted Cash Flow	National Unemployment Rate
1a2. Other construction loans and all land development and other land loans	Commercial construction and land development	Discounted Cash Flow	National Unemployment Rate
1b. Secured by farmland	Agricultural	Remaining Life Method	n/a
1c1. Revolving, open-end loans secured by 1-4 family residential properties and extended under line of credit	Residential real estate home equity	Discounted Cash Flow	National Unemployment Rate
1c2a. Secured by first liens	Residential real estate mortgage	Discounted Cash Flow	National Unemployment Rate
1c2b. Secured by junior liens	Residential real estate home equity	Discounted Cash Flow	National Unemployment Rate
1d. Secured by multifamily (5 or more) residential properties	Commercial real estate mortgage	Discounted Cash Flow	National Unemployment Rate
1e1. Loans secured by owner-occupied, nonfarm nonresidential properties	Commercial real estate mortgage	Discounted Cash Flow	National Unemployment Rate
1e2. Loans secured by other nonfarm nonresidential properties	Commercial real estate mortgage	Discounted Cash Flow	National Unemployment Rate
3. Loans to finance	Agricultural	Remaining Life Method	n/a
4a. To US addresses	Commercial and industrial	Discounted Cash Flow	National Unemployment Rate
6b. Other revolving credit plans	Consumer and individual	Discounted Cash Flow	National Unemployment Rate
6c. Automobile loans	Consumer and individual	Discounted Cash Flow	National Unemployment Rate
6d. Other consumer loans	Consumer and individual	Discounted Cash Flow	National Unemployment Rate
8. Muni/government	Municipal	Discounted Cash Flow	National Unemployment Rate
9. Loans to non-depository financial institutions	Commercial and industrial	Remaining Life Method	n/a

Management has chosen the discounted cash flow (“DCF”) methodology to estimate the quantitative portion of the allowance for credit losses on loans for all loan pools except for those secured by farmland, loans to finance, and loans to non-depository financial institutions portfolio segments, which use the remaining life method. A Loss Driver Analysis (“LDA”) was performed for each segment to identify potential loss drivers and create a regression model for use in forecasting cash flows. The LDA analyses for all DCF based pools utilized PSB data and peer data from the Federal Financial Institutions Examination Council’s (“FFIEC”) Call Report filings.

## **Notes to Consolidated Financial Statements (dollars in thousands except per share data)**

In creating the DCF model, as well as reviewing the model quarterly, management established a four-quarter reasonable and supportable forecast period. Key assumptions in the DCF model include the probability of default ("PD"), loss given default ("LGD"), and prepayment/curtailment rates. The model-driven PD and LGD are derived using PSB specific historical data and peer group data. Prepayment and curtailment rates were calculated using third party studies of PSB data. Expected credit losses are estimated over the contractual term of the loans, adjusted for prepayments when appropriate. The contractual term excludes extensions, renewals, and modifications unless the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by PSB.

Qualitative factors for the DCF and remaining life methodologies are supplemented with other external, economic, and internal factors based on the risks present for each portfolio segment. These additional factors include: national and local economic trends and conditions; trends in volume and terms of loans; trends in collateral fair values; changes in regulatory requirements; trends and changes in industry and peer credit performance; effects of any changes in risk selection and underwriting standards; other changes in lending policies, loan review, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; and effects of changes in credit concentrations.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable, expected credit losses on collateral dependent loans are based on the estimated fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. A loan is considered collateral dependent when the borrower is experiencing financial difficulty and the loan is expected to be repaid substantially through the operation or sale of the collateral. Other individually evaluated loans may estimate fair value using either the collateral valuation or the net present value of expected future cash flows.

Management considers the following when assessing risk in PSB's loan portfolio segments:

Commercial and industrial loans, municipal loans, and agricultural loans are primarily for working capital, physical asset expansion, and asset acquisition loans. These loans are made based primarily on historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to economic or individual performance factors. Financial information is obtained from the borrowers to evaluate cash flow sufficiency to service debt and are periodically updated during the life of the loan. Municipal loans are primarily for equipment purchases or development infrastructure to be repaid out of applicable tax collections and usually represent general obligations of the municipality. In addition to the preceding, PSB also originates agricultural real estate loans that are primarily for land acquisition. Financial information is obtained from the borrowers and/or the individual projects to evaluate cash flow sufficiency to service debt and is periodically updated during the life of the loan. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and/or property type.

Commercial real estate loans are dependent on the industry tied to these loans. Commercial real estate loans are primarily secured by owner and non-owner-occupied office and industrial buildings, warehouses, small retail shopping facilities and various special purpose properties, including hotels and restaurants. Financial information is obtained from the borrowers and/or the individual projects to evaluate cash flow sufficiency to service debt and is periodically updated during the life of the loan. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and/or property type. Commercial real estate loans also include multifamily loans to finance non-farm properties with five or more units in structures primarily to accommodate households on a temporary or permanent basis. Such credits are typically originated to finance the acquisition of an apartment or condominium building/complex. Multifamily loans are made based primarily on the historical and projected cash flow of the subject multifamily property, with assumptions made for vacancy rates. Cash flows and ultimate loan performance rely on the receipt of rental income from the tenants of the property who are themselves subject to fluctuations in national and local economic and unemployment trends.

Construction and land development loans are secured by vacant land and/or property that are in the process of improvement, including (a) land development preparatory to erecting vertical improvements or (b) the on-site construction of industrial, commercial, residential, or farm buildings. Repayment of these loans can be dependent on the sale of the property to third parties or the successful completion of the improvements by the builder for the end user. In the event a loan is made on property that is not yet improved for the planned development, there is the risk that necessary approvals will not be granted or will be delayed. Construction loans also run the risk that improvements will not be completed on time or in accordance with specifications and projected costs.

Residential real estate loans, including home equity lines of credit, are affected by the local residential real estate market, the local economy, and, for variable rate mortgages, movement in indices tied to these loans. At the time of origination, PSB evaluates the borrower's repayment ability through a review of debt to income and credit scores. Appraisals are obtained to support the loan amount. Financial information is obtained from the borrowers and/or the individual projects to evaluate the sufficiency of cash flows to service debt at the time of origination.



## **Notes to Consolidated Financial Statements (dollars in thousands except per share data)**

Consumer and other loans may take the form of installment loans, demand loans, or single payment loans and are extended to individuals for household, family, and other personal expenditures. At the time of origination, PSB evaluates the borrower's repayment ability through a review of debt to income and credit scores.

### **Allowance for Credit Losses on Unfunded Commitments**

PSB estimates expected credit losses over the contractual period in which PSB is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by PSB. The allowance for credit loss on unfunded commitments is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. Funding rates are based on a historical analysis of PSB's portfolio, while estimates of credit losses are determined using the same loss rates as funded loans.

### **Real Estate Foreclosed or Held for Sale**

Real estate foreclosed or held for sale includes both formally foreclosed property and in-substance foreclosed property or other real estate of PSB that have been transferred into a held for sale status. In-substance foreclosed properties are those properties for which the institution has taken physical possession regardless of whether formal foreclosure proceedings have taken place. At the time of foreclosure or transfer to held-for-sale, the real estate is recorded at fair value less cost to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at date of acquisition are charged to the allowance for credit losses. Subsequent to acquisition, a valuation allowance is established, if necessary, to report these assets at the lower of fair value less cost to sell or the new cost basis. Credit losses on property to be held and used are measured at the amount by which the carrying amount of a property exceeds its fair value. Gains and losses realized on the sale and any adjustment resulting from periodic re-evaluation of these assets are included in income, as appropriate. The net costs of maintaining and operating these assets are expensed as incurred.

### **Premises and Equipment**

Premises and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed principally on the straight-line method and is based on the estimated useful lives of the assets, primarily from 15 to 40 years on buildings, 5 to 10 years on furniture and equipment, and 3 years on computer hardware and software. Maintenance and repair costs are charged to expense as incurred. Gains or losses on disposition of property and equipment are reflected in income.

### **Goodwill and Other Intangible Assets**

Intangible assets attributable to the value of core deposits are stated at cost less accumulated amortization. Core deposit intangible assets are amortized over the estimated lives of the assets using a double declining balance method. The excess of purchase price over fair value of net assets acquired (goodwill) is not amortized. PSB evaluates at least annually whether goodwill and other intangible assets may be impaired and whenever events or changes in circumstances indicate it is more likely than not the fair value of the asset is less than its carrying amount in accordance with Accounting Standards Codification ("ASC") Topic 350, Intangibles – Goodwill and Other.

### **Mortgage Servicing Rights**

PSB services substantially all of the single-family mortgages it sells to the FNMA and FHLB. Servicing mortgage loans includes such functions as collecting monthly payments of principal and interest from borrowers, passing such payments through to third-party investors, maintaining escrow accounts for taxes and insurance, and making such payments when they are due. When necessary, servicing mortgage loans also includes functions related to the collection of delinquent principal and interest payments, loan foreclosure proceedings, and disposition of foreclosed real estate. PSB generally earns a servicing fee of 25 basis points (.25% annually) on the outstanding loan balance for performing these services, as well as fees and interest income from ancillary sources such as delinquency charges and payment float. Servicing fee income is recorded as a component of residential mortgage banking revenue, net of the amortization and charges described in the following paragraphs.

PSB records originated mortgage servicing rights ("OMSRs") as a component of residential mortgage banking income when the obligation to service such loans has been retained. The initial value recorded for OMSRs is based on the fair values of the servicing fee, adjusted for expected future costs to service the loans, as well as income and fees expected to be received from ancillary sources, as previously described. The carrying value of OMSRs is amortized against service fee income in proportion to estimated gross servicing revenues, net of estimated costs of servicing, adjusted for expected prepayments. In addition to this periodic amortization, the carrying value of OMSRs associated with loans that actually prepay is also charged against servicing fee income as amortization. During periods of falling long-term interest rates, prepayments would likely accelerate, increasing amortization of existing OMSRs against servicing fee income, and impair the value of OMSRs as described below.

## **Notes to Consolidated Financial Statements (dollars in thousands except per share data)**

The carrying value of OMSRs recorded on PSB's consolidated balance sheets in Goodwill and other intangibles ("mortgage servicing rights" or MSRs) is subject to impairment because of changes in loan prepayment expectations and in market discount rates used to value the future cash flows associated with such assets. In valuing MSRs, PSB stratifies the loans by year of origination, term of the loan, and range of interest rates within each term. If, based on a periodic evaluation, the estimated fair value of the MSRs related to a particular stratum is determined to be less than its carrying value, a valuation allowance is recorded against such stratum and against PSB's loan servicing fee income, which is included as a component of residential mortgage banking revenue. If the periodic evaluation of impairment calls for a valuation allowance less than currently recorded, the decrease in the valuation allowance is recaptured, offsetting amortization from loan prepayments during the period and increasing mortgage banking revenue. The valuation allowance is calculated using the current outstanding principal balance of the related loans, long-term prepayment assumptions as provided by independent sources, a market-based discount rate, and other management assumptions related to future costs to service the loans, as well as ancillary sources of income.

### **Federal Home Loan Bank Stock**

As a member of the Federal Home Loan Bank system, PSB is required to hold stock in the FHLB of Chicago. The minimum stock investment is determined as a percentage of the amount of mortgage assets held on the consolidated balance sheets or the amount of advances borrowed from the FHLB. The stock is recorded at cost, which approximates the fair value. The stock is evaluated for impairment on an annual basis. Transfer of the stock is substantially restricted.

### **Bank-Owned Life Insurance**

PSB has purchased life insurance policies on certain officers. Bank-owned life insurance is recorded at its cash surrender value. Changes in cash surrender value and life insurance death benefits received in excess of policy cash surrender value are recorded in noninterest income.

### **Retirement Plans**

PSB maintains a defined contribution 401(k) profit sharing plan which covers substantially all full-time employees.

### **Income Taxes**

PSB accounts for income taxes in accordance with the Financial Accounting Standards Board ("FASB") ASC Topic 740, Income Taxes. Deferred income taxes have been provided under the liability method. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences are expected to reverse. Deferred tax expense is the result of changes in the deferred tax asset and liability and is a component of the provision for income taxes.

PSB may also recognize a liability for unrecognized tax benefits from uncertain tax positions. Unrecognized tax benefits represent the difference 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 benefits are recorded as additional income tax expense.

### **Advertising and Promotional Costs**

Costs relating to PSB's advertising and promotion are generally expensed when paid. However, commitments that extend beyond the current period are expensed in the year of the commitment based on the present value of the obligation.

### **Derivative Instruments and Hedging Activities**

All derivative instruments are recorded at their fair values. If derivative instruments are designated as hedges of fair values, both the change in the fair value of the hedge and the hedged item are included in current earnings. Fair value adjustments related to cash flow hedges are recorded in other comprehensive income and reclassified to earnings when the hedged transaction is reflected in earnings. Ineffective portions of hedges are reflected in income. The fair value of derivative instruments is not offset against cash collateral paid to secure those instruments but is reflected as gross amounts outstanding on the consolidated balance sheets.

### **Rate Lock Commitments**

PSB enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Rate lock commitments are recorded at fair value at period-end and classified as other assets on the consolidated balance sheets. Changes in the fair value of rate lock commitments during the period are reflected in the current period's consolidated statements

## **Notes to Consolidated Financial Statements (dollars in thousands except per share data)**

of income as residential mortgage banking income. The fair value of rate lock commitments includes the estimated gain on loans held for sale to the secondary market agency and the estimated value of OMSRs on loans expected to be closed.

### **Fair Values of Financial Instruments**

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 22. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. The fair value estimates of existing on- and off-balance-sheet financial instruments do not include the value of anticipated future business or the values of assets and liabilities not considered financial instruments.

### **Stock-Based Compensation**

PSB uses the fair value based method of accounting for employee stock compensation plans, whereby compensation cost for stock options and restricted stock awards is measured at the grant date based on the value of the award and is recognized as expense over the service period, which is normally the vesting period. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of PSB common stock at the date of grant is used for restricted stock awards.

### **Employee Stock Purchase Plan**

PSB maintains an employee stock purchase plan that allows employees to purchase shares of PSB equal to 90% of the fair market value of PSB common stock on the last business day of each offering period.

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

**Accumulated Other Comprehensive Income (Loss)**

PSB's accumulated other comprehensive income (loss) ("AOCI") is composed of the unrealized gain (loss) on debt securities available for sale, net of tax, unrealized gain (loss) on interest rate swaps used for cash flow hedges after reclassification of settlements of the hedged item, net of tax, and unaccreted unrealized loss on debt securities transferred to securities held to maturity from debt securities available for sale, net of tax, and is shown on the consolidated statements of changes in stockholders' equity. The following tables show the changes in accumulated other comprehensive income by component:

	Unrealized Gains and (Losses) on Debt Securities Available for Sale	Unrealized Gains and (Losses) on Cash Flow Hedges	Unrealized Gains and (Losses) on Debt Securities Transferred to Securities Held to Maturity	Total
Balance, December 31, 2021	\$817	(\$189)	\$ -	\$628
Other comprehensive income before reclassifications	(21,752)	172	(3,699)	(25,279)
Amounts reclassified from accumulated other comprehensive income	-	70	361	431
Balance, December 31, 2022	(\$20,935)	\$53	(\$3,338)	(\$24,220)

	Unrealized Gains and (Losses) on Debt Securities Available for Sale	Unrealized Gains and (Losses) on Cash Flow Hedges	Unrealized Gains and (Losses) on Debt Securities Transferred to Securities Held to Maturity	Total
Balance, December 31, 2022	(\$20,935)	\$53	(\$3,338)	(\$24,220)
Other comprehensive loss before reclassifications	2,641	141	-	2,782
Amounts reclassified from accumulated other comprehensive income (loss)	467	(136)	418	749
Balance, December 31, 2023	(\$17,827)	\$58	(\$2,920)	(\$20,689)

	Unrealized Gains and (Losses) on Debt Securities Available for Sale	Unrealized Gains and (Losses) on Cash Flow Hedges	Unrealized Gains and (Losses) on Debt Securities Transferred to Securities Held to Maturity	Total
Balance, December 31, 2023	(\$17,827)	\$58	(\$2,920)	(\$20,689)
Other comprehensive loss before reclassifications	352	125	-	477
Amounts reclassified from accumulated other comprehensive income (loss)	684	(146)	360	898
Balance, December 31, 2024	(\$16,791)	\$37	(\$ 2,560)	(\$19,314)

## **Notes to Consolidated Financial Statements (dollars in thousands except per share data)**

### **Current Accounting Changes**

**FASB ASU 2023-02, Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method** In March 2023, ASU 2023-02 was issued that permits reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. The proportional amortization method was previously limited to Low-Income Housing Tax Credit Investments. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the income tax credits and other income tax benefits received and recognizes the net amortization and income tax credits and other income tax benefits in the income statement as a component of income tax expense (benefit). For public business entities, the amendments are effective for fiscal years beginning after December 15, 2023. This new accounting standard became effective for PSB's financial statements issued for interim and annual periods beginning January 1, 2024 and did not have a material effect on the financial statements.

### **Future Accounting Changes**

**FASB ASU 2023-09, Income Taxes (Topic 740): Improvement to Income Tax Disclosures** The amendments in this update enhance the transparency and decision usefulness of income tax disclosures. It requires entities disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold. In addition entities will be required to disclose the amount of income taxes paid disaggregated by federal, state, and foreign taxes, and the amount of income taxes paid disaggregated by individual jurisdictions in which income taxes paid is equal to or greater than five percent of total income taxes paid. The amendment also requires entities to disclose income from continuing operations before income tax expense disaggregated between domestic and foreign and income tax expense from continuing operations disaggregated by federal, state, and foreign. For public business entities, the amendment is effective for fiscal years beginning after December 15, 2024. PSB is evaluating the impact this new standard will have on its consolidated financial statements.

### **Reclassifications**

Certain prior year balances have been reclassified to conform to the current year presentation.

### **Subsequent Events**

Subsequent events have been evaluated through February 14, 2025, which is the date the consolidated financial statements were available to be issued.

## **NOTE 2            Cash and Cash Equivalents**

During 2020, the Federal Reserve's board of directors approved reducing the required reserve requirement ratios to zero percent, effectively eliminating the requirement to maintain reserve balances in cash or on deposit with the Federal Reserve Bank. This reduction in the required reserves does not have a defined timeframe and may be revised by the Federal Reserve's board in the future.

PSB is required to provide collateral on interest rate swap agreement liabilities with counterparties. The total required collateral on deposit with counterparties before any offset against related swap liabilities was \$200 and \$200 at December 31, 2024 and 2023, respectively.

In the normal course of business, PSB maintains cash and due from bank balances with correspondent banks. Such balances are not insured. Total uninsured cash and cash equivalent balances totaled \$20,231 and \$18,127 at December 31, 2024 and 2023, respectively. Management believes these financial institutions have strong credit ratings and that the credit risk related to these deposits is minimal.

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

**NOTE 3 Debt Securities**

The amortized cost and estimated fair value of investment securities are as follows:

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
<u>December 31, 2024</u>				
<u>Debt securities available for sale</u>				
U.S. government corporations and agencies securities	\$ 1,947	\$ -	\$ 310	\$ 1,637
U.S. agency issued residential mortgage-backed securities	90,755	3	12,466	78,292
U.S. agency issued commercial mortgage-backed securities	39,024	2	4,518	34,508
U.S. agency issued residential collateralized mortgage obligations	51,145	42	5,042	46,145
Privately issued collateralized loan obligations	15,010	13	15	15,008
Privately issued collateralized commercial mortgage-backed securities	11,523	-	783	10,740
Trust preferred securities	3,000	-	244	2,756
<b>Totals</b>	<b>\$212,404</b>	<b>\$ 60</b>	<b>\$ 23,378</b>	<b>\$189,086</b>
<u>Debt securities held to maturity</u>				
Obligations of states and political subdivisions	\$86,748	\$24	\$7,118	\$79,654
<u>December 31, 2023</u>				
<u>Debt securities available for sale</u>				
U.S. government corporations and agencies securities	\$3,182	\$ -	\$ 428	\$2,754
U.S. agency issued residential mortgage-backed securities	76,713	5	11,630	65,088
U.S. agency issued commercial mortgage-backed securities	35,432	8	4,727	30,713
U.S. agency issued residential collateralized mortgage obligations	41,457	1	5,723	35,735
Privately issued collateralized loan obligations	15,012	6	119	14,899
Privately issued collateralized commercial mortgage-backed securities	11,839	-	1,362	10,477
Trust preferred securities	5,160	-	802	4,358
<b>Totals</b>	<b>\$188,795</b>	<b>\$ 20</b>	<b>\$ 24,791</b>	<b>\$164,024</b>
<u>Debt securities held to maturity</u>				
Obligations of states and political subdivisions	\$87,081	\$45	\$4,612	\$82,514

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

Trust preferred securities at December 31, 2024, consist of separate obligations issued by two holding companies headquartered in Wisconsin and Pennsylvania. Trust preferred securities at December 31 2023, consist of separate obligations issued by four holding companies headquartered in Wisconsin, Georgia, and Pennsylvania. All issues of trust preferred securities were current as to principal and interest payments as of December 31, 2024 and 2023.

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

The following table indicates the number of months securities that are considered to be temporarily impaired have been in an unrealized loss position at December 31:

	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>		# of Securities in a Loss Position	Unrealized Aggregate Depreciation From Cost
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss		
<u>2024</u>								
<u>Debt securities available for sale</u>								
U.S. government corporations and agencies securities	\$ -	\$ -	\$ 1,637	\$ 310	\$ 1,637	\$ 310	1	15.9%
U.S. agency issued residential mortgage-backed securities	22,541	768	55,454	11,698	77,995	12,466	66	13.8%
U.S. agency issued commercial mortgage-backed securities	11,209	272	21,309	4,246	32,518	4,518	30	12.2%
U.S. agency issued residential collateralized mortgage obligations	18,659	257	22,912	4,785	41,571	5,042	33	10.8%
Privately issued collateralized loan obligations	-	-	10,005	15	10,005	15	2	0.1%
Privately issued collateralized commercial mortgage-backed securities	-	-	8,240	783	8,240	783	5	8.7%
Trust preferred securities	-	-	2,756	244	2,756	244	2	8.1%
Totals	\$ 52,409	\$ 1,297	\$ 122,313	\$ 22,081	\$ 174,722	\$ 23,378	139	11.8%

	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>		# of Securities in a Loss Position	Unrealized Aggregate Depreciation From Cost
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss		
<u>2023</u>								
<u>Debt securities available for sale</u>								
U.S. government corporations and agencies securities	\$ -	\$ -	\$ 2,754	\$ 428	\$ 2,754	\$ 428	2	13.5%
U.S. agency issued residential mortgage-backed securities	-	-	63,954	11,630	63,954	11,630	59	15.4%
U.S. agency issued commercial mortgage-backed securities	-	-	27,632	4,727	27,632	4,727	28	14.6%
U.S. agency issued residential collateralized mortgage obligations	-	-	34,718	5,723	34,718	5,723	27	14.2%
Privately issued collateralized loan obligations	-	-	9,906	119	9,906	119	2	1.2%
Privately issued collateralized commercial mortgage-backed securities	-	-	7,973	1,362	7,973	1,362	5	14.6%
Trust preferred securities	-	-	4,358	802	4,358	802	4	15.5%
Totals	\$ -	\$ -	\$151,295	\$ 24,791	\$151,295	\$ 24,791	127	14.1%

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

At December 31, 2024, 139 debt securities available for sale had unrealized losses with aggregate depreciation of 11.8% from the amortized cost basis. These unrealized losses relate principally to an increase in interest rates relative to interest rates in effect at the time of purchase and are not due to changes in the financial condition of the issuers. In analyzing an issuer's financial condition, management considers whether the securities are issued by a government body or agency, whether a rating agency has downgraded the securities, industry analysts' reports, and internal review of issuer financial statements. Since management does not intend to sell and has the ability to hold securities available for sale for the foreseeable future, no declines are deemed to be other than temporary.

The amortized cost and estimated fair value of debt securities and trust preferred securities at December 31, 2024, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ -	\$ -	\$ 4,042	\$ 4,023
Due after one year through five years	-	-	11,774	11,516
Due after five years through ten years	4,447	4,033	16,049	15,373
Due after ten years	500	360	54,883	48,742
Subtotals	4,947	4,393	86,748	79,654
Mortgage-backed securities and collateralized mortgage obligations	207,457	184,693	-	-
Totals	\$ 212,404	\$ 189,086	\$ 86,748	\$ 79,654

Securities with a fair value of \$136,659 and \$141,021 at December 31, 2024 and 2023, respectively, were pledged to secure public deposits, other borrowings, and for other purposes required by law.

During 2024, PSB sold securities and received proceeds of \$15,331 and realized a loss of \$1,006 (\$795 after tax expense). During 2023, PSB sold securities and received proceeds of \$21,658 and realized a loss of \$633 (\$500 after tax expense). During 2022, PSB sold securities and received proceeds of \$491 and realized a gain of \$0.

During 2022, PSB transferred all its municipal securities from the available-for-sale classification to the held-to-maturity classification. Fair value of the securities was \$87,450 at the time of the transfer, which included a \$5,095 unrealized loss below the existing amortized cost basis. The original unrealized loss on the transfer date is being accreted against the new cost basis over the remaining life of the securities which is recorded as an increase to other comprehensive income. Accretion of the unrealized loss increased comprehensive income by \$456 (\$360 after tax impacts) and \$576 (\$418 after tax impacts) during the years ended December 31, 2024 and 2023, respectively.

Accrued interest receivable on debt securities held to maturity totaled \$749 and \$745 at December 31, 2024 and 2023. Accrued interest receivable on debt securities available for sale totaled \$715 and \$626 at December 31, 2024 and 2023. There was no interest income reversed for investments going into nonaccrual for the years ended December 31, 2024 and 2023. A security is considered past due once it is 30 days past due under the terms of the agreement. At both December 31, 2024 and 2023, there were no past due debt securities.

The following table summarizes the credit quality indicators of debt securities held to maturity at amortized cost at December 31:

	AAA	AA	A	Not Rated	Total
<b>2024</b>					
Obligations of states and political subdivisions	\$11,398	\$49,000	\$6,609	\$19,741	\$86,748
<b>2023</b>					
Obligations of states and political subdivisions	\$11,809	\$48,265	\$6,637	\$20,370	\$87,081



**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)**NOTE 4            Loans**

The classification of loans at December 31 is as follows:

	2024	2023
Commercial and Industrial:		
Commercial & industrial	\$116,865	\$116,865
Agricultural	11,568	12,646
Municipal	15,733	31,530
Commercial Real Estate:		
Commercial real estate mortgage	551,641	542,857
Commercial construction and land development	79,377	69,968
Residential Real Estate:		
Residential real estate mortgage	271,643	274,453
Residential construction and development	28,959	39,045
Residential real estate home equity	36,887	29,766
Consumer:		
Consumer and individual	5,060	4,357
Subtotals – Gross loans	1,117,733	1,121,487
Loans in process of disbursement	(27,792)	(31,359)
Subtotals – Disbursed loans	1,089,941	1,090,128
Net deferred loan origination costs	605	649
Allowance for credit losses	(12,342)	(12,302)
Net loans receivable	\$1,078,204	\$1,078,475

The Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, is an economic stimulus bill signed into law on March 27, 2020, in response to the economic fallout of the COVID-19 pandemic in the United States. The creation of the Paycheck Protection Program (PPP) enacted under the CARES Act provides forgivable loans to small businesses for payroll obligations, emergency grants to cover immediate operating costs, and a mechanism for loan forgiveness by the Small Business Administration should all criteria be met. Included in commercial & industrial loans were \$74 and \$295 of loans granted under the Paycheck Protection Program at December 31, 2024 and 2023, respectively. These loans are fully guaranteed against loss by the Small Business Administration.

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

PSB, in the ordinary course of business, grants loans to its executive officers and directors, including their families and firms in which they are principal owners. Such loans are considered related party transactions. All loans to executive officers and directors are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others and, in the opinion of management, did not involve more than the normal risk of collectability or present other unfavorable features. Activity in such loans is summarized below:

	2024	2023
Loans outstanding at beginning	\$11,381	\$4,395
New loans	10,584	7,478
Effect of change in directors	1,835	-
Repayments	(7,265)	(492)
Loans outstanding at year end	\$16,535	\$11,381

PSB had originated and sold \$72,838 and \$69,079 of commercial and commercial real estate loans to other participating financial institutions at December 31, 2024 and 2023, respectively, to accommodate customer credit needs, maintain compliance with internal and external large borrower limits, and as part of the sale and servicing of government guaranteed loans. Likewise, PSB had purchased \$32,630 and \$36,744 of commercial and commercial real estate loans at December 31, 2024 and 2023, respectively. PSB generally does not charge significant servicing fees to the participating institutions on these traditional loan participations sold by PSB, and no servicing right asset or liability has been recognized on these relationships or associated with the servicing of government guaranteed loans. Any credit losses incurred on purchased or sold participation loans upon liquidation are shared pro-rata among the participants based on principal owned.

Allowance for credit losses activity for the years ended December 31, 2024, 2023, and 2022, follows:

	2024				
	Commercial & Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Total
<b>Allowance for credit losses:</b>					
Beginning balance	\$ 1,167	\$ 7,654	\$ 3,431	\$ 50	\$ 12,302
Provision (credit)	282	(347)	146	19	100
Recoveries	4	-	53	-	57
Charge-offs	(108)	-	-	(9)	(117)
Ending balance	\$ 1,345	\$ 7,307	\$ 3,630	\$ 60	\$ 12,342
Individually evaluated	\$ 217	\$ 1,137	\$ 435	\$ 17	\$ 1,806
Collectively evaluated	\$ 1,128	\$ 6,170	\$ 3,195	\$ 43	\$ 10,536
<b>Loans receivable (gross):</b>					
Individually evaluated	\$ 743	\$ 9,584	\$ 2,955	\$ 17	\$ 13,299
Collectively evaluated	\$143,423	\$621,434	\$334,534	\$5,043	\$1,104,434

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

	2023				
	Commercial & Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Total
<b>Allowance for credit losses:</b>					
Beginning balance	\$ 3,420	\$ 7,730	\$ 1,089	\$ 54	\$ 12,293
Impact of adopting ASC 326	(160)	(616)	(72)	(1)	(849)
Provision (credit)	(2,319)	540	2,402	12	635
Recoveries	251	-	12	2	265
Charge-offs	(25)	-	-	(17)	(42)
Ending balance	\$ 1,167	\$ 7,654	\$ 3,431	\$ 50	\$ 12,302
Individually evaluated	\$ 143	\$ 1,777	\$ 360	\$ 9	\$ 2,289
Collectively evaluated	\$ 1,024	\$ 5,877	\$ 3,071	\$ 41	\$ 10,013
<b>Loans receivable (gross):</b>					
Individually evaluated	\$ 16	\$ 5,719	\$ 2,139	\$ 9	\$ 8,683
Collectively evaluated	\$160,225	\$607,106	\$341,125	\$4,348	\$1,112,804

PSB adopted ASC 326 beginning January 1, 2023. Results for periods before adoption of ASC 326 are reported in accordance with previously applicable guidance.

	2022				
	Commercial & Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Total
<b>Allowance for credit losses:</b>					
Beginning balance	\$ 2,679	\$ 8,543	\$ 941	\$ 59	\$ 12,222
Provision (credit)	702	(851)	150	(1)	-
Recoveries	115	38	63	-	216
Charge-offs	(76)	-	(65)	(4)	(145)
Ending balance	\$ 3,420	\$ 7,730	\$ 1,089	\$ 54	\$ 12,293
Individually evaluated for impairment	\$ 208	\$ 1,650	\$ 106	\$ 14	\$ 1,978
Collectively evaluated for impairment	\$ 3,212	\$ 6,080	\$ 983	\$ 40	\$ 10,315
<b>Loans receivable (gross):</b>					
Individually evaluated for impairment	\$ 395	\$ 5,558	\$ 1,359	\$ 14	\$ 7,326
Collectively evaluated for impairment	\$169,038	\$623,226	\$227,229	\$4,729	\$1,024,222

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

Activity in the allowance for credit losses on off-balance sheet credit exposure for the year ended December 31 follows:

	2024	2023
<b>Allowance for credit losses on unfunded commitments</b>		
Beginning balance	\$ 577	\$ -
Impact of adopting ASC 326	-	762
Provision (credit)	95	(185)
Recoveries	-	-
Charge-offs	-	-
Ending balance	\$ 672	\$ 577

The provision (credit) for unfunded commitments is included on the consolidated statements of income as a component of provision for credit losses.

PSB maintains independent credit administration staff that continually monitor aggregate commercial loan portfolio and individual borrower credit quality trends. All commercial purpose loans are assigned a credit grade upon origination, and credit grades for nonproblem borrowers with aggregate of credit more than \$1,000 are reviewed annually. In addition, all past due, restructured, or identified problem loans, both commercial and consumer purpose, are reviewed and assigned an up-to-date credit grade quarterly.

PSB uses a seven-point grading scale to estimate credit risk with risk rating 1, representing the highest credit quality, and risk rating 7, representing the lowest credit quality. The assigned credit grade considers several credit quality components which are assigned a weight and blended into the composite grade. The factors considered and their assigned weight for the final composite grade are as follows:

**Cash flow** (30% weight) – Considers earnings trends and debt service coverage levels.

**Collateral** (25% weight) – Considers loan-to-value and other measures of collateral coverage.

**Leverage** (15% weight) – Considers balance sheet debt and capital ratios compared to Robert Morris & Associates (RMA) industry medians.

**Liquidity** (10% weight) – Considers the balance sheet current, quick, and other working capital ratios compared to RMA industry medians.

**Management** (5% weight) – Considers the past performance, character, and depth of borrower management.

**Guarantor** (5% weight) – Considers the existence of a guarantor, the bank's past experience with the guarantor, and the guarantor's related liquidity and credit score.

**Financial reporting** (5% weight) – Considers the relative level of independent financial review obtained by the borrower on its financial statements, from audited financial statements down to existence of only tax returns or potentially unreliable financial information.

**Industry** (5% weight) – Considers the borrower's industry and whether it is stable or subject to cyclical or seasonal factors. Nonclassified loans are assigned a risk rating of 1 to 4 and have credit quality that ranges from well above average to some inherent industry weaknesses that may present higher than average risk due to conditions affecting the borrower, the borrower's industry, or economic development.

**Notes to Consolidated Financial Statements (dollars in thousands except per share data)**

Nonclassified loan are assigned a risk rating of 1 to 4 and have credit quality that ranges from well above average to some inherent industry weaknesses that may present higher than average risk due to conditions affecting the borrower, the borrower's industry, or economic development.

Watch loans are assigned a risk rating of 5 when potential weaknesses exist that deserve management's close attention. If left uncorrected, the potential weaknesses may result in deterioration of repayment prospects or in credit position at some future date. Special mention loans are assigned a risk rating of 6 and are inadequately protected by the current net worth and borrowing capacity of the borrower. Well-defined weaknesses exist that may jeopardize the liquidation of the debt. There is a possibility of some loss if the deficiencies are not corrected. At this point, the loan may still be performing and accruing.

Individually evaluated and substandard loans assigned a risk rating of 7 have all the weaknesses of a substandard credit plus the added characteristic that the weaknesses make collection or liquidation in full based on current facts, conditions, and collateral values questionable and improbable. Individually evaluated loans include all nonaccrual loans and all restructured loans including restructured loans performing according to the restructured terms. In special situations, an individually evaluated loan with a risk rating of 7 could still be maintained on accrual status, such as in the case of restructured loans performing according to restructured terms.

The credit exposure based on internally assigned credit grade and year of origination at December 31, 2024 follows:

	Term Loans Amortized Cost Basis by Origination Year					Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	
December 31, 2024	2024	2023	2022	2021	Prior			Total
Commercial and Industrial								
Risk Rating								
Pass	\$25,987	\$22,140	\$26,602	\$6,583	\$5,054	\$24,963	\$ -	\$111,329
Watch	385	25	139	5	317	1,950	-	2,821
Special Mention	349	486	462	537	-	300	-	2,134
Substandard	90	-	491	-	-	-	-	581
Totals	\$26,811	\$22,651	\$27,694	\$7,125	\$5,371	\$27,213	\$ -	\$116,865
Current period write-offs								
	\$ -	\$ -	\$ -	\$ -	\$ -	\$108	\$ -	\$108
Agricultural								
Risk Rating								
Pass	\$878	\$1,734	\$1,634	\$1,471	\$4,900	\$701	\$ -	\$11,318
Watch	-	-	-	-	88	-	-	88
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	162	-	-	162
Totals	\$878	\$1,734	\$1,634	\$1,471	\$5,150	\$701	\$ -	\$11,568
Current period write-offs								
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

	Term Loans Amortized Cost Basis by Origination Year					Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
December 31, 2024	2024	2023	2022	2021	Prior			
<b>Municipal</b>								
Risk Rating								
Pass	\$4,287	\$5,187	\$753	\$478	\$2,021	\$ 3,007	\$ -	\$15,733
Watch	-	-	-	-	-	-	-	-
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Totals	\$4,287	\$5,187	\$753	\$478	\$2,021	\$ 3,007	\$ -	\$15,733
Current period write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Commercial Real Estate Mortgage</b>								
Risk Rating								
Pass	\$73,867	\$87,707	\$84,723	\$118,575	\$138,610	\$8,714	\$ -	\$512,196
Watch	132	2,012	376	5,500	15,275	536	-	23,831
Special Mention	-	2,454	1,319	-	2,060	197	-	6,030
Substandard	-	1,221	3,994	-	2,169	2,200	-	9,584
Totals	\$73,999	\$93,394	\$90,412	\$124,075	\$158,114	\$11,647	\$ -	\$551,641
Current period write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Commercial Construction and Land Development</b>								
Risk Rating								
Pass	\$40,233	\$13,185	\$1,509	\$8,509	\$14,826	\$ -	\$ -	\$78,262
Watch	1,115	-	-	-	-	-	-	1,115
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Totals	\$41,348	\$13,185	\$1,509	\$8,509	\$14,826	\$ -	\$ -	\$79,377
Current period write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

	Term Loans Amortized Cost Basis by Origination Year					Revolving Loans Amortized	Revolving Loans Converted	
December 31, 2024	2024	2023	2022	2021	Prior	Cost Basis	To Term	Total
Residential Real Estate Mortgage								
Risk Rating								
Performing	\$33,756	\$46,974	\$55,380	\$56,047	\$76,474	\$338	\$ -	\$268,969
Non-performing	-	536	755	237	1,146	-	-	2,674
Totals	\$33,756	\$47,510	\$56,135	\$56,284	\$77,620	\$338	\$ -	\$271,643
Current period write-offs								
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential Construction and Development								
Risk Rating								
Performing	\$23,009	\$4,928	\$238	\$ -	\$784	\$ -	\$ -	\$28,959
Non-performing	-	-	-	-	-	-	-	-
Totals	\$23,009	\$4,928	\$238	\$ -	\$784	\$ -	\$ -	\$28,959
Current period write-offs								
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential Real Estate Home Equity								
Risk Rating								
Performing	\$3,356	\$3,252	\$544	\$388	\$ 815	\$ 28,251	\$ -	\$36,606
Non-performing	-	-	-	-	75	206	-	281
Totals	\$3,356	\$3,252	\$544	\$388	\$890	\$ 28,457	\$ -	\$36,887
Current period write-offs								
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer and Individual								
Risk Rating								
Performing	\$2,742	\$1,511	\$288	\$122	\$185	\$196	\$ -	\$5,044
Non-performing	-	6	-	1	-	9	-	16
Totals	\$2,742	\$1,517	\$288	\$123	\$185	\$205	\$ -	\$5,060
Current period write-offs								
	\$ -	\$ -	\$ -	\$ -	\$ -	\$9	\$ -	\$9

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

The credit exposure based on internally assigned credit grade and year of origination at December 31, 2023 follows:

	Term Loans Amortized Cost Basis by Origination Year				Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	
December 31, 2023	2023	2022	2021	Prior			Total
Commercial and Industrial							
Risk Rating							
Pass	\$26,467	\$26,624	\$10,307	\$10,048	\$21,746	\$ -	\$95,192
Watch	52	13,084	769	489	6,641	-	21,035
Special Mention	-	-	-	-	-	-	-
Substandard	-	427	-	57	154	-	638
Totals	\$26,519	\$40,135	\$11,076	\$10,594	\$28,541	\$ -	\$116,865
Current period write-offs							
	\$ -	\$ -	\$20	\$5	\$ -	\$ -	\$25
Agricultural							
Risk Rating							
Pass	\$2,116	\$1,872	\$1,664	\$6,441	\$284	\$ -	\$12,377
Watch	-	-	-	91	-	-	91
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	178	-	-	178
Totals	\$2,116	\$1,872	\$1,664	\$6,710	\$284	\$ -	\$12,646
Current period write-offs							
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Municipal							
Risk Rating							
Pass	\$26,000	\$1,348	\$654	\$2,560	\$ 968	\$ -	\$31,530
Watch	-	-	-	-	-	-	-
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Totals	\$26,000	\$1,348	\$654	\$2,560	\$ 968	\$ -	\$31,530
Current period write-offs							
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -



**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

	Term Loan Amortized Cost Basis by Origination Year				Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
December 31, 2023	2023	2022	2021	Prior			
<b>Commercial Real Estate Mortgage</b>							
Risk Rating							
Pass	\$112,508	\$95,595	\$126,895	\$174,693	\$6,792	\$ -	\$516,483
Watch	-	2,874	2,746	10,414	4,798	-	20,832
Special Mention	-	-	-	-	-	-	-
Substandard	-	80	-	5,462	-	-	5,542
Totals	\$112,508	\$98,549	\$129,641	\$190,569	\$11,590	\$ -	\$542,857
Current period write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Commercial Construction and Land Development</b>							
Risk Rating							
Pass	\$35,253	\$6,793	\$10,866	\$16,261	\$30	\$ -	\$69,203
Watch	178	-	-	410	-	-	588
Special Mention	-	-	-	-	-	-	-
Substandard	177	-	-	-	-	-	177
Totals	\$35,608	\$6,793	\$10,866	\$16,671	\$30	\$ -	\$69,968
Current period write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Residential Real Estate Mortgage</b>							
Risk Rating							
Performing	\$51,229	\$64,829	\$62,723	\$93,403	\$428	\$ -	\$272,612
Non-performing	218	370	126	1,127	-	-	1,841
Totals	\$51,447	\$65,199	\$62,849	\$94,530	\$428	\$ -	\$274,453
Current period write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Residential Construction and Development</b>							
Risk Rating							
Performing	\$33,011	\$4,228	\$987	\$819	\$ -	\$ -	\$39,045
Non-performing	-	-	-	-	-	-	-
Totals	\$33,011	\$4,228	\$987	\$819	\$ -	\$ -	\$39,045
Current period write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

December 31, 2023	Term Loans Amortized Cost Basis by Origination Year				Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Totals
	2023	2022	2021	Prior			
Residential Real Estate Home Equity							
Risk Rating							
Performing	\$3,535	\$1,089	\$337	\$967	\$ 23,540	\$ -	\$29,468
Non-performing	-	-	-	97	201	-	298
Totals	\$3,535	\$1,089	\$337	\$1,064	\$23,741	\$ -	\$29,766
Current period write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer and Individual							
Risk Rating							
Performing	\$2,317	\$799	\$277	\$440	\$515	\$ -	\$4,348
Non-performing	-	-	-	-	9	-	9
Totals	\$2,317	\$799	\$277	\$440	\$524	\$ -	\$4,357
Current period write-offs	\$ -	\$7	\$ -	\$2	\$8	\$ -	\$17

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

The payment age analysis of loans receivable disbursed at December 31, 2024 and 2023, follows:

Loan Class	2024				Current	Total Loans
	30-59 Days	60-89 Days	90+ Days	Total Past Due		
Commercial:						
Commercial and industrial	\$ 153	\$ 491	\$ 191	\$ 835	\$116,030	\$116,865
Agricultural	139	-	113	252	11,316	11,568
Municipal	-	-	-	-	15,733	15,733
Commercial real estate:						
Commercial real estate	1,043	2,585	6,123	9,751	540,343	550,094
Construction and development	-	-	-	-	65,145	65,145
Residential real estate:						
Residential – Prime	2,377	938	1,973	5,288	265,919	271,207
Construction and development	711	-	-	711	16,671	17,382
Residential – HELOC	29	-	186	215	36,672	36,887
Consumer and individual	-	10	1	11	5,049	5,060
Totals	\$4,452	\$4,024	\$8,587	\$17,063	\$1,072,878	\$1,089,941

Loan Class	2023				Current	Total Loans
	30-59 Days	60-89 Days	90+ Days	Total Past Due		
Commercial:						
Commercial and industrial	\$ 811	\$ -	\$ 274	\$ 1,085	\$115,780	\$116,865
Agricultural	90	-	243	333	12,313	12,646
Municipal	-	-	-	-	31,530	31,530
Commercial real estate:						
Commercial real estate	294	-	130	424	535,785	536,209
Construction and development	-	-	-	-	63,470	63,470
Residential real estate:						
Residential – Prime	2,601	289	698	3,588	270,865	274,453
Construction and development	400	-	-	400	20,432	20,832
Residential – HELOC	242	-	80	322	29,444	29,766
Consumer and individual	2	5	-	7	4,350	4,357
Totals	\$4,440	\$294	\$1,425	\$6,159	\$1,083,969	\$1,090,128

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

The following is a summary of information pertaining to individually evaluated loans:

	Years Ended December 31,		
	2024	2023	2022
Individually evaluated loans without a valuation allowance	\$ 6,357	\$ 1,960	\$ 1,615
Individually evaluated loans with a valuation allowance	6,942	6,723	5,711
Total individually evaluated loans before valuation allowances	13,299	8,683	7,326
Valuation allowance related to individually evaluated loans	1,806	2,289	1,978
Net individually evaluated loans	\$11,493	\$6,394	\$5,348

	Year Ended December 31,	
	2022	
Average recorded investment, net of allowance for credit losses	\$15,122	
Interest income recognized	\$ 118	
Interest income recognized on a cash basis on individually evaluated loans	\$ -	

At December 31, 2024, \$4 of funds were committed to be advanced on remaining available lines of credit in connection with individually evaluated loans, while \$0 of funds were committed to be advanced on remaining available lines of credit in connection with individually evaluated loans at December 31, 2023.

At December 31, 2024, residential mortgage loans in the process of foreclosure and residential real estate included in foreclosed assets totaled \$1,435 and \$0, respectively. At December 31, 2023, residential mortgage loans in the process of foreclosure and residential real estate included in foreclosed assets totaled \$469 and \$0, respectively.

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

Nonaccrual loans and loans past due over 90 days still accruing, at December 31, follows:

<b>2024</b>	<b>Nonaccrual With No Allowance for Credit Loss</b>	<b>Nonaccrual With Allowance for Credit Loss</b>	<b>Total Nonaccrual</b>	<b>Loans Past Due Over 90 Days Still Accruing</b>	<b>Interest Income Recognized</b>
Commercial:					
Commercial and industrial	\$ -	\$ 190	\$190	\$ -	\$ -
Agricultural	103	10	113	-	7
Municipal	-	-	-	-	-
Commercial real estate:					
Commercial real estate	4,179	2,884	7,063	-	194
Construction and development	-	-	-	-	-
Residential real estate:					
Residential – Prime	1,020	1,535	2,555	-	48
Construction and development	-	-	-	-	-
Residential - HELOC	186	3	189	-	17
Consumer and individual	-	17	17	-	-
Totals	\$5,488	\$ 4,639	\$10,127	\$ -	\$266

<b>2023</b>	<b>Nonaccrual With No Allowance for Credit Loss</b>	<b>Nonaccrual With Allowance for Credit Loss</b>	<b>Total Nonaccrual</b>	<b>Loans Past Due Over 90 Days Still Accruing</b>	<b>Interest Income Recognized</b>
Commercial:					
Commercial and industrial	\$ -	\$ 448	\$448	\$ -	\$24
Agricultural	-	121	121	-	7
Municipal	-	-	-	-	-
Commercial real estate:					
Commercial real estate	742	2,738	3,480	-	-
Construction and development	-	-	-	-	-
Residential real estate:					
Residential – Prime	828	560	1,388	-	-
Construction and development	-	-	-	-	-
Residential - HELOC	-	184	184	-	-
Consumer and individual	-	9	9	-	-
Totals	\$1,570	\$ 4,060	\$5,630	\$ -	\$31

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

The following table presents the individually evaluated, collateral dependent loans as of December 31, 2024 and 2023:

<b>2024</b>	<b>Real Estate</b>	<b>Other</b>	<b>Total Collateral Dependent</b>	<b>Related Allowance</b>
Commercial:				
Commercial and industrial	\$ -	\$ -	\$ -	\$ -
Agricultural	113	-	113	10
Municipal	-	-	-	-
Commercial real estate:				
Commercial real estate	7,707	654	8,361	1,118
Construction and development	-	-	-	-
Residential real estate:				
Residential – Prime	1,980	-	1,980	237
Construction and development	-	-	-	-
Residential - HELOC	186	-	186	-
Consumer and individual	-	-	-	-
<b>Totals</b>	<b>\$9,986</b>	<b>\$ 654</b>	<b>\$10,640</b>	<b>\$1,365</b>

<b>2023</b>	<b>Real Estate</b>	<b>Other</b>	<b>Total Collateral Dependent</b>	<b>Related Allowance</b>
Commercial:				
Commercial and industrial	\$ -	\$ -	\$ -	\$ -
Agricultural	-	-	-	-
Municipal	-	-	-	-
Commercial real estate:				
Commercial real estate	4,053	-	4,053	1,347
Construction and development	177	-	177	177
Residential real estate:				
Residential – Prime	828	-	828	42
Construction and development	-	-	-	-
Residential - HELOC	49	-	49	49
Consumer and individual	-	-	-	-
<b>Totals</b>	<b>\$5,107</b>	<b>\$ -</b>	<b>\$5,107</b>	<b>\$1,615</b>

Occasionally, PSB modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, a temporary or permanent reduction in the stated interest rate, or a change in the payment terms. Total loans modified were \$304 and \$344 at December 31, 2024 and 2023, respectively. There were no loans modified or restructured during 2024 or 2023, respectively.

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

There were no past modified loans that subsequently defaulted during 2024 or 2023 when the default occurred within 12 months of the last modification date. For purposes of this determination, default is defined as 90 days or more past due on modified payments.

**NOTE 5                    Real Estate Foreclosed or Held for Sale**

A summary of activity in real estate foreclosed or held for sale for the period ended December 31 is as follows:

	<b>2024</b>	<b>2023</b>	<b>2022</b>
Balance at beginning of year	\$ -	\$ 160	\$1,103
Sale proceeds	-	(218)	(960)
Net gain from sale of real estate foreclosed or held for sale	-	58	17
Balance at end of year	\$ -	\$ -	\$160

Net gain and loss from the sale of real estate foreclosed or held for sale as well as the provision for the partial write-down of real estate foreclosed or held for sale prior to sale are recorded as a loss on real estate foreclosed or held for sale. Loss on real estate foreclosed or held for sale also includes periodic holding costs related to real estate foreclosed or held for sale. The total (gain) loss on real estate foreclosed was \$1, (\$45), and \$0 during the years ended 2024, 2023, and 2022, respectively.

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

**NOTE 6                      Goodwill and Other Intangibles**

A summary of goodwill and other intangibles is as follows:

	<b>2024</b>	<b>2023</b>
Goodwill	\$2,541	\$2,541
Core deposit intangibles	195	273
Mortgage servicing rights	1,742	1,664
Totals	<u>\$4,478</u>	<u>\$4,478</u>

**Goodwill:** Goodwill is not amortized, instead, is subject to impairment tests on at least an annual basis. See Note 1 for PSB's accounting policy for goodwill. The change in goodwill during the year is as follows:

	<b>2024</b>	<b>2023</b>
Goodwill at beginning of year	\$2,541	\$2,541
Acquired goodwill	-	-
Impairment	-	-
Goodwill at end of year	<u>\$2,541</u>	<u>\$2,541</u>

**Core deposit intangible:** Core deposit intangibles are amortized over the estimated lives. See Note 1 for PSB's accounting policy for core deposit intangibles.

	<b>2024</b>	<b>2023</b>
Gross carrying amount	\$ 660	\$ 660
Accumulated amortization	(465)	(387)
Net book value	<u>\$ 195</u>	<u>\$ 273</u>

Amortization expense amounted to \$78 in 2024, \$109 in 2023, and \$152 in 2022. Estimated amortization expense for each of the next five years:

	<b>Total</b>
2025	\$ 56
2026	40
2027	28
2028	29
2029	31
Thereafter	11
Total	<u>\$ 195</u>



**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

**Mortgage servicing rights:**

Residential mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of residential mortgage loans serviced for FHLB and FNMA were \$373,536 and \$366,579 at December 31, 2024 and 2023, respectively. The following is a summary of changes in the balance of MSRs:

	<b>Originated MSR</b>	<b>Valuation Allowance</b>	<b>Total</b>
Balance at January 1, 2022	\$ 1,860	(\$146)	\$ 1,714
Additions from originated servicing	280	-	280
Amortization charged to earnings	(412)	-	(412)
Change in valuation allowance credited to earnings	-	28	28
Balance at December 31, 2022	1,728	(118)	1,610
Additions from originated servicing	172	-	172
Amortization charged to earnings	(236)	-	(236)
Change in valuation allowance credited to earnings	-	118	118
Balance at December 31, 2023	1,664	-	1,664
Additions from originated servicing	340	-	340
Amortization charged to earnings	(262)	-	(262)
Balance at December 31, 2024	\$ 1,742	\$ -	\$ 1,742

The table below summarizes the components of residential mortgage banking income for the three years ended December 31.

	<b>Years Ended December 31,</b>		
	<b>2024</b>	<b>2023</b>	<b>2022</b>
Cash gain on sale of mortgage loans	\$ 544	\$228	\$537
Originated mortgage servicing rights	340	172	280
Increase (decrease) in accrued mortgage rate lock commitments	34	3	(204)
Gain on sale of mortgage loans	918	403	613
Mortgage servicing fee income	932	947	984
Credit for representation and warranty losses	-	-	2
Foreclosure servicing losses	-	(4)	-
Amortization of mortgage servicing rights	(262)	(236)	(412)
Decrease in servicing right valuation allowance	-	118	28
Loan servicing fee income, net	670	825	602
Residential mortgage banking income, net	\$1,588	\$1,228	\$1,215

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)**NOTE 7 Premises and Equipment**

The composition of premises and equipment at December 31 follows:

	2024	2023
Land	\$3,068	\$3,068
Buildings and improvements	17,793	16,267
Furniture and equipment	3,524	3,379
Computer hardware and software	4,914	4,571
Total cost	29,299	27,285
Less – Accumulated depreciation and amortization	15,494	14,187
Totals	\$13,805	\$13,098

Premises and equipment depreciation and amortization charged to operating expenses amounted to \$1,353 in 2024, \$1,252 in 2023, and \$1,121 in 2022.

**Operating Leases**

PSB leases various pieces of equipment under cancelable leases and office space for four locations under noncancelable leases. The first noncancelable branch location lease expires in August 2025 followed by one optional 5-year renewal period. The second noncancelable branch location lease expires in May 2029 followed by two optional 3-year renewal periods and two optional 5-year renewal periods. The third noncancelable lease expires August 2027 followed by three optional 5-year renewal periods. The fourth noncancelable lease expires in December 2025 followed by three 12-month renewal periods. All four leases are classified as operating leases.

PSB recorded a right-of-use (ROU) asset that represents the right to use the underlying asset during the lease term, and an operating lease liability representing the obligation to make lease payments arising from the lease. The operating lease ROU asset is included in buildings and improvements in the table above and the operating lease liability is included in other liabilities. The ROU asset balance totaled \$479 and \$152 at December 31, 2024 and 2023, respectively. The operating lease liability totaled \$482 and \$152 at December 31, 2024 and 2023, respectively.

Future minimum payments under the noncancelable leases include:

2025	\$ 159
2026	131
2027	127
2028	113
2029	48
Total future minimum lease payments	578
Less amount representing interest	(96)
Present value of net future minimum lease payments	\$482

Supplemental lease information as of December 31:

	2024	2023
Weighted average remaining lease term (years)	3.3	2.8
Weighted average discount rate	3.67%	3.06%

Rental expense for all operating leases was \$155, \$103, and \$104, for the years ended December 31, 2024, 2023, and 2022, respectively. Remaining unde depreciated net book value of leasehold improvements included in premises and equipment totaled \$411 at December 31, 2024, and \$376 at December 31, 2023.

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)**NOTE 8 Deposits**

The distribution of deposits at December 31 is as follows:

	2024	2023
Non-interest-bearing demand	\$259,515	\$266,829
Interest-bearing demand (NOWs)	195,172	198,525
Savings	141,662	139,775
Money market	294,358	267,405
Retail and local time	199,237	195,778
Wholesale market and national time	57,405	73,490
Total deposits	\$1,147,349	\$1,141,802

The scheduled maturities of time deposits at December 31, 2024, are summarized as follows:

2025	\$216,216
2026	23,313
2027	11,455
2028	2,974
2029	2,684
Total	\$256,642

Time deposits with individual balances of greater than \$250 totaled \$100,302 and \$116,906 at December 31, 2024 and 2023, respectively.

Deposits from PSB directors, executive officers, and other related parties as of December 31, 2024 and 2023, totaled \$11,696 and \$13,549, respectively.

**NOTE 9 Federal Home Loan Bank Advances**

FHLB advances at December 31 consist of the following:

	Scheduled Maturity	Range of Rates	Weighted Average Rate	Amount
<u>2024</u>				
Fixed rate, interest only	2025	4.07%-4.77%	4.41%	\$ 48,000
Fixed rate, interest only	2026	4.08%-4.95%	4.61%	39,600
Fixed rate, interest only	2027	3.95%-4.94%	4.46%	42,500
Fixed rate, interest only	2028	3.57%-3.57%	3.57%	5,000
Fixed rate, interest only	2029	0.00%-4.14%	2.66%	27,150
Totals			4.15%	\$162,250
<u>2023</u>				
Fixed rate, interest only	2024	1.68%-4.72%	3.33%	\$ 35,000
Fixed rate, interest only	2025	4.07%-4.77%	4.39%	43,000
Fixed rate, interest only	2026	4.08%-4.60%	4.42%	16,000
Fixed rate, interest only	2027	4.94%-4.94%	4.94%	5,000
Fixed rate, interest only	2028	3.51%-3.87%	3.69%	35,000
Totals			3.95%	\$134,000

## **Notes to Consolidated Financial Statements (dollars in thousands except per share data)**

At December 31, 2024, PSB had \$162,250 of advances with the FHLB. At December 31, 2024, \$24,800 of these FHLB advances may be put back to PSB at a future date, with stated maturity dates ranging from 2027 to 2029 and put dates in 2025. These advances are categorized in the table on the previous page based on the FHLB advance maturity date.

FHLB advances are subject to a prepayment penalty if they are repaid prior to maturity. PSB may draw upon an FHLB open-line of credit, fixed-rate term FHLB advances, or provide public unit deposit letters of credit up to approximately 76% of qualifying unencumbered one- to four-family residential first mortgage loans, 62% of residential junior mortgage loans, and 73% of qualifying commercial real estate loans pledged as collateral out of its portfolio. The FHLB advances are also secured by \$8,825 of FHLB stock owned by PSB at December 31, 2024. PSB may draw both short-term and long-term advances on a maximum line of credit totaling approximately \$389,055 based on pledged performing residential and commercial real estate mortgage collateral totaling \$645,835 as of December 31, 2024. At December 31, 2024, PSB's available and unused portion of this line of credit totaled approximately \$213,581. PSB also has, under a current agreement with the FHLB, an ability to borrow up to an additional \$243,062 by pledging securities as collateral.

At December 31, 2024, FHLB advances drawn by PSB and other FHLB credit enhancements provided for the benefit of PSB totaling greater than \$192,757 would require PSB to purchase additional shares of FHLB capital stock. Transfer of FHLB stock is substantially restricted.

### **NOTE 10      Other Borrowings**

At December 31, 2024 and 2023, other borrowings of \$6,872 and \$8,058, respectively, consisted of short-term repurchase agreements with overnight maturities and federal fund advances. PSB is required to pledge U.S. agency debentures or mortgage-backed securities available for sale as collateral for repurchase agreements. The fair value of the securities pledged for repurchase agreements totaled \$7,211 and \$17,950 at December 31, 2024 and 2023, respectively. If the fair value of existing pledged securities declined, PSB could be required to pledge additional U.S. agency debentures or mortgage-backed securities so that the securities' fair value exceeds 105% of the book value of the repurchase agreement liability.

The following information relates to other borrowings for the years ended December 31:

	<b>2024</b>	<b>2023</b>
As of end of year:		
Weighted average rate	3.25%	2.67%
For the year:		
Highest month-end balance	\$10,792	\$11,151
Daily average balance	\$7,241	\$7,061
Weighted average rate	3.20%	3.04%

PSB pledges municipal investment securities to the Federal Reserve to be able to borrow short-term Discount Window advances. At December 31, 2024, the maximum amount of available advances from the Discount Window totaled \$100,000, subject to available collateral pledged. At December 31, 2024, PSB had pledged municipal securities with a market value of \$27,062, which permitted Discount Window advances up to \$24,279 against this collateral. There were no Discount Window advances outstanding at December 31, 2024 or 2023.

PSB maintains federal funds lines of credits with several correspondent banks. As of December 31, 2024, available federal fund lines of credit totaled \$48,000. At December 31, 2024, federal fund advances outstanding totaled \$575. There were no federal fund advances outstanding at December 31, 2023. At December 31, 2024, the interest rate on federal fund advances was 4.75%.

PSB maintains a line of credit at the parent holding company level with Bankers' Bank, Madison, Wisconsin, for advances up to \$10,000, which matures December 30, 2026, and is secured by a pledge of PSB Holdings, Inc.'s investment in the common stock of its subsidiary, Peoples State Bank. The line carries a variable rate of interest based on Wall Street Journal Prime less three quarters of a percent (0.75%) with a floor of 4.50%. As of December 31, 2024, and 2023, no advances were outstanding on the line of credit. Draws on the line of credit are subject to several restrictive covenants including minimum regulatory capital ratios, minimum capital and loan credit allowances to nonperforming assets, and minimum loan credit allowances to nonperforming assets. PSB was in compliance with all covenants at December 31, 2024 and 2023. At December 31, 2024, the interest rate on the line of credit was 6.75%.

## **Notes to Consolidated Financial Statements (dollars in thousands except per share data)**

### **NOTE 11 Senior Subordinated Notes**

During 2013, PSB issued \$4,000 of 3.75% Senior Subordinated Notes (the “Notes”). The Notes, which require only interest payments and matured on February 1, 2018, were renewed at a fixed rate of 4.50% for a five-year term. The Notes issued in 2013 matured during 2023. During 2022, PSB issued \$4,800 of 4.75% Senior Subordinated Notes (the “New Notes”). The issuance of the New Notes refinanced \$1,800 of the Notes issued in 2013. The New Notes have a carrying value at December 31, 2024 of \$4,781 (net of \$19 unamortized discount). The New Notes require only interest payments and carry a fixed rate of 4.75% for a five-year term, then a variable rate of the 90-day Secured Overnight Funding Rate (“SOFR”) plus 2.00% for a five-year term. The Notes are held by related parties including directors, former directors, and significant shareholders. Total interest expense on senior subordinated notes was \$235 during 2024, \$238 during 2023, and \$139 during 2022, respectively. Senior Subordinated Notes outstanding were \$4,781 and \$4,774 at December 31, 2024 and 2023, respectively.

### **NOTE 12 Junior Subordinated Debentures**

PSB has issued \$7,732 of junior subordinated debentures to PSB Holdings Statutory Trust I (the “PSB Trust”) in connection with an issue of trust preferred securities which mature in September 2035. The debentures currently pay a variable rate of interest based on changes in the three-month CME Term SOFR plus 1.70% and a spread adjustment of 0.261%, adjusted quarterly. During 2023, PSB entered into a cash flow hedge to fix the payments of interest on the debentures for a two-year period ending June 2025 at a rate of 4.013%. At December 31, 2024, the three-month CME Term SOFR, used to determine the rate paid for the period December 16, 2024 through March 16, 2025, was 4.359%, resulting in a coupon rate of 6.320%.

As part of the acquisition of Waukesha Bankshares, Inc. (“WBI”) in 2021, PSB assumed \$6,186 of junior subordinated debentures to Waukesha Statutory Trust I (the “WBI Trust”) in connection with an issue of trust preferred securities during 2003 which mature in September 2033. The junior subordinated debentures have a carrying value at December 31, 2024 of \$5,291 (net of \$895 unamortized discount). The debentures currently pay a variable rate of interest based on changes in the three-month SOFR plus 2.95%, adjusted quarterly. During 2023, PSB entered into a cash flow hedge to fix the payments of interest on the debentures for a three-year period ending June 2026 at a rate of 3.67%. At December 31, 2024, the three-month SOFR, used to determine the rate paid for the period December 17, 2024, through March 16, 2025, was 4.610%, resulting in a coupon rate of 7.560%.

PSB has fully and unconditionally guaranteed all the obligations of the PSB Trust and the WBI Trust. The guarantee covers the quarterly distributions and payments on liquidation or redemption of the trust preferred securities to the extent of the funds held by the PSB Trust and the WBI Trust. The trust preferred securities qualify as Tier 1 capital for regulatory capital purposes. Total interest expense on the junior subordinated debentures was \$1,010 in 2024, \$985 in 2023, and \$771 in 2022. The subordinated debentures may be prepaid by PSB in part or in full on a quarterly basis.

### **NOTE 13 Derivative Instruments and Hedging Activities**

Interest rate swaps are entered into to manage interest rate risk associated with PSB's variable rate junior subordinated debentures. Accounting standards require PSB to recognize all derivative instruments as either assets or liabilities at fair value in the balance sheet. PSB designated its interest rate swaps associated with the junior subordinated debentures as a cash flow hedge of variable-rate debt. For derivative financial instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative instrument representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

As of December 31, 2024 and 2023, PSB had the following outstanding interest rate swaps that were entered into to hedge variable-rate debt:

	2024		2023	
Notional amount	\$ 7,500	\$ 6,000	\$7,500	\$ 6,000
Pay fixed rate	4.013%	3.670%	4.013%	3.670%
Receive variable rate	4.358%	4.349%	5.385%	5.378%
Maturity	6/15/2025	6/17/2026	6/15/2025	6/17/2026
Unrealized fair value gain (loss)	\$ 10	\$37	\$ 41	\$ 31

The agreements provided for PSB to receive payments at a variable rate determined by the three-month CME Term SOFR in exchange for making payments at a fixed rate. Actual maturities may differ from scheduled maturities due to call options and/or

## **Notes to Consolidated Financial Statements (dollars in thousands except per share data)**

early termination provisions. Risk management results for the year ended December 31, 2024, related to the balance sheet hedging of variable rate debt indicates that the hedge was 100% effective, and no component of the derivative instrument's gain or loss was excluded from the assessment of hedge effectiveness. As of December 31, 2024, approximately \$36 of gains reported in other comprehensive income related to the interest rate swap (\$29 after tax benefits) were expected to be reclassified into interest expense as a yield adjustment of the hedged borrowings during the 12-month period ending December 31, 2025. The interest rate swap agreements were secured by cash and cash equivalents of \$200 at December 31, 2024.

During 2024, PSB reclassified (\$185) (\$146 after tax impacts) of interest rate swap settlements which decreased comprehensive income. During 2023, PSB reclassified (\$172) (\$136 after tax impacts) of interest rate swap settlements which decreased comprehensive income. During 2022, PSB reclassified \$96 (\$70 after tax impacts) of interest rate swap settlements which increased comprehensive income. The increase to comprehensive net income was recognized as an increase to interest expense on junior subordinated debentures on the consolidated statements of income during each year.

### **NOTE 14 Retirement and Deferred Compensation Plans**

PSB has established a 401(k) profit sharing plan for its employees. Beginning January 1, 2024 PSB matches 100% of employees' salary deferrals up to the first 6% of salary. Prior to January 1, 2024 PSB matched 100% of employees' salary deferrals up to the first 1% of pay deferred and 50% of salary deferrals of the next 5% of pay deferrals, for a maximum match of 3.5% of salary. PSB also may declare a discretionary profit-sharing contribution. The expense recognized for contributions and other plan costs for the years ended December 31, 2024, 2023, and 2022, was \$809, \$865, and \$986 respectively.

PSB maintains deferred compensation agreements with certain executives and directors. PSB matches 20% of the amount of employees' salary deferrals up to the first 3% of base pay deferred. PSB directors may elect to defer earned directors' fees into a separate deferred directors' fees plan. No PSB match is made on deferred directors' fees. Cumulative deferred balances earn a crediting rate generally equal to 100% of PSB's return on average equity until retirement or separation from service. The agreements provide for benefits to be paid in a lump sum at retirement or in monthly installments for a period up to 15 years following each participant's normal retirement date with interest payable at a fixed interest rate ranging from 7% to 8%. PSB is accruing this liability over each participant's remaining period of service. As part of the acquisition of WBI during 2021, PSB assumed deferred compensation agreements WBI had with certain executives and directors. The agreements provide for benefits to be paid in a lump sum or in monthly installments for a period up to 15 years with a fixed crediting rate of 4.25%.

The liability outstanding under all agreements was \$5,915 and \$5,964 at December 31, 2024 and 2023, respectively. The amount charged to operations was \$476, \$440, and \$563, for 2024, 2023, and 2022, respectively.

PSB maintains postretirement plans for certain former executives in which PSB pays a portion of health insurance premiums for individuals in the plan. As part of the acquisition of WBI during 2021, PSB assumed a postretirement plan for several former executives and directors in which PSB pays a portion of health insurance premiums and long-term care insurance premiums for individuals in the plan. The liability outstanding under the plans was \$461 and \$498 at December 31, 2024 and 2023, respectively.

### **NOTE 15 Self-Funded Health Insurance Plan**

PSB has established an employee medical benefit plan to self-insure claims up to \$100 during 2024 and \$100 during 2023 for each individual with no stop-loss per year for participants in the aggregate. PSB and its covered employees contribute to the fund to pay the claims and stop-loss premiums. Medical benefit plan costs are expensed as incurred. The liability recognized for claims incurred but not yet paid was \$128 as of December 31, 2024, and \$209 as of December 31, 2023. Health and dental insurance expense recorded in 2024, 2023, and 2022 was \$1,432, \$2,347, and \$1,845, respectively.

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

**NOTE 16 Income Taxes**

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

	2024	2023	2022
Current income tax provision:			
Federal	\$1,784	\$2,075	\$2,547
State	-	-	1,252
Total current	1,784	2,075	3,799
Deferred income tax (benefit) provision:			
Federal	23	17	352
State	(1,356)	-	143
Total deferred	(1,333)	17	495
Other adjustments:			
Change in deferred tax valuation allowance	1,356	-	-
Change in deferred tax valuation allowance for stranded AOCI	(111)	-	-
Adjustment to net deferred tax assets for Wisconsin Act 19	-	2,753	-
Total other	1,245	2,753	-
Total provision for income taxes	\$1,696	\$4,845	\$4,294

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

	2024		2023		2022	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Tax expense at statutory rate	\$ 2,517	21.0	\$ 3,027	21.0	\$ 3,765	21.0
Increase (decrease) in taxes resulting from:						
Tax-exempt interest	(626)	(5.2)	(586)	(4.1)	(484)	(2.7)
Bank-owned life insurance	(136)	(1.1)	(129)	(0.9)	(129)	(0.7)
Life insurance death benefits	-	-	(112)	(0.8)	-	-
State income tax	(1,356)	(11.3)	-	-	1,102	6.1
Deferred tax asset valuation allowance adjustment	1,356	11.3	2,753	19.1	-	-
Deferred tax release of valuation allowance of stranded AOCI	(111)	(0.9)				
Utilization of capital loss carryover	-	-	(180)	(1.3)	-	-
Other	52	0.2	72	0.5	40	0.2
Provision for income taxes	\$ 1,696	14.0	\$ 4,845	33.5	\$ 4,294	23.9

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of PSB's assets and liabilities. The major components of the net deferred tax assets are as follows:

	2024	2023
Deferred tax assets:		
Allowance for credit losses	\$ 3,569	\$ 3,499
Deferred compensation and directors' fees	2,124	2,016
Unrealized loss on securities available for sale	6,528	6,909
Unrealized loss on securities held to maturity	968	1,138
Net operating loss carryforwards	2,544	1,422
Gross deferred tax assets	15,733	14,984
Deferred tax liabilities:		
Premises and equipment	844	874
Mortgage servicing rights	478	456
Deferred net loan origination costs	166	178
Unrealized gain on interest rate swaps	10	15
Prepaid expenses	153	145
Other	183	204
Gross deferred tax liabilities	1,834	1,872
Deferred tax valuation allowance:		
Stranded AOCI	1,646	1,757
Other	3,109	1,753
Total deferred tax valuation allowance	4,755	3,510
Net deferred tax asset	\$ 9,144	\$ 9,602

At December 31, 2024, PSB had federal and state operating loss carryforwards of \$2,124 and \$32,637, respectively. The federal and state net operating loss carryforwards from the WBI acquisition have been included in the IRC Section 382 calculation and are being limited to the overall amount expected to be realized. On July 5, 2023, the Wisconsin 2023-2025 budget was signed into law. Under the new law, which is effective for tax years beginning after December 31, 2022, banks are allowed to exempt from state taxation loan income from commercial and agricultural loans of \$5 million or less where the borrower resides, or is located and doing business, in Wisconsin. This will result in reduced state income taxes for the year ended December 31, 2023, and future years. However, because of the change in the tax law, PSB no longer believes it will receive a benefit for the net deferred tax asset previously recognized. As a result, PSB reduced its net deferred tax asset related to the state of Wisconsin during the year ended December 31, 2023, by \$2,753, which was recognized as additional income tax expense in 2023.

With few exceptions, PSB is no longer subject to federal or state examinations by taxing authorities for years before 2020.



**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

The following table presents income tax effects on items of comprehensive income (loss) for the years ended December 31:

	2024		2023		2022	
	Pretax Inc.(Exp.)	Income Tax Exp.(Credit)	Pretax Inc.(Exp.)	Income Tax Exp.(Credit)	Pretax Inc.(Exp.)	Income Tax Exp.(Credit)
Unrealized gain (loss) on debt securities	\$446	\$94	\$3,334	\$693	(\$35,796)	(\$10,345)
Reclassification adjustment for net loss on sale of debt securities, included in net income	1,006	211	633	133	-	-
Reclassification adjustment for amounts realized related to stranded tax effects associated with the tax adjustment for Wisconsin Act 19	(111)	-	(33)	-	-	-
Accretion of unrealized loss on debt securities available for sale transferred to debt securities held to maturity	456	96	576	158	497	136
Unrealized gain on interest rate swap	158	33	178	37	237	65
Reclassification adjustment of interest rate swap settlements included in earnings	(185)	(39)	(172)	(36)	96	26
<b>Totals</b>	<b>\$1,770</b>	<b>\$395</b>	<b>\$4,516</b>	<b>\$985</b>	<b>(\$34,966)</b>	<b>(\$10,118)</b>

**NOTE 17 Commitments, Contingencies, and Credit Risk****Financial Instruments With Off-Balance-Sheet Credit Risk**

PSB is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets.

PSB's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. PSB uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. These commitments at December 31 are as follows:

	2024	2023
Commitments to extend credit – Fixed and variable rates	\$236,236	\$ 236,832
Commercial standby letters of credit – Variable rate	3,313	4,332
Unused home equity lines of credit – Variable rate	51,222	51,816
Unused credit card commitments – Variable rate	916	941
Credit enhancement under the FHLB of Chicago Mortgage Partnership Finance program	1,224	419
<b>Totals</b>	<b>\$292,911</b>	<b>\$294,340</b>

Commitments to extend credit are agreements to lend to a customer if there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. PSB evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if

## **Notes to Consolidated Financial Statements (dollars in thousands except per share data)**

deemed necessary upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances which PSB deems necessary. The commitments are generally structured to allow for 100% collateralization on all letters of credit.

Unfunded commitments under home equity lines of credit are commitments for possible future extensions of credit to existing customers. These lines of credit are secured by residential mortgages not to exceed the collateral property fair market value upon origination and may or may not contain a specific maturity date.

Credit card commitments are commitments on credit cards issued by PSB and serviced by Elan Financial Services (a subsidiary of U.S. Bancorp). These commitments are unsecured. PSB normally sells all credit card balances and commitments to Elan. However, PSB provides full recourse to Elan against losses on certain card balances not owned by PSB. Aggregate exposure on the full recourse balances was \$916 at December 31, 2024, including \$718 of commitments unused by the cardholders.

PSB participates in the FHLB Mortgage Partnership Finance Program (the "Program") and also originates loans for purchase by FNMA and other secondary market entities. PSB enters into forward commitments to sell mortgage loans to these various secondary market agency providers under which loans are funded by the agencies and PSB receives an agency fee reported as a component of gain on sale of loans. PSB had approximately \$3,193 and \$1,158 in firm commitments to deliver loans to these providers outstanding at December 31, 2024 and 2023, respectively, from rate lock commitments made with customers.

Under a secondary market loan servicing program with the FHLB, in exchange for a monthly fee, PSB provides a credit enhancement guarantee to reimburse the FHLB for foreclosure losses more than 1% of original loan principal sold to the FHLB. At December 31, 2024, PSB serviced payments on \$69,137 of first lien residential loan principal under these terms for the FHLB. At December 31, 2024, the maximum PSB obligation for such guarantees would be approximately \$1,224 if total foreclosure losses on the entire pool of loans exceed approximately \$428. Management believes the likelihood of reimbursement for credit loss payable to the FHLB on loans underwritten according to program requirements beyond the monthly credit enhancement fee is remote. PSB recognizes the credit enhancement fee as mortgage banking income when received in cash and does not maintain any recourse liability for possible credit enhancement losses.

PSB also provides letters of credit to municipal deposit customers which are secured by a FHLB guarantee of payment to the depositor in the event of PSB default. PSB had \$12,000 and \$12,750 of FHLB public unit deposit letters of credit outstanding at December 31, 2024 and 2023, respectively. These letters of credit had original maturities of two years or less upon origination and are off balance sheet commitments not reported on the consolidated balance sheets.

PSB invested in an affordable housing limited partnership during 2022. At December 31, 2024, the balance of the investment in the affordable housing limited partnership was \$839. PSB had unfunded commitments related to this investment of \$161 at December 31, 2024.

At December 31, 2024, PSB had an unfunded investment commitment secured by a pool of residential mortgage loans to the Habitat for Humanity for \$1,500.

### **Concentration of Credit Risk**

PSB grants residential mortgage, commercial, and consumer loans predominantly in northcentral and southeastern Wisconsin. There are no significant concentrations of credit to any one debtor or industry group. Management believes the diversity of the local economy prevents significant losses during economic downturns.

### **Contingencies**

In the normal course of business, PSB is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the consolidated financial statements.

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

**NOTE 18 Stock Based Compensation**

PSB granted shares of restricted stock to certain employees having a market value of \$71, \$76, and \$59, during 2024, 2023, and 2022, respectively. As of December 31, 2024, unvested shares of 7,905 vest to employees based on continued PSB service over a four-year or six-year period. Unvested shares are recognized as compensation expense over the vesting period. Cash dividends are paid on unvested shares at the same time and amount as paid to PSB common shareholders. Cash dividends paid on unvested restricted stock shares are charged to retained earnings, since significantly all restricted shares are expected to vest to employees. Unvested shares are subject to forfeiture upon employee termination.

The following table summarizes information regarding unvested restricted stock and shares outstanding during the three years ended December 31, 2024, 2023, and 2022:

	<b>Unvested Shares</b>	<b>Weighted Average Grant Value</b>
January 1, 2022	27,324	\$ 22.93
Restricted shares granted	2,265	26.05
Restricted shares vested	(10,399)	(21.75)
Unvested restricted shares forfeited	(3,050)	(24.03)
December 31, 2022	16,140	\$ 23.92
Restricted shares granted	3,425	22.21
Restricted shares vested	(7,297)	(22.94)
Unvested restricted shares forfeited	(3,194)	(23.72)
December 31, 2023	9,074	\$ 23.91
Restricted shares granted	3,211	22.11
Restricted shares vested	(3,537)	(23.73)
Unvested restricted shares forfeited	(843)	(25.60)
December 31, 2024	7,905	\$ 23.09

During 2024, total compensation expense of \$71 (before tax benefits of \$15) was recorded from amortization of restricted shares expected to vest. During 2023, total compensation expense of \$54 (before tax benefits of \$11) was recorded from amortization of restricted shares expected to vest. During 2022, total compensation expense of \$151 (before tax benefits of \$41) was recorded from amortization of restricted shares expected to vest.

The PSB 2020 Stock Option Plan permits the grant of share options to certain employees for up to 225,000 shares of common stock. Option awards are generally granted with an exercise price equal to the market price of PSB common stock at the date of grant. The stock options vest to employees based on continued PSB service over a four-year period or achievement of loan and deposit growth goals and have ten-year contractual terms. Compensation expense is recognized over the vesting period. The fair value of each option award is estimated on the date of grant using a Black-Scholes model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of PSB common stock and historical volatilities of a peer group common stock. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The weighted average fair value of each option grant per share was \$6.08, \$6.25, and \$6.54 in 2024, 2023, and 2022, respectively. The fair value of options granted was determined using the following weighted-average assumptions as of the grant date:

	<b>2024</b>	<b>2023</b>	<b>2022</b>
Risk free interest rate	4.42%	3.97%	1.71%
Expected term in years	6.25	6.25	6.25
Expected stock price volatility	31.83%	29.87%	28.77%
Dividend yield	2.84%	2.28%	1.76%

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

The following table summarizes information regarding stock options outstanding at December 31, 2024, 2023 and 2022, and activity during those years:

	<b>Option Shares</b>	<b>Weighted Average Strike Price</b>
January 1, 2022	30,735	\$ 22.28
Stock options granted	17,460	26.09
Stock options exercised	(1,144)	(20.57)
Stock options forfeited	(3,431)	(20.57)
December 31, 2022	43,620	\$ 23.99
Stock options granted	31,420	21.90
Stock options exercised	-	-
Stock options lapsed	(1,821)	(22.11)
Stock options forfeited	(4,443)	(22.94)
December 31, 2023	68,776	\$ 23.15
Stock options granted	22,657	22.11
Stock options exercised	-	-
Stock options lapsed	(2,500)	(26.20)
Stock options forfeited	(9,306)	(23.67)
December 31, 2024	79,627	\$ 22.70

As of December 31, 2024, 24,320 outstanding stock options were vested and eligible to be exercised. During 2024, total compensation expense of \$113 (before tax benefits of \$24) was recorded from amortization of stock options expected to vest. During 2023, total compensation expense of \$101 (before tax benefits of \$21) was recorded from amortization of stock options expected to vest. During 2022, total compensation expense of \$64 (before tax benefits of \$17) was recorded from amortization of stock options expected to vest.

Future projected compensation expense (before tax benefits) assuming all restricted shares and stock options eventually vest to employees would be as follows:

	<b>Stock Options</b>	<b>Restricted Stock</b>	<b>Total</b>
2025	\$ 104	\$ 54	\$ 158
2026	74	34	108
2027	30	18	48
Totals	\$ 208	\$ 106	\$ 314

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

**NOTE 19 Capital Requirements and Regulatory Matters**

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on PSB’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, PSB and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The payment of dividends by PSB or the Bank would be restricted if the Bank does not meet the minimum Capital Conservation Buffer as defined by Basel III regulatory capital guidelines and/or if, after payment of the dividend, the Bank would be unable to maintain satisfactory regulatory capital ratios. The Bank would also be limited in making loans and advances to PSB. At December 31, 2024, management believes that maintaining the regulatory framework of the Bank at the well-capitalized level will effectively restrict potential dividends from the Bank to an amount less than \$44,437. Furthermore, any Bank dividend distributions to PSB above customary levels are subject to approval by the FDIC, the Bank’s primary federal regulator, and the Wisconsin Department of Financial Institutions, the Bank’s primary state regulator.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of Common Equity Tier 1 capital (as defined in the regulations), Tier 1 and Total capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2024, the Bank met all capital adequacy requirements. In addition, as of December 31, 2024, the most recent regulatory financial report categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum Common Equity Tier 1, Tier 1 risk-based, Total risk-based, and Tier 1 to average assets as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank’s category.

The Bank’s actual and regulatory capital amounts and ratios are as follows:

	<b>Actual</b>		<b>For Capital Adequacy Purposes</b>		<b>To Be Well-Capitalized Under Prompt Corrective Action Provisions</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
<u>As of December 31, 2024:</u>						
Common Equity Tier 1 capital (to risk weighted assets)	\$139,733	12.90%	\$48,739	4.50%	\$70,401	6.50%
Tier 1 capital (to risk weighted assets)	\$139,733	12.90%	\$64,986	6.00%	\$86,648	8.00%
Total capital (to risk weighted assets)	\$152,747	14.10%	\$86,648	8.00%	\$108,310	10.00%
Tier 1 capital (to average assets)	\$139,733	9.46%	\$59,088	4.00%	\$73,859	5.00%
<u>As of December 31, 2023:</u>						
Common Equity Tier 1 capital (to risk weighted assets)	\$131,549	12.49%	\$47,383	4.50%	\$68,443	6.50%
Tier 1 capital (to risk weighted assets)	\$131,549	12.49%	\$63,178	6.00%	\$84,237	8.00%
Total capital (to risk weighted assets)	\$144,428	13.72%	\$84,237	8.00%	\$105,296	10.00%
Tier 1 capital (to average assets)	\$131,549	9.26%	\$56,855	4.00%	\$71,069	5.00%

## **Notes to Consolidated Financial Statements (dollars in thousands except per share data)**

### **NOTE 20 Preferred Equity**

During 2022, PSB issued \$7,200 of 6.75% fixed to floating Non-Cumulative Perpetual Preferred Stock, Series A, liquidation preference of \$1,000 per share. Dividends on the Series A Preferred Stock are payable quarterly. The Series A Preferred Stock carries a fixed rate of 6.75% thru November 1, 2027, then moves to a floating rate of the three-month Term SOFR plus 4.50%. The Series A Preferred Stock may be redeemed by PSB at its option (i) either in whole or in part, from time to time, on any dividend payment date on or after the dividend payment date occurring on November 1, 2027, or (ii) in whole but not in part, at any time with 90 days following certain regulatory capital treatment events, in each case at a redemption price of \$1,000 per share, plus any applicable dividends.

### **NOTE 21 Earnings Per Share**

Basic earnings per share of common stock are based on the weighted average number of common shares outstanding during the period. Unvested but issued restricted shares are considered to be outstanding shares and used to calculate the weighted average number of shares outstanding and to determine net book value per share. Diluted earnings per share is calculated by dividing net income by the weighted average number of shares adjusted for the dilutive effect of outstanding stock options. The computation of earnings per share for the years ended December 31 is as follows:

	2024	2023	2022
Weighted average shares outstanding	4,130,092	4,211,952	4,414,625
Effect of dilutive stock options outstanding	-	-	1,368
Diluted weighted average shares outstanding	4,130,092	4,211,952	4,415,993
Basic earnings per common share	\$2.37	\$2.16	\$3.07
Diluted earnings per common share	\$2.37	\$2.16	\$3.07

### **NOTE 22 Fair Value Measurements**

Certain assets and liabilities are recorded or disclosed at fair value to provide financial statement users additional insight into PSB's quality of earnings. Under current accounting guidance, PSB groups assets and liabilities which are recorded at fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement (with Level 1 considered highest and Level 3 considered lowest). All transfers between levels are recognized as occurring at the end of the reporting period.

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

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

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

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

Some assets and liabilities, such as securities available for sale, loans held for sale, mortgage rate lock commitments, and interest rate swaps, are measured at fair value on a recurring basis under GAAP. Other assets and liabilities, such as individually evaluated loans, foreclosed assets, mortgage servicing rights, and other intangible assets are measured at fair value on a nonrecurring basis.

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

**Debt securities available for sale** – Securities available for sale may be classified as Level 1, Level 2, or Level 3 measurements within the fair value hierarchy and are measured on a recurring basis. The fair value measurement of a Level 1 security is based

## **Notes to Consolidated Financial Statements (dollars in thousands except per share data)**

on the quoted price of the security. Level 2 securities include U.S. government and agency securities, obligations of states and political subdivisions, corporate debt securities, mortgage-related securities, negotiable FDIC insured certificates of deposit, and certain debt issued by banks or bank holding companies. The fair value measurement of a Level 2 security is obtained from an independent pricing service and is based on recent sales of similar securities and other observable market data and represents a market approach to fair value. The fair value measurement of a Level 3 security is calculated using discounted cash flows or other market indicators.

**Equity securities** – Level 2 securities included a common stock investment in Bankers' Bancorporation, Madison, Wisconsin, that was not traded on an active market. The Bank received trade and book value range data from Bankers' Bancorporation to estimate fair value. Level 3 securities include an investment in a CRA fund without readily determinable fair values and are carried at cost.

**Loans held for sale** – Loans held for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value and are measured on a recurring basis. The fair value measurement of a loan held for sale is based on current secondary market prices for similar loans, which is considered a Level 2 measurement and represents a market approach to fair value.

**Individually evaluated loans** – Loans are not measured at fair value on a recurring basis. Carrying value of individually evaluated loans that are not collateral dependent are based on the present value of expected future cash flows discounted at the applicable effective interest rate and, thus, are not fair value measurements. However, individually evaluated loans considered to be collateral dependent are measured at fair value on a nonrecurring basis. The fair value measurement of an individually evaluated loan that is collateral dependent is based on the fair value of the underlying collateral. Fair value measurements of underlying collateral that utilize observable market data, such as independent appraisals reflecting recent comparable sales, are considered Level 2 measurements. Other fair value measurements that incorporate internal collateral appraisals or broker price opinions, net of selling costs, or estimated assumptions market participants would use to measure fair value, such as discounted cash flow measurements, are considered Level 3 measurements and represent a market approach to fair value.

In the absence of a recent independent appraisal, collateral dependent individually evaluated loans are valued based on a recent broker price opinion generally discounted by 10% plus estimated selling costs. In the absence of a broker price opinion, collateral dependent individually evaluated loans are valued at the lower of last appraisal value or the current real estate tax value discounted by 30%, plus estimated selling costs. Property values are impacted by many macroeconomic factors. In general, a declining economy or rising interest rates would be expected to lower fair value of collateral dependent individually evaluated loans while an improving economy or falling interest rates would be expected to increase fair value of collateral dependent individually evaluated loans.

**Real estate foreclosed or held for sale** – Initially, foreclosed assets are recorded at fair value less estimated costs to sell at the date of foreclosure. Estimated selling costs typically range from 5% to 15% of the property value. Valuations are periodically performed by management, and the real estate or other property is carried at the lower of carrying amount or fair value less estimated costs to sell. Fair value measurements are based on current formal or informal appraisals of property value compared to recent comparable sales of similar property. Independent appraisals reflecting comparable sales are considered Level 2 measurements, while internal assessments of appraised value based on current market activity, including broker price opinions, are considered Level 3 measurements and represent a market approach to fair value. Property values are impacted by many macroeconomic factors. In general, a declining economy or rising interest rates would be expected to lower fair value of foreclosed assets while an improving economy or falling interest rates would be expected to increase fair value of foreclosed assets.

**Mortgage servicing rights** – Mortgage servicing rights are not measured at fair value on a recurring basis. However, mortgage servicing rights that are impaired are measured at fair value on a nonrecurring basis. Serviced loan pools are stratified by year of origination and term of the loan, and a valuation model is used to calculate the present value of expected future cash flows for each stratum. When the carrying value of a stratum exceeds its fair value, the stratum is measured at fair value. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as costs to service, a discount rate, custodial earnings rate, ancillary income, default rates and losses, and prepayment speeds. Although some of these assumptions are based on observable market data, other assumptions are based on unobservable estimates of what market participants would use to measure fair value. As a result, the fair value measurement of mortgage servicing rights is considered a Level 3 measurement and represents an income approach to fair value. When market mortgage rates decline, borrowers may have the opportunity to refinance their existing mortgage loans at lower rates, increasing the risk of prepayment of loans on which PSB maintains mortgage servicing rights. Therefore, declining long-term interest rates would decrease the fair value of mortgage servicing rights.

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

Significant unobservable inputs at December 31, 2024 and 2023, used to measure fair value included:

	<u>2024</u>	<u>2023</u>
Direct annual servicing cost per loan	\$ 70-\$85	\$ 70-\$80
Direct annual servicing cost per conventional loan in process of foreclosure	\$ 1,400	\$ 1,400
Direct annual servicing cost per government loan in process of foreclosure	\$ 4,500	\$ 4,500
Lifetime CRR% ("Conditional Repayment Rate")	5.80%-15.55%	5.68%-13.85%
Weighted average prepayment speed: PSA	97-326	97-277
Discount rate	10.00%-13.00%	9.38%-11.88%
Cost per delinquencies	\$200-\$750	\$200-\$750
Inflation adjustment	2.23%	2.40%

**Mortgage rate lock commitments** – The fair value of mortgage rate lock commitments is measured on a recurring basis. Fair value is based on current secondary market pricing for delivery of similar loans and the value of OMSR on loans expected to be delivered, which is considered a Level 2 fair value measurement.

**Interest rate swap agreements** – Fair values for interest rate swap agreements are based on the amounts required to settle the contracts based on valuations provided by third-party dealers in the contracts, which is considered a Level 2 fair value measurement, and are measured on a recurring basis.

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

		Recurring Fair Value Measurements Using		
	Assets and Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2024</u>				
Assets:				
Debt securities available for sale:				
U.S. government corporations and agencies securities	\$1,637	\$ -	\$1,637	\$ -
U.S. agency issued residential MBS and CMO	124,437		124,437	
U.S. agency issued commercial mortgage-backed securities	34,508	-	34,508	-
Privately issued collateralized loan obligations	15,008	-	15,008	-
Privately issued collateralized commercial mortgage securities	10,740	-	8,240	2,500
Trust preferred securities	2,756	-	2,396	360
		-		
Total debt securities available for sale	189,086	-	186,226	2,860
Equity securities	950	-	-	950
Loans held for sale	217	-	217	-
Interest rate swap agreements	47	-	47	-
Mortgage rate lock commitment	54	-	54	-
Total assets	\$190,354	\$ -	\$186,544	\$ 3,810



**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

		Recurring Fair Value Measurements Using		
	Assets and Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2023</u>				
Assets:				
Debt securities available for sale:				
U.S. government corporations and agencies securities	\$2,754	\$ -	\$2,754	\$ -
U.S. agency issued residential MBS and CMO	100,823	-	100,823	-
U.S. agency issued commercial mortgage-backed securities	30,713	-	30,713	-
Privately issued collateralized loan obligations	14,899		14,899	-
Privately issued collateralized commercial mortgage securities	10,477	-	7,974	2,503
Trust preferred securities	4,358	-	4,023	335
Total debt securities available for sale	164,024	-	161,186	2,838
Equity securities	950	-	-	950
Loans held for sale	230		230	
Interest rate swap agreements	72	-	72	-
Mortgage rate lock commitment	20	-	20	-
Total assets	\$165,296	\$ -	\$161,508	\$ 3,788

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31:

	Privately issued collateralized commercial mortgage securities	Trust preferred securities	Equity Securities
Balance of recurring Level 3 assets at January 1, 2023	\$ 2,507	\$ 1,290	\$ 950
Sales	-	(940)	-
Included in other comprehensive (loss)	(4)	(15)	-
Balance of recurring Level 3 assets at December 31, 2023	\$ 2,503	\$ 335	\$ 950
Included in other comprehensive income (loss)	(3)	25	-
Balance of recurring Level 3 assets at December 31, 2024	\$ 2,500	\$ 360	\$ 950

During 2023, two Level 3 trust preferred securities were sold and/or called.

## **Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

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

		Nonrecurring Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		Assets Measured at Fair Value		
<u>2024</u>				
Assets:				
Equity securities	\$ 992	-	\$ 992	\$ -
Individually evaluated loans	9,275	-	3,761	\$ 5,514
Total assets	\$ 10,267	-	\$ 4,753	\$ 5,514
<u>2023</u>				
Assets:				
Individually evaluated loans	\$ 3,492	-	\$ 2,939	\$ 553

During 2024, equity securities consisting of Bankers' Bancorporation stock with a carrying value of \$992 were purchased at their fair value based on observed transaction prices from sales of identical securities.

At December 31, 2024, loans with a carrying amount of \$10,640 were individually evaluated and were written down to their estimated fair value of \$9,275, net of a valuation allowance of \$1,365. At December 31, 2023, loans with a carrying amount of \$5,107 were individually evaluated and were written down to their estimated fair value of \$3,492, net of a valuation allowance of \$1,615. Changes in the valuation allowances are reflected through earnings as a component of the provision for credit losses or as a charge-off against the allowance for credit losses.

At December 31, 2024, mortgage servicing rights with a carrying amount of \$1,742 were not considered impaired. At December 31, 2023, mortgage servicing rights with a carrying amount of \$1,664 were not considered impaired and the previous impairment allowance of \$118 was reversed. Changes in the impairment allowances are reflected through earnings as a component of mortgage banking income.

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

**Cash and cash equivalents** – Fair value reflects the carrying value of cash, which is a Level 1 measurement.

**Debt Securities held to maturity** – Fair value of securities held to maturity is based on dealer quotations on similar securities near period-end, which is considered a Level 2 measurement. Certain debt issued by banks or bank holding companies purchased by PSB as securities held to maturity is valued on a cash flow basis discounted using market rates reflecting credit risk of the borrower, which is considered a Level 3 measurement.

**Loans** – Fair value of variable rate loans that reprice frequently are based on carrying values. Loans with an active sale market, such as one- to four-family residential mortgage loans, estimate fair value based on sales of loans with similar structure and credit quality. Fair value of other loans is estimated by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings. Fair value of individually evaluated and other nonperforming loans is estimated using discounted expected future cash flows or the fair value of underlying collateral, if applicable. Except for collateral dependent individually evaluated loans valued using an independent appraisal of collateral value, reflecting a Level 2 fair value measurement, fair value of loans is considered to be a Level 3 measurement due to internally developed discounted cash flow measurements.

**Federal Home Loan Bank stock** – Fair value is the redeemable (carrying) value based on the redemption provisions of the Federal Home Loan Bank, which is considered a Level 3 fair value measurement.

**Notes to Consolidated Financial Statements (dollars in thousands except per share data)**

**Accrued interest receivable and payable** – Fair value approximates the carrying value, which is considered a Level 3 fair value measurement.

**Cash value of bank-owned life insurance** – Fair value is based on reported values of the assets by the issuer which are redeemable to the insured, which is considered a Level 2 fair value measurement.

**Deposits** – Fair value of deposits with no stated maturity, such as demand deposits, savings, and money market accounts, by definition, is the amount payable on demand on the reporting date. Fair value of fixed rate time deposits is estimated using discounted cash flows applying interest rates currently offered on issue of similar time deposits. Use of internal discounted cash flows provides a Level 3 fair value measurement.

**FHLB advances and other borrowings** – Fair value of fixed rate, fixed term borrowings are estimated by discounting future cash flows using the current rates at which similar borrowings would be made as calculated by the lender or correspondent. Fair value of borrowings with variable rates or maturing within 90 days approximates the carrying value of these borrowings. Fair values based on lender provided settlement provisions are considered a Level 2 fair value measurement. Other borrowings with local customers in the form of repurchase agreements with fixed interest rate terms in excess of 90 days are estimated using internal assessments of discounted future cash flows, which is a Level 3 measurement.

**Senior subordinated notes and junior subordinated debentures** – Fair value of fixed rate, fixed term notes and debentures are estimated internally by discounting future cash flows using the current rates at which similar borrowings would be made, which is a Level 3 fair value measurement.

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

The carrying amounts and fair values of PSB's financial instruments consisted of the following:

	December 31, 2024				
	Carrying	Estimated	Fair Value Hierarchy Level		
	Amount	Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 40,498	\$ 40,498	\$40,498	\$ -	\$ -
Debt securities	275,834	268,740	-	265,880	2,860
Equity securities	2,782	2,782	-	992	1,790
Net loans receivable and loans held for sale	1,078,421	1,036,174	-	3,978	1,032,196
Accrued interest receivable	5,042	5,042	-	-	5,042
Mortgage servicing rights	1,742	1,742	-	-	1,742
Mortgage rate lock commitments	54	54	-	54	-
FHLB stock	8,825	8,825	-	-	8,825
Cash surrender value of bank-owned life insurance	24,732	24,732	-	24,732	-
Interest rate swap agreements	47	47	-	47	-
<b>Financial liabilities:</b>					
Deposits	\$1,147,349	\$983,510	\$ -	\$ -	\$983,510
FHLB advances	162,250	162,447	-	162,447	-
Other borrowings	6,872	6,872	-	-	6,872
Senior subordinated notes	4,781	5,163	-	-	5,163
Junior subordinated debentures	13,023	13,278	-	-	13,278
Accrued interest payable	1,925	1,925	-	-	1,925
<b>December 31, 2023</b>					
	Carrying	Estimated	Fair Value Hierarchy Level		
	Amount	Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 27,780	\$ 27,780	\$27,780	\$ -	\$ -
Debt securities	251,105	246,538	-	243,700	2,838
Equity securities	1,474	1,474	-	-	1,474
Net loans receivable and loans held for sale	1,078,705	1,024,697	-	3,169	1,021,528
Accrued interest receivable	5,136	5,136	-	-	5,136
Mortgage servicing rights	1,664	1,664	-	-	1,664
Mortgage rate lock commitments	20	20	-	20	-
FHLB stock	6,373	6,373	-	-	6,373
Cash surrender value of bank-owned life insurance	24,085	24,085	-	24,085	-
Interest rate swap agreements	72	72	-	72	-
<b>Financial liabilities:</b>					
Deposits	\$1,141,802	\$997,215	\$ -	\$ -	\$997,215
FHLB advances	134,000	134,251	-	134,251	-
Other borrowings	8,058	8,058	-	-	8,058
Senior subordinated notes	4,774	4,701	-	-	4,701
Junior subordinated debentures	12,921	14,454	-	-	14,454
Accrued interest payable	1,584	1,584	-	-	1,584

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)**NOTE 23            Condensed Parent Company Only Financial Statements**

The following are condensed balance sheets as of December 31, 2024 and 2023, and condensed statements of income and cash flows for the years ended December 31, 2024, 2023, and 2022, for PSB Holdings, Inc.

**Balance Sheets**  
December 31, 2024 and 2023

<i>Assets</i>	<b>2024</b>	<b>2023</b>
Cash and due from banks	\$ 12,192	\$ 14,359
Investment in Peoples State Bank	123,117	113,617
Other assets	377	524
<b>TOTAL ASSETS</b>	<b>\$135,686</b>	<b>\$128,500</b>
 <i>Liabilities and Stockholders' Equity</i>		
Accrued dividends payable	\$ 1,310	\$ 1,249
Senior subordinated notes	4,781	4,774
Junior subordinated debentures	13,023	12,921
Other liabilities	286	269
Total stockholders' equity	116,286	109,287
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$135,686</b>	<b>\$128,500</b>

**Statements of Income**  
Years Ended December 31, 2024, 2023, and 2022

	<b>2024</b>	<b>2023</b>	<b>2022</b>
Income:			
Dividends from Peoples State Bank	\$ 3,600	\$ 5,000	\$4,100
Other interest and dividends	54	66	44
<b>Total income</b>	<b>3,654</b>	<b>5,066</b>	<b>4,144</b>
Expenses:			
Interest expense on senior subordinated notes	235	238	139
Interest expense on junior subordinated debentures	1,010	985	771
Other expenses	308	237	254
<b>Total expenses</b>	<b>1,553</b>	<b>1,460</b>	<b>1,164</b>
Income before income taxes and equity in undistributed net income of Peoples State Bank	2,101	3,606	2,980
Recognition of income tax benefit	315	477	304
Net income before equity in undistributed net income of Peoples State Bank	2,416	4,083	3,284
Equity in undistributed net income of Peoples State Bank	7,873	5,486	10,353
<b>Net income</b>	<b>\$10,289</b>	<b>\$9,569</b>	<b>\$13,637</b>

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)**Statements of Cash Flows**  
Years Ended December 31, 2024, 2023, and 2022

	2024	2023	2022
Increase (decrease) in cash and due from banks:			
Cash flows from operating activities:			
Net income	\$10,289	\$9,569	\$13,637
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of Peoples State Bank	(7,873)	(5,486)	(10,353)
Provision for net amortization	293	263	317
Increase (decrease) in other assets	(80)	(364)	(214)
Increase (decrease) in other liabilities	40	58	(14)
Increase in dividends payable	61	174	134
Net cash provided by operating activities	2,730	4,214	3,507
Cash flows from financing activities:			
Net decrease in other borrowings	-	(781)	(1,719)
Issuance of subordinated debt	-	-	4,800
Dividends declared	(3,117)	(2,993)	(2,261)
Issuance of preferred stock	-	-	7,149
Exercise of stock options	-	-	23
Purchase of treasury stock	(1,780)	(3,029)	(3,303)
Net cash provided by (used in) financing activities	(4,897)	(6,803)	4,689
Net increase (decrease) in cash and due from banks	(2,167)	(2,589)	8,196
Cash and due from banks at beginning	14,359	16,948	8,752
Cash and due from banks at end	\$12,192	\$14,359	\$16,948

**Notes to Consolidated Financial Statements** (dollars in thousands except per share data)

**NOTE 24 Summary of Quarterly Results (Unaudited)**

	<b>Three Months Ended</b>			
	<b><u>March 31</u></b>	<b><u>June 30</u></b>	<b><u>September 30</u></b>	<b><u>December 31</u></b>
<b><u>2024</u></b>				
Interest income	\$17,175	\$17,514	\$18,200	\$18,661
Interest expense	7,902	8,069	8,311	8,285
Net interest income	9,273	9,445	9,889	10,376
Provision for credit losses	95	100	-	-
Noninterest income	1,044	1,906	1,843	1,277
Net income	1,607	2,325	2,866	3,005
Basic earnings per share*	0.39	0.56	0.69	0.73
Diluted earnings per share*	0.39	0.56	0.69	0.73
<b><u>2023</u></b>				
Interest income	\$13,789	\$14,716	\$16,148	\$16,887
Interest expense	3,894	5,209	6,503	7,242
Net interest income	9,895	9,507	9,645	9,645
Provision for credit losses	100	100	150	100
Noninterest income	1,950	1,984	1,682	1,104
Net income	2,879	2,686	1,227	2,291
Basic earnings per share*	0.67	0.64	0.29	0.55
Diluted earnings per share*	0.67	0.64	0.29	0.55
<b><u>2022</u></b>				
Interest income	\$10,391	\$10,743	\$11,906	\$13,149
Interest expense	808	1,040	1,794	2,544
Net interest income	9,583	9,703	10,112	10,605
Provision for credit losses	-	-	-	-
Noninterest income	1,978	1,933	1,709	1,824
Net income	3,330	3,192	3,515	3,519
Basic earnings per share*	0.75	0.72	0.80	0.80
Diluted earnings per share*	0.75	0.72	0.80	0.80

\* Basic and diluted earnings per share may not foot to the total for the year ended December 31 due to rounding.

**NOTE 25 Acquisition of Larson Financial Group, LLC**

On January 21, 2025, PSB acquired Larson Financial Group, LLC, a Wausau financial advisory business for \$1,107.

February 14, 2025

**MANAGEMENT'S REPORT REGARDING STATEMENT OF MANAGEMENT'S RESPONSIBILITIES,  
COMPLIANCE WITH DESIGNATED LAWS AND REGULATIONS, AND MANAGEMENT'S  
ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING**

**To the Board of Directors and Audit Committee of  
PSB Holdings, Inc. and Subsidiary**

Peoples State Bank is a subsidiary institution of PSB Holding, Inc. that is subject to Part 363 and is included in the following statement and assessments.

**Statement of Management's Responsibilities**

The management of PSB Holdings, Inc. and Subsidiary ( "the Company") is responsible for preparing the Company's annual financial statements in accordance with generally accepted accounting principles; for designing, implementing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Federal Financial Institutions Examination Council Instructions for Reports of Condition and Income ("Call Report Instructions"); and for complying with the Federal laws and regulations pertaining to insider loans and the Federal and State laws and regulations pertaining to dividend restrictions.

**Management's Assessment of Compliance with Designated Laws and Regulations**

The management of the Company has assessed the Company's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2024. Based upon its assessment, management has concluded that the Company complied with the Federal laws and regulations pertaining to insider loans and the Federal and State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2024.

**Management's Assessment of Internal Control Over Financial Reporting**

The Company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, i.e., the Federal Financial Institutions Examination Council Consolidated Reports of Condition and Income (the "Call Report). The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory purposes, and that receipts and expenditures of the Company are being made only in accordance with



authorizations of management and directors of the Company and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

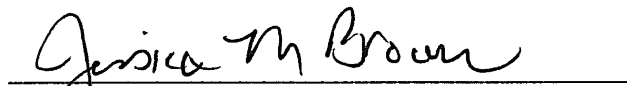
Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Call Report Instructions, as of December 31, 2024, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 *Internal Control-Integrated Framework*. Based upon its assessment, management has concluded that, as of December 31, 2024, the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with Call Report Instructions, is effective based on the criteria established in the 2013 *Internal Control-Integrated Framework*.

The Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Call Report, as of December 31, 2024, has been audited by Wipfli LLP, an independent accounting firm, as stated in their report dated February 14, 2025.



Scott Cattana  
Chief Executive Officer



Jessica Brown  
Chief Financial Officer