2020
AUDITED FINANCIAL STATEMENTS

PSB Holdings, Inc.

Wausau, Wisconsin

Consolidated Financial Statements
Years Ended December 31, 2020, 2019, and 2018

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Independent Auditor's Report

Board of Directors
PSB Holdings, Inc.
Wausau, Wisconsin

We have audited the accompanying consolidated financial statements of PSB Holdings, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2020, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years ended December 31, 2020 and 2018, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

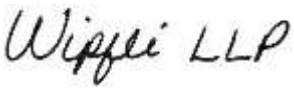
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a bases for our audit opinion.

Opinion

In our opinion, the 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, 2020, and the results of its operations and its cash flows for the years ended December 31, 2020 and 2018, in accordance with accounting principles general accepted in the United States.

Prior Period Financial Statements

The consolidated financial statements of PSB Holdings, Inc. and Subsidiary as of December 31, 2019, were audited by other auditors, whose report dated February 25, 2020, expressed an unmodified opinion on those statements.



Wipfli LLP

February 19, 2021
Green Bay, Wisconsin

Consolidated Balance Sheets
December 31, 2020 and 2019
(dollars in thousands except per share data)

Assets	2020	2019
Cash and due from banks	$5,723	$23,005
Interest-bearing deposits	1,056	839
Federal funds sold	21,749	25,184
Cash and cash equivalents	38,528	49,028
Securities available for sale (at fair value)	228,296	174,448
Bank certificates of deposit	1,231	4,983
Loans held for sale	954	545
Loans receivable, net of allowance for loan losses	820,956	707,651
Accrued interest receivable	3,527	2,776
Real estate foreclosed or held for sale	1,619	460
Premises and equipment, net	10,920	10,457
Mortgage servicing rights, net	1,657	1,747
Federal Home Loan Bank stock (at cost)	2,283	2,073
Cash surrender value of bank-owned life insurance	17,795	16,773
Other assets	4,189	3,952
TOTAL ASSETS	$1,131,955	$974,893
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest-bearing	$236,981	$177,002
Interest-bearing	695,156	604,788
Total deposits	932,137	781,790
Federal Home Loan Bank advances	62,000	73,496
Other borrowings	12,239	6,131
Senior subordinated notes	2,500	2,500
Junior subordinated debentures	7,732	7,732
Accrued expenses and other liabilities	10,920	10,553
Total liabilities	1,027,528	882,202
Stockholders' equity:		
Preferred stock - No par value:		
Authorized - 30,000 shares; no shares issued or outstanding		
Common stock - No par value with a stated value of $1.00 per share:		
Authorized - 6,000,000 shares		
Issued - 5,490,798 shares	1,830	1,830
Outstanding – 4,452,287 and 4,467,217 shares, respectively		
Additional paid-in capital	7,818	7,597
Retained earnings	103,855	95,037
Accumulated other comprehensive income, net of tax	4,458	1,302
Treasury stock, at cost – 1,038,511 and 1,023,581 shares, respectively	(13,534)	(13,075)
Total stockholders' equity	104,427	92,691
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,131,955	$974,893

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income
Years Ended December 31, 2020, 2019, and 2018
(dollars in thousands except per share data)

	2020	2019	2018
Interest and dividend income:			
Loans, including fees	$33,059	$34,477	$30,489
Securities:			
Taxable	2,461	2,980	2,799
Tax-exempt	1,840	1,550	1,517
Other interest and dividends	254	522	384
Total interest and dividend income	37,614	39,529	35,189
Interest expense:			
Deposits	4,052	6,385	4,815
Federal Home Loan Bank advances	1,175	1,190	1,085
Other borrowings	31	192	24
Senior subordinated notes	113	113	111
Junior subordinated debentures	364	366	326
Total interest expense	5,735	8,246	6,361
Net interest income	31,879	31,283	28,828
Provision for loan losses	5,575	850	130
Net interest income after provision for loan losses	26,304	30,433	28,698
Noninterest income:			
Service fees	1,365	1,543	1,611
Residential mortgage banking, net	5,724	1,877	1,528
Investment and insurance sales commissions	1,300	1,220	1,307
Net gain on sale of securities	504	210	-
Increase in cash surrender value of bank-owned life insurance	422	408	373
Other operating income	2,098	2,403	1,657
Total noninterest income	11,413	7,661	6,476
Noninterest expense:			
Salaries and employee benefits	14,012	13,645	13,194
Occupancy and facilities	2,129	2,208	2,115
Loss (gain) on real estate foreclosed	(88)	80	(34)
Data processing and other office operations	2,630	2,616	2,563
Advertising and promotion	484	509	420
Legal and professional fees	1,027	721	576
Other operating expense	3,550	3,517	2,879
Total noninterest expense	23,744	23,296	21,713
Income before income taxes	13,973	14,798	13,461
Provision for income taxes	3,284	3,551	3,149
Net income	$10,689	$11,247	$10,312
Basic earnings per share	$2.40	$2.51	$2.29
Diluted earnings per share	$2.40	$2.51	$2.29

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2020, 2019, and 2018
(dollars in thousands except per share data)

	2020	2019	2018
Net income	$10,689	$11,247	$10,312
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) on securities available for sale	3,577	3,288	(766)
Reclassification adjustment for net gain on sale of securities, included in net income	(366)	(152)	-
Amortization of unrealized gain on securities available for sale transferred to securities held to maturity	-	(3)	(39)
Unrealized loss on interest rate swap	(181)	(211)	(158)
Reclassification adjustment of interest rate swap settlements included in earnings	126	31	9
Other comprehensive income (loss)	3,156	2,953	(954)
Comprehensive income	$13,845	$14,200	$9,358

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2020, 2019, and 2018
(dollars in thousands except per share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Totals
Balance, December 31, 2017	$1,830	$7,350	$76,873	($697)	($11,574)	$73,782
Net income			10,312			10,312
Other comprehensive loss				(954)		(954)
Purchase of treasury stock					(900)	(900)
Grants of restricted stock		(177)			177	-
Vesting of restricted stock		179				179
Forfeiture of unvested restricted stock grants		144			(144)	-
Directors fees paid in grants of stock		12			11	23
Cash dividends declared $0.36 per share			(1,586)			(1,586)
Cash dividends declared on unvested restricted stock			(16)			(16)
Balance, December 31, 2018	$1,830	$7,508	$85,583	($1,651)	($12,430)	$80,840

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Totals
Balance, December 31, 2018	$1,830	$7,508	$85,583	($1,651)	($12,430)	$80,840
Net income			11,247			11,247
Other comprehensive income				2,953		2,953
Purchase of treasury stock					(793)	(793)
Grants of restricted stock		(171)			171	-
Vesting of restricted stock		214				214
Forfeiture of unvested restricted stock grants		36			(36)	-
Directors fees paid in grants of stock		10			13	23
Cash dividends declared $0.40 per share			(1,776)			(1,776)
Cash dividends declared on unvested restricted stock			(17)			(17)
Balance, December 31, 2019	$1,830	$7,597	$95,037	$1,302	($13,075)	$92,691

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Totals
Balance, December 31, 2019	$1,830	$7,597	$95,037	$1,302	($13,075)	$92,691
Net income			10,689			10,689
Other comprehensive income				3,156		3,156
Purchase of treasury stock					(478)	(478)
Grants of restricted stock		(93)			93	-
Vesting of restricted stock		212				212
Forfeiture of unvested restricted stock grants		87			(87)	-
Directors fees paid in grants of stock		15			13	28
Cash dividends declared $0.42 per share			(1,855)			(1,855)
Cash dividends declared on unvested restricted stock			(16)			(16)
Balance, December 31, 2020	$1,830	$7,818	$103,855	$4,458	($13,534)	$104,427

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
Years Ended December 31, 2020, 2019, and 2018
(dollars in thousands except per share data)

	2020	2019	2018
Increase (decrease) in cash and cash equivalents:			
Cash flows from operating activities:			
Net income	$10,689	$11,247	$10,312
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for depreciation and net amortization	2,803	2,413	2,477
Amortization of operating lease right of use asset	54	67	-
Expense (benefit) for deferred income taxes	(827)	(183)	104
Provision for loan losses	5,575	850	130
Deferred net loan origination fees (costs)	2,675	(278)	(168)
Proceeds from sales of loans held for sale	191,324	74,320	45,646
Originations of loans held for sale	(187,270)	(73,439)	(45,264)
Gain on sale of loans	(5,877)	(1,522)	(1,055)
Provision for (recapture of) mortgage servicing rights valuation allowance	79	40	(50)
Net (gain) loss on sale and provision for write-down of premises and equipment	-	566	2
Realized gain on sale of securities available for sale	(504)	(210)	-
Net loss (gain) on sale and provision for write-down of real estate foreclosed or held for sale	(233)	64	(76)
Increase in cash surrender value of bank-owned life insurance	(422)	(408)	(373)
Changes in operating assets and liabilities:			
Accrued interest receivable	(751)	1	(498)
Other assets	(162)	(374)	(199)
Operating lease liability	88	67	-
Accrued expenses and other liabilities	229	544	189
Net cash provided by operating activities	17,460	13,765	11,177
Cash flows from investing activities:			
Proceeds from maturities of securities available for sale	24,816	15,186	16,033
Proceeds from sale of securities available for sale	37,660	36,415	-
Proceeds from maturities of securities held to maturity	-	3,397	9,862
Proceeds from sale of securities held to maturity	-	14,119	-
Payment for purchase of securities available for sale	(112,362)	(67,662)	(29,964)
Payment for purchase of securities held to maturity	-	-	(925)
Net redemption (net purchase) of bank certificates of deposit	3,752	(2,007)	1,736
Net (purchase) redemption of FHLB stock	(210)	257	(630)
Net increase in loans	(122,645)	(49,966)	(49,261)
Capital expenditures	(1,354)	(2,057)	(621)
Proceeds from sale of real estate foreclosed or held for sale	373	48	939
Purchase of bank-owned life insurance	(600)	-	(862)
Net cash used in investing activities	(170,570)	(52,270)	(53,693)

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2020, 2019, and 2018
(dollars in thousands except per share data)

	2020	2019	2018
Cash flows from financing activities:			
Net increase (decrease) in non-interest-bearing deposits	$59,979	$28,391	$(3,247)
Net increase in interest-bearing deposits	90,368	27,573	26,770
Net increase (decrease) in Federal Home Loan Bank advances	(11,496)	(7,575)	31,623
Net increase (decrease) in other borrowings	6,108	(2,248)	5,743
Dividends declared	(1,871)	(1,793)	(1,602)
Purchase of treasury stock	(478)	(793)	(900)
Net cash provided by financing activities	142,610	43,555	58,387
Net increase (decrease) in cash and cash equivalents	(10,500)	5,050	15,871
Cash and cash equivalents at beginning	49,028	43,978	28,107
Cash and cash equivalents at end	$38,528	$49,028	$43,978
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	$6,228	$8,213	$6,217
Income taxes	3,655	3,265	3,255
Noncash activities:			
Loans charged off	$1,711	$177	$421
Loans transferred to real estate foreclosed or held for sale	1,299	59	932
Loans originated on sale of real estate foreclosed or held for sale	-	-	206
Premises and equipment transferred to real estate foreclosed or held for sale	-	400	-
Grants of unvested restricted stock at fair value	200	290	343
Vesting of restricted stock grants	212	214	179
Amortization of unrealized gain on securities held to maturity transferred from securities available for sale	-	4	54
Right-of-use assets obtained in exchange for lease obligations	145	167	-

See accompanying notes to consolidated financial statements.

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 Wisconsin commercial bank with nine locations in a primary service area including Marathon, Oneida, Vilas, and Milwaukee counties in Wisconsin in addition to a loan production office serving the Stevens Point, Wisconsin area. 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 loan losses, and mortgage servicing rights.

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.

Bank Certificates of Deposit

The Bank invests in bank certificates of deposit, which are carried at cost and mature over the next two years.

Investment Securities Held to Maturity and Available for Sale

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. Amortization of the net unrealized gain 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. (The amortization related to the net unrealized gain on securities held to maturity that were transferred from securities available for sale ceased during 2019 as these securities were transferred back to available for sale classification in October 2019.) 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 securities are recorded on the trade date and determined using the specific-identification method.

Declines in fair value of securities that are deemed to be other than temporary, if applicable, are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers the length of time and the extent to which fair value has 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.

Loans Held for Sale

PSB sells most all 20- and 30-year long-term fixed-rate single-family mortgage loans and most 15-year fixed-rate 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, 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 loan losses (refer to "Allowance for Loan 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 loan 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 impaired 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.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. 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. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans or by loan portfolio segment, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that PSB will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

If a loan is impaired, a portion of the allowance is allocated so that the loan net of the specific allocation equals the present value of estimated future cash flows using the loan's existing rate or the fair value of underlying collateral less applicable estimated selling costs if repayment is expected solely from the collateral.

TDRs are measured at the present value of estimated future cash flows using the loan's original effective rate. If a TDR is considered to be a collateral dependent loan, the loan is measured at the fair value of the collateral less applicable estimated

selling costs. For TDRs that subsequently default, PSB determines the amount of the allowance on that loan in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired.

The general component covers loans that are collectively evaluated for impairment. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment and, accordingly, they are not included in the separately identified impairment disclosures. The general allowance component also includes loans that are not individually identified for impairment evaluation, such as commercial loans below the individual evaluation threshold, as well as those loans that are individually evaluated but are not considered impaired.

The general component is based on historical loss experience adjusted for current qualitative factors. The historical loss experience is determined by portfolio segment or loan class and is based on the actual loss history experienced by PSB. This actual loss experience is supplemented with other external, economic, and internal factors based on the risks present for each portfolio segment or loan class. 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.

Due to the added risks associated with loans which are graded as special mention or substandard that are not classified as impaired, an additional analysis is performed to determine whether an allowance is needed that is not fully captured by the historical loss experience. Historical loss experience by portfolio segment or loan class and migration of loans into higher risk classifications are considered, as well as the historical loss rates (or severity) of loans specifically classified as special mention, substandard, or doubtful and the trends in the underlying collateral included within these classifications.

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, the Company 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.

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, the Company evaluates the borrower's repayment ability through a review of debt to income and credit scores.

Real Estate Foreclosed or Held for Sale

Includes both formally foreclosed property and in-substance foreclosed property, or other real estate of the Bank 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 loan losses for foreclosures or other expense on Bank owned real estate. 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. Impairment losses on property to be held and used are measured as 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 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.

Mortgage Servicing Rights

PSB services substantially all of the single-family mortgages it sells to the FHLB and FNMA. 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.

The carrying value of OMSRs recorded on PSB's consolidated balance sheets ("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 (FHLB) 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.

Goodwill and Other Intangible Assets

Intangible assets attributable to the value of core deposits are stated at cost less accumulated amortization. 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 whether goodwill and other intangible assets may be impaired at least annually 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".

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.

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 income statement as residential mortgage banking income. The fair value of rate lock commitments includes the estimated gain on sale of the loan 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 21. 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-Sholes 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.

Accumulated Other Comprehensive Income (Loss)

PSB's accumulated other comprehensive income (loss) is composed of the unrealized gain (loss) on 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 unamortized unrealized gain on securities transferred to securities held to maturity from 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 Securities Available for Sale	Unrealized Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Securities Transferred to Securities Held to Maturity	Total
Balance, December 31, 2017	($732)	-	$35	($697)
Other comprehensive income before reclassifications	(766)	(158)	-	(924)
Amounts reclassified from accumulated other comprehensive income	-	9	(39)	(30)
Balance, December 31, 2018	($1,498)	($149)	($4)	($1,651)

	Unrealized Gains and Losses on Securities Available for Sale	Unrealized Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Securities Transferred to Securities Held to Maturity	Total
Balance, December 31, 2018	($1,498)	($149)	($4)	($1,651)
Other comprehensive income before reclassifications	3,288	(211)	-	3,077
Amounts reclassified from accumulated other comprehensive income	(152)	31	(3)	(124)
Balance, December 31, 2019	$1,638	($329)	($7)	$1,302

	Unrealized Gains and Losses on Securities Available for Sale	Unrealized Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Securities Transferred to Securities Held to Maturity	Total
Balance, December 31, 2019	$1,638	($329)	($7)	$1,302
Other comprehensive income before reclassifications	3,577	(181)	-	3,396
Amounts reclassified from accumulated other comprehensive income	(366)	126	-	(240)
Balance, December 31, 2020	$4,849	($384)	($7)	$4,458

Current Accounting Changes

FASB ASC Topic 842, *Leases.* In April 2016, new authoritative accounting guidance was issued that requires lessees to recognize right of use ("ROU") assets and lease obligation liabilities for most operating leases as well as finance leases. The new standard was adopted effective January 1, 2019 and resulted in the recognition of operating right of use assets of $167 and operating lease liabilities of $167 as of January 1, 2019. These amounts were determined based on the present value of remaining lease payments, discounted using PSB's incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense in the consolidated statements of income. Disclosures related to PSB's leasing activities are presented in Note 7.

FASB ASC 815, *Derivatives and Hedging*. In August 2017, new authoritative accounting guidance was issued on derivative and hedging transactions. This standard is intended to improve financial reporting of certain hedging relationships and simplify the application of hedge accounting guidance through the following changes: 1) permits hedge accounting for risk components in certain hedging relationships involving nonfinancial risk and interest rate risk; 2) changes the hedged item in fair value hedges to interest rate risk; 3) requires the presentation of the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported; and 4) provides for other targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The standard also requires some changes to the hedging disclosures. Adoption of this new guidance, effective January 1, 2019, did not have a significant impact on PSB's consolidated financial statements.

FASB ASC Topic 606, *Revenue from Contracts with Customers.* In May 2014, new authoritative accounting guidance was issued that provides guidance on when it is appropriate to recognize customer sales agreements as revenue. This standard has limited impact on PSB as loans, deposits, and other financial instruments are excluded from the scope of the standard. However, sales of foreclosed property and certain noninterest income from contracts with customers, such as insurance contracts, are subject to new rules applied on an individual transaction basis. During 2015, authoritative guidance deferred the effective date of the new standard by one year, to quarterly periods beginning January 1, 2018. Adoption of this new guidance, effective January 1, 2018, did not have a significant impact on PSB's results of operations or financial statements.

FASB ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement*. In August 2018, new authoritative accounting guidance was issued that aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This new standard is effective for consolidated financial statements issued for annual periods beginning after December 15, 2019, and interim periods within those annual periods. Adoption of this new guidance, effective January 1, 2020, did not have a significant impact on PSB's results of operation or financial statements.

FASB ASC 820, *Changes to the Disclosure Requirements for Fair Value Measurement*. In December 2018, new authoritative accounting guidance was issued that modified the disclosure requirements on fair value measurements. This new standard was effective for consolidated financial statements issued for annual periods beginning after December 15, 2019, and interim periods within those annual periods. Adoption of this new guidance, effective January 1, 2020, did not have a significant impact on PSB's consolidated financial statements.

Future Accounting Changes

FASB ASC Topic 350, *Simplifying the Test for Goodwill Impairment.* In December 2017, new authoritative accounting guidance was issued eliminating Step 2 from the goodwill impairment test that would result in a goodwill impairment charge if carrying amount exceeds the estimated fair value. This new standard is effective for goodwill impairment tests in annual periods

beginning after December 15, 2020, and interim periods within those annual periods. PSB does not believe adoption of the standard will have a significant impact on its financial statements.

FASB ASU 2019-12, Simplifying the Accounting for Income Taxes. In December 2019, new authoritative accounting guidance was issued that is intended to simplify the accounting for income taxes and improve the consistent application of accounting guidance through the following changes: 1) removes certain exceptions for recognizing deferred tax liabilities, tax allocations, and the calculation methodology for an interim-year-date loss that exceeds the anticipated loss for the year; 2) requires a franchise tax or similar tax based partially on income to be recognized on an income-based tax and account for any incremental amount incurred as a non-income based tax; 3) requires an entity evaluate when a step up in the tax basis of goodwill should be considered a part of a business combination in which goodwill was originally recognized and when it should be considered a separate transaction; 4) does not require the allocation of consolidated current and deferred tax expense to a member entity that is not subject to tax in separate financial statements, but may elect to do so for certain legal entities that are disregarded by the taxing authority; and 5) amends guidance on the handling of an enacted change in tax law or rates with interim tax periods. This new standard is effective for consolidated financial statements issued for interim and annual periods beginning after December 15, 2020. PSB is evaluating what impact this new standard will have on its financial statements.

FASB ASC Topic 326, *Measurement of Credit Losses on Financial Instruments.* This standard issued in October 2016 will significantly change how financial assets measured at amortized cost are presented. Such assets, which include most loans and securities held to maturity, will be presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses will be based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amounts. The standard will also change the accounting for credit losses related to securities available for sale and purchased financial assets having a more-than-insignificant amount of credit deterioration since origination. This new accounting standard is effective for PSB's financial statements issued for interim and annual periods beginning January 1, 2023. PSB is evaluating what impact this new standard will have on its financial statements.

FASB ASU 2020-01 – Investments – Equity Securities (Topic 321), Investments Equity Method and Joint Ventures (Topic 323), and Derivative and Hedging (Topic 815). In February 2020, new authoritative accounting guidance was issued that clarifies certain interactions between the guidance to account for certain equity securities under Topic 321, the guidance to account for investments under the equity method of accounting in Topic 323, and the guidance for certain forward contracts and purchased options to purchase securities under Topic 815. This new accounting standard is effective for PSB's financial statements issued for interim and annual periods beginning after December 15, 2020. The adoption of this standard is not expected to have a material effect on its financial statements.

FASB ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. In March 2020, new authoritative accounting guidance was issued that will ease the potential burden in accounting for transactions and contracts that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The amendment in this accounting standard is effective as of March 12, 2020 and the amendment can be applied prospectively through December 31, 2022. Adoption of this new guidance is not expected to have a significant impact on PSB's results of operation or 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 19, 2021, which is the date the consolidated financial statements were available to be issued.

NOTE 2 Cash and Cash Equivalents

Effective March 26, 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. As of December 31, 2019, PSB had a required reserve of $1,771, which was satisfied by cash balances of $2,478.

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 $780 at December 31, 2020, and $560 at December 31, 2019.

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 $13,632 and $20,246 at December 31, 2020 and 2019, respectively. Management believes these financial institutions have strong credit ratings and that the credit risk related to these deposits is minimal.

NOTE 3 Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2020				
Securities available for sale				
U.S. government corporations and agencies securities	$2,834	$135	$ -	$2,969
U.S. agency issued residential mortgage-backed securities	45,636	498	96	46,038
U.S. agency issued commercial mortgage-backed securities	41,032	1,154	153	42,033
U.S. agency issued residential collateralized mortgage obligations	22,354	569	34	22,889
Obligations of states and political subdivisions	81,326	5,292	9	86,609
Privately issued collateralized loan obligations	20,032	-	427	19,605
Privately issued collateralized commercial mortgage securities	482	6	-	488
Nonrated SBA loan fund	950	-	-	950
Bankers' Bancorporation common stock	638	-	-	638
Trust preferred securities	6,340	18	281	6,077
Totals	$221,624	$7,672	$1,000	$228,296

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2019				
Securities available for sale				
U.S. agency issued residential mortgage-backed securities	$37,344	$ 312	$ 81	$37,575
U.S. agency issued commercial mortgage-backed securities	10,239	120	-	10,359
U.S. agency issued residential collateralized mortgage obligations	31,580	283	71	31,792
Obligations of states and political subdivisions	65,102	2,200	32	67,270
Privately issued collateralized loan obligations	20,036	-	476	19,560
Privately issued collateralized commercial mortgage securities	3,246	-	7	3,239
Negotiable FDIC insured bank certificates of deposit	1,470	-	-	1,470
Nonrated SBA loan fund	950	-	-	950
Bankers' Bancorporation common stock	583	-	-	583
Trust preferred securities	1,650	-	-	1,650
Totals	$172,200	$ 2,915	$ 667	$174,448

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, 2020, consist of separate obligations issued by five holding companies headquartered in Wisconsin, Georgia, and Pennsylvania. Trust preferred securities at December 31, 2019, consist of separate obligations issued by three holding companies headquartered in Wisconsin. All issues of trust preferred securities or senior subordinated notes were current as to principal and interest payments as of December 31, 2020 and 2019.

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:

	Less Than 12 Months		12 Months or More		Total	
Description of Securities	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
2020						
Securities available for sale						
U.S. agency issued residential mortgage-backed securities	$18,398	$96	$ -	$ -	$18,398	$96
U.S. agency issued commercial mortgage-backed securities	19,702	153	-	-	19,702	153
U.S. agency issued residential collateralized mortgage obligations	6,510	34	-	-	6,510	34
Obligations of states and political subdivisions	1,166	9	-	-	1,166	9
Privately issued collateralized loan obligations	4,950	64	14,655	363	19,605	427
Privately issued collateralized commercial mortgage securities	16	-	-	-	16	-
Trust preferred securities	2,163	27	1,397	254	3,560	281
Totals	$52,905	$383	$16,052	$617	$68,957	$1,000

	Less Than 12 Months		12 Months or More		Total	
Description of Securities	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
2019						
Securities available for sale						
U.S. agency issued residential mortgage-backed securities	$11,382	$78	$1,466	$3	$12,848	$81
U.S. agency issued residential collateralized mortgage obligations	7,829	30	3,015	41	10,844	171
Obligations of state and political subdivisions	5,815	32	105	-	5,920	32
Privately issued collateralized loan obligations	9.875	119	9,685	357	19,560	476
Privately issued collateralized commercial mortgage securities	3,239	7	-	-	3,239	7
Totals	$38,140	$266	$14,271	$401	$52,411	$667

At December 31, 2020, 46 debt securities had unrealized losses with aggregate depreciation of 1.43% 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, 2020, 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	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$65	$67
Due after one year through five years	10,083	10,443
Due after five years through ten years	17,923	18,771
Due after ten years	62,429	66,374
Subtotals	90,500	95,655
Mortgage-backed securities and collateralized mortgage obligations	129,536	131,053
Totals	$220,036	$226,708

Securities with a fair value of $111,355 and $90,152 at December 31, 2020 and 2019, respectively, were pledged to secure public deposits, other borrowings, and for other purposes required by law.

During 2020, PSB sold securities with a book value of $37,660 and realized a gain of $504 ($366 after tax expense). During 2019, PSB sold securities with a book value of $50,534 and realized a gain of $210 ($152 after tax expense). PSB had no sales of securities available for sale during 2018.

During 2010, PSB transferred all its municipal, trust preferred, and senior subordinated note securities from the available-for-sale classification to the held-to-maturity classification to better reflect its intent and practice to hold these long-term debt securities until maturity. Fair value of the securities was $54,130 at the time of the transfer, which included a $2,552 unrealized gain over the existing amortized cost basis. The original unrealized gain on the transfer date was being amortized against the new cost basis (equal to transfer date fair value) over the remaining life of the securities which is recorded as a reduction to other comprehensive income. Amortization of the unrealized gain reduced comprehensive income by $0 ($0 after tax impacts), $5 ($3 after tax impacts) and $54 ($39 after tax impacts) during the years ended December 31, 2020, 2019, and 2018, respectively. In October 2019, PSB transferred all its municipal and trust preferred from the held-to-maturity classification back to available-for-sale classification to better manage liquidity and interest rate risk. PSB does not intend to classify security purchases made in the next two years as held-to-maturity.

NOTE 4 Loans

The composition of loans at December 31 categorized by the type of the loan is as follows:

	2020	2019
Commercial & industrial	$201,255	$122,225
Agricultural	6,416	8,303
Municipal	11,421	11,601
Commercial real estate mortgage	390,484	350,925
Commercial construction and land development	84,427	66,803
Residential real estate mortgage	124,936	121,267
Residential construction and development	38,251	40,385
Residential real estate home equity	18,312	21,668
Consumer and individual	4,046	5,218
Subtotals – Gross loans	879,548	748,395
Loans in process of disbursement	(45,617)	(34,131)
Subtotals – Disbursed loans	833,931	714,264
Net deferred loan origination (fees) costs	(2,140)	326
Allowance for loan losses	(10,835)	(6,939)
Net loans receivable	$820,956	$707,651

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 loans at December 31, 2020, are approximately $102,038 of loans granted under the Paycheck Protection Program. These loans are fully guaranteed by the Small Business Association.

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:

	2020	2019
Loans outstanding at beginning	$11,240	$13,660
New loans	3	212
Effect of changes in directors	(10,390)	-
Repayments	(525)	(2,632)
Loans outstanding at end	$328	$11,240

PSB had originated and sold $13,536 and $14,981 of commercial and commercial real estate loans to other participating financial institutions at December 31, 2020 and 2019, 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 $29,517 and $26,781 of commercial and commercial real estate loans originated by other Wisconsin-based financial institutions at December 31, 2020 and 2019, respectively, as part of informal reciprocal relationships that allow the originating banks to meet the needs of their large credit customers. PSB generally does not charge 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 loan losses activity for the years ended December 31, 2020, 2019, and 2018, follows:

	2020				
	Commercial & Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	$1,570	$4,023	$1,281	$65	$6,939
Provision (credit)	1,171	4,181	239	(16)	5,575
Recoveries	4	8	17	3	32
Charge-offs	(255)	(1,333)	(113)	(10)	(1,711)
Ending balance	$2,490	$6,879	$1,424	$42	$10,835
Individually evaluated for impairment	$162	$678	$154	$26	$1,020
Collectively evaluated for impairment	$2,328	$6,201	$1,270	$16	$9,815
Loans receivable (gross):					
Individually evaluated for impairment	$543	$12,610	$1,300	$26	$14,479
Collectively evaluated for impairment	$218,549	$462,301	$180,199	$4,020	$865,069

	2019				
	Commercial & Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	$1,398	$3,204	$1,567	$63	$6,232
Provision (credit)	155	830	(145)	10	850
Recoveries	21	1	12	-	34
Charge-offs	(4)	(12)	(153)	(8)	(177)
Ending balance	$1,570	$4,023	$1,281	$65	$6,939
Individually evaluated for impairment	$325	$939	$178	$21	$1,463
Collectively evaluated for impairment	$1,245	$3,084	$1,103	$44	$5,476
Loans receivable (gross):					
Individually evaluated for impairment	$718	$4,800	$933	$21	$6,472
Collectively evaluated for impairment	$141,411	$412,928	$182,387	$5,197	$741,923

	2018				
	Commercial & Industrial	**Commercial Real Estate**	**Residential Real Estate**	**Consumer**	**Total**
Allowance for loan losses:					
Beginning balance	$1,154	$3,373	$1,810	$61	$6,398
Provision (credit)	141	(173)	160	2	130
Recoveries	107	6	12	-	125
Charge-offs	(12)	-	(409)	-	(421)
Ending balance	$1,398	$3,204	$1,567	$63	$6,232
Individually evaluated for impairment	$345	$245	$486	$29	$1,105
Collectively evaluated for impairment	$1,053	$2,959	$1,081	$34	$5,127
Loans receivable (gross):					
Individually evaluated for impairment	$2,985	$5,722	$2,203	$29	$10,939
Collectively evaluated for impairment	$149,524	$354,796	$172,920	$3,398	$680,638

PSB maintains an independent credit administration staff that continually monitors 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 $500 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.

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 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.

Impaired 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. Impaired loans include all nonaccrual loans and all restructured loans including restructured loans performing according to the restructured terms. In special situations, an impaired 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 commercial credit exposure based on internally assigned credit grade at December 31, 2020 and 2019, follows:

	2020					
	Commercial & Industrial	**Agricultural**	**Municipal**	**Commercial Real Estate**	**Construction & Development**	**Total**
High quality (risk rating 1)	$ -	$ -	$ -	$ -	$ -	$ -
Minimal risk (2)	24,449	320	4,844	28,018	3,592	61,223
Average risk (3)	139,621	1,300	6,577	207,119	45,614	400,231
Acceptable risk (4)	21,311	2,382	-	116,695	35,012	175,400
Watch risk (5)	9,922	2,321	-	24,001	135	36,379
Special mention risk (6)	5,502	-	-	2,115	-	7,617
Impaired and substandard loans (7)	450	93	-	12,536	74	13,153
Totals	$201,255	$6,416	$11,421	$390,484	$84,427	$694,003

	2019					
	Commercial & Industrial	**Agricultural**	**Municipal**	**Commercial Real Estate**	**Construction & Development**	**Total**
High quality (risk rating 1)	$ -	$ -	$ -	$ -	$ -	$ -
Minimal risk (2)	19,386	633	3,529	26,436	7,920	57,904
Average risk (3)	72,707	3,069	8,072	232,704	32,450	349,002
Acceptable risk (4)	22,821	1,752	-	78,147	26,212	128,932
Watch risk (5)	4,882	2,666	-	8,169	216	15,933
Special mention risk (6)	1,711	-	-	857	-	2,568
Impaired and substandard loans (7)	718	183	-	4,612	5	5,518
Totals	$122,225	$8,303	$11,601	$350,925	$66,803	$559,857

The consumer credit exposure based on performance classification at December 31, 2020 and 2019, follows:

	2020				
	Residential-Prime	**Construction and Development**	**Residential-HELOC**	**Consumer**	**Total**
Performing	$123,796	$38,247	$18,156	$4,020	$184,219
Impaired loans	1,140	4	156	26	1,326
Totals	$124,936	$38,251	$18,312	$4,046	$185,545

	2019				
	Residential-Prime	Construction and Development	Residential-HELOC	Consumer	Total
Performing	$120,522	$40,385	$21,480	$5,197	$187,584
Impaired loans	745	-	188	21	954
Totals	$121,267	$40,385	$21,668	$5,218	$188,538

The payment age analysis of loans receivable disbursed at December 31, 2020 and 2019, follows:

	2020						
Loan Class	30-59 Days	60-89 Days	90+ Days	Total Past Due	Current	Total Loans	90+ and Accruing
Commercial:							
Commercial and industrial	$106	$72	$58	$236	$201,019	$201,255	$ -
Agricultural	-	-	-	-	6,416	6,416	-
Municipal	-	-	-	-	11,421	11,421	-
Commercial real estate:							
Commercial real estate	5,118	30	416	5,564	384,920	390,484	-
Construction and development	-	-	-	-	48,720	48,720	-
Residential real estate:							
Residential – Prime	332	-	245	577	124,359	124,936	-
Construction and development	-	33	4	37	28,304	28,341	-
Residential – HELOC	170	13	15	198	18,114	18,312	-
Consumer	-	-	-	-	4,046	4,046	-
Totals	$5,726	$148	$738	$6,612	$827,319	$833,931	$ -

	2019						
Loan Class	30-59 Days	60-89 Days	90+ Days	Total Past Due	Current	Total Loans	90+ and Accruing
Commercial:							
Commercial and industrial	$1,216	$78	$28	$1,322	$120,903	$122,225	$ -
Agricultural	-	-	-	-	8,303	8,303	-
Municipal	-	-	-	-	11,601	11,601	-
Commercial real estate:							
Commercial real estate	227	21	118	366	350,559	350,925	-
Construction and development	-	75	-	75	45,424	45,499	-
Residential real estate:							
Residential – Prime	458	-	548	1,006	120,261	121,267	-
Construction and development	41	-	-	41	27,517	27,558	-
Residential – HELOC	49	-	119	168	21,500	21,668	-
Consumer	4	11	-	15	5,203	5,218	-
Totals	$1,995	$185	$813	$2,993	$711,271	$714,264	$ -

The following is a summary of information pertaining to impaired loans and nonperforming loans:

	Years Ended December 31,		
	2020	**2019**	**2018**
Impaired loans without a valuation allowance	$5,290	$2,269	$6,938
Impaired loans with a valuation allowance	9,189	4,203	4,001
Total impaired loans before valuation allowances	14,479	6,472	10,939
Valuation allowance related to impaired loans	1,020	1,463	1,105
Net impaired loans	$13,459	$5,009	$9,834

	Years Ended December 31,		
	2020	**2019**	**2018**
Average recorded investment, net of allowance for loan losses	$10,479	$8,710	$11,698
Interest income recognized	$763	$192	$630
Interest income recognized on a cash basis on impaired loans	$ -	$ -	$ -

At December 31, 2020, $114 of funds were committed to be advanced on remaining available lines of credit in connection with impaired loans, while $14 of funds were committed to be advanced on remaining available lines of credit in connection with impaired loans at December 31, 2019.

At December 31, 2020, residential mortgage loans in the process of foreclosure and residential real estate included in foreclosed assets totaled $225 and $134, respectively. At December 31, 2019, residential mortgage loans in the process of foreclosure and residential real estate included in foreclosed assets totaled $720 and $40, respectively.

Detailed information on impaired loans by loan class at December 31, 2020 and 2019, and during the years then ended, follows:

	2020				
	Unpaid Principal Balance	**Related Allowance**	**Recorded Investment**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance recorded:					
Commercial and industrial	$294	$ -	$231	$291	$ -
Commercial real estate	4,399	-	4,353	2,936	182
Commercial construction and development	76	-	71	36	-
Agricultural	-	-	-	71	-
Municipal	-	-	-	-	-
Residential – Prime	651	-	615	426	15
Residential – HELOC	26	-	20	21	2
Residential construction and development	-	-	-	-	-
Consumer	-	-	-	-	-
With an allowance recorded:					
Commercial and industrial	$234	$126	$219	$293	$1
Commercial real estate	8,475	675	8,183	5,639	548
Commercial construction and development	15	3	3	4	-
Agricultural	98	36	93	67	7
Municipal	-	-	-	-	-
Residential – Prime	648	81	525	517	8
Residential – HELOC	146	69	136	152	-
Residential construction and development	4	4	4	2	-
Consumer	27	26	26	24	-
Totals:					
Commercial and industrial	$528	$126	$450	$584	$1
Commercial real estate	12,874	675	12,536	8,575	730
Commercial construction and development	91	3	74	40	-
Agricultural	98	36	93	138	7
Municipal	-	-	-	-	-
Residential – Prime	1,299	81	1,140	943	23
Residential – HELOC	172	69	156	173	2
Residential construction and development	4	4	4	2	-
Consumer	27	26	26	24	-

	2019				
	Unpaid Principal Balance	**Related Allowance**	**Recorded Investment**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance recorded:					
Commercial and industrial	$400	$ -	$351	$836	$44
Commercial real estate	1,531	-	1,518	3,064	86
Commercial construction and development	-	-	-	-	-
Agricultural	142	-	142	222	10
Municipal	-	-	-	-	-
Residential – Prime	241	-	237	461	5
Residential – HELOC	26	-	21	22	-
Residential construction and development	-	-	-	-	-
Consumer	-	-	-	-	-
With an allowance recorded:					
Commercial and industrial	$396	$325	$367	$1,016	$3
Commercial real estate	3,378	923	3,094	1,949	35
Commercial construction and development	17	5	5	7	-
Agricultural	44	11	41	21	-
Municipal	-	-	-	-	-
Residential – Prime	609	55	508	702	8
Residential – HELOC	184	123	167	378	1
Residential construction and development	-	-	-	7	-
Consumer	22	21	21	25	-
Totals:					
Commercial and industrial	$796	$325	$718	$1,852	$47
Commercial real estate	4,909	923	4,612	5,013	121
Commercial construction and development	17	5	5	7	-
Agricultural	186	11	183	243	10
Municipal	-	-	-	-	-
Residential – Prime	850	55	745	1,163	13
Residential – HELOC	210	123	188	400	1
Residential construction and development	-	-	-	7	-
Consumer	22	21	21	25	-

The loans on nonaccrual status at December 31, follows:

	2020	2019
Commercial:		
Commercial and industrial	$378	$418
Agricultural	15	40
Commercial real estate:		
Commercial real estate	1,738	2,944
Construction and development	74	5
Residential real estate:		
Residential – Prime	744	580
Construction and development	4	-
Residential - HELOC	156	188
Consumer	26	21
Totals	$3,135	$4,196

Total loans modified or restructured were $6,478 and $1,175 at December 31, 2020 and 2019, respectively.

The following table presents information concerning modifications of troubled debt made during 2020:

As of December 31, 2020	Number of contracts	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment at Period-End
Commercial and industrial	1	$ 17	$ 17
Commercial real estate	4	5,941	5,941

During the year ended December 31, 2020, $185 was modified for capitalized interest and fees, $4,861 was modified for extended amortization and deferred payments, $895 was modified for extended amortization and interest only, and $17 was modified for other reasons. No loan principal was charged off or forgiven in connection with the modifications. At December 31, 2020, specific loan loss reserves maintained on loans modified or restructured during 2020 totaled $351.

The CARES Act provides temporary relief from accounting for certain pandemic-related loan modifications as a troubled debt restructuring. As of December 31, 2020, the PSB had approximately $16,495 of outstanding modifications that were excluded from TDR classification based on this law.

The following table presents information concerning modifications of troubled debt made during 2019:

As of December 31, 2019	Number of contracts	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment at Period-End
Commercial and industrial	1	$255	$255
Commercial real estate	0	-	-

During the year ended December 31, 2019, $255 was modified for capitalized interest and fees. No loan principal was charged off or forgiven in connection with the modifications. At December 31, 2019, specific loan loss reserves maintained on loans modified or restructured during 2019 totaled $255.

There were no past troubled debt restructurings that subsequently defaulted during 2019 or 2020 when the default occurred within 12 months of the last restructuring date. For purposes of this determination, default is defined as 90 days or more past due on restructured payments.

NOTE 5 Real Estate Foreclosed or Held for Sale

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

	2020	2019	2018
Balance at beginning of year	$460	$113	$250
Transfer of loans at net realizable value to real estate foreclosed or held for sale	1,299	59	932
Transfer of premises and equipment at net realizable value to real estate foreclosed or held for sale	-	400	-
Sale proceeds	(373)	(48)	(939)
Loans made on sale of real estate foreclosed or held for sale	-	-	(206)
Net (loss) gain from sale of real estate foreclosed or held for sale	283	(11)	76
Provision for write-down charged to operations	(50)	(53)	-
Balance at end of year	$1,619	$460	$113

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 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 ($88), $80, and ($34) during the years ended 2020, 2019, and 2018, respectively. During the year ended December 31, 2020 and 2019, impairment loss on real estate held for sale of $50 and $566, respectively, was recorded. No impairment loss on real estate held for sale was recorded in 2018.

NOTE 6 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 $387,755 and $342,428 at December 31, 2020 and 2019, respectively. The following is a summary of changes in the balance of mortgage servicing rights (MSR):

	Originated MSR	Valuation Allowance	Total
Balance at January 1, 2018	$1,996	($158)	$1,838
Additions from originated servicing	317	-	317
Amortization charged to earnings	(400)	-	(400)
Change in valuation allowance credited to earnings	-	50	50
Balance at December 31, 2018	1,913	(108)	1,805
Additions from originated servicing	405	-	405
Amortization charged to earnings	(424)	-	(424)
Change in valuation allowance credited to earnings	-	(39)	(39)
Balance at December 31, 2019	1,894	(147)	1,747
Additions from originated servicing	975	-	975
Amortization charged to earnings	(986)	-	(986)
Change in valuation allowance charged to earnings	-	(79)	(79)
Balance at December 31, 2020	$1,883	($226)	$1,657

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

	Years Ending December 31,		
	2020	2019	2018
Cash gain on sale of mortgage loans	$4,464	$1,069	$740
Originated mortgage servicing rights	975	405	317
Increase (decrease) in accrued mortgage rate lock commitments	449	48	(2)
Gain on sale of mortgage loans	5,888	1,522	1,055
Mortgage servicing fee income	894	834	816
Credit for representation and warranty losses	7	2	7
Foreclosure servicing losses	-	(18)	-
Amortization of mortgage servicing rights	(986)	(424)	(400)
Decrease (increase) in servicing right valuation allowance	(79)	(39)	50
Loan servicing fee income (loss), net	(164)	355	473
Residential mortgage banking income, net	$5,724	$1,877	$1,528

NOTE 7 Premises and Equipment

The composition of premises and equipment at December 31 follows:

	2020	2019
Land	$2,718	$2,401
Buildings and improvements	12,879	12,323
Furniture and equipment	3,015	2,810
Computer hardware and software	3,241	3,019
Total cost	21,853	20,553
Less – Accumulated depreciation and amortization	10,933	10,096
Totals	$10,920	$10,457

Depreciation and amortization charged to operating expenses amounted to $837 in 2020, $843 in 2019, and $863 in 2018.

As of December 31, 2020, PSB had commitments for capital expenditures of $530.

Operating Leases

PSB leases various pieces of equipment under cancelable leases and office space for three 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 location lease expired in July 2019 and is on a month to month basis. The third noncancelable lease expires August 2022 followed by one optional 12-month renewal period. All three leases are classified as operating leases.

As of January 1, 2019, PSB adopted FASB ASC Topic 842 and recorded a 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 $188 and $100 at December 31, 2020 and 2019, respectively. The operating lease liability totaled $185 and $96 at December 31, 2020 and 2019, respectively.

Future minimum payments under the noncancelable leases include:

2021	$ 61
2022	52
2023	30
2024	30
2025	20
Total future minimum lease payments	$193
Less amount representing interest	(8)
Present value of net future minimum lease payments	$185

Supplemental lease information as of December 31.

	2020	2019
Weighted average remaining lease term (years)	3.8	2.3
Weighted average discount rate	0.82%	2.85%

Rental expense for all operating leases was $103, $100, and $96, for the years ended December 31, 2020, 2019, and 2018, respectively. Remaining undepreciated net book value of leasehold improvements included in premises and equipment totaled $285 at December 31, 2020, and $351 at December 31, 2019.

NOTE 8 Deposits

The distribution of deposits at December 31 is as follows:

	2020	2019
Non-interest-bearing demand	$236,981	$177,002
Interest-bearing demand (NOWs)	212,362	162,280
Savings	120,315	95,206
Money market	222,156	183,370
Retail and local time	126,176	129,886
Wholesale market and national time	14,147	34,046
Total deposits	$932,137	$781,790

The scheduled maturities of time deposits at December 31, 2020, are summarized as follows:

2021	$108,065
2022	21,841
2023	5,929
2024	2,295
2025	2,193
Thereafter	-
Total	$140,323

Time deposits with individual balances of greater than $250 totaled $25,106 and $54,020 at December 31, 2020 and 2019, respectively.

Deposits from PSB directors, executive officers, and other related parties as of December 31, 2020 and 2019, totaled $7,025 and $18,792, 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
2020				
Fixed rate, interest only	2024	1.56%-1.70%	1.66%	$ 20,000
Fixed rate, interest only	2026	1.10%-1.76%	1.48%	22,000
Fixed rate, interest only	2029	1.00%-1.16%	1.08%	10,000
Fixed rate, interest only	2030	0.83%-1.04%	0.94%	10,000
Totals			1.39%	$62,000
2019				
Fixed rate, interest only	2020	1.60%-2.66%	2.03%	$ 6,019
Fixed rate, interest only	2021	1.50%-2.93%	2.33%	10,477
Fixed rate, interest only	2022	1.52%-1.52%	1.52%	5,000
Fixed rate, interest only	2024	1.56%-1.70%	1.66%	20,000
Fixed rate, interest only	2026	1.10%-1.76%	1.48%	22,000
Fixed rate, interest only	2029	1.00%-1.16%	1.08%	10,000
Totals			1.64%	$73,496

At December 31, 2020, PSB had $62,000 of advances which the FHLB may put back to PSB at a future date, with stated maturity dates ranging from 2024 to 2030 and put dates ranging from 2021 to 2023. 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 80% of qualifying unencumbered one- to four-family residential first mortgage loans, 64% of residential junior mortgage loans, and 75% of qualifying commercial real estate loans pledged as collateral out of its portfolio. The FHLB advances are also secured by $2,283 of FHLB stock owned by PSB at December 31, 2020. PSB may draw both short-term and long-term advances on a maximum line of credit totaling approximately $222,626 based on pledged performing residential and commercial real estate mortgage collateral totaling $377,715 as of December 31, 2020. At December 31, 2020, PSB's available and unused portion of this line of credit totaled approximately $146,321. PSB also has, under a current agreement with the FHLB, an ability to borrow up to an additional $83,902 by pledging securities as collateral.

At December 31, 2020, FHLB advances drawn by PSB and other FHLB credit enhancements provided for the benefit of PSB totaling greater than $93,930 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, 2020 and 2019, other borrowings of $12,239 and $6,131, respectively, consisted of short-term repurchase agreements with overnight maturities. 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 $18,586 and $19,816 at December 31, 2020 and 2019, respectively. If the fair value of existing pledged securities declined, PSB would 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:

	2020	2019
As of end of year:		
Weighted average rate	0.14%	0.88%
For the year:		
Highest month-end balance	$17,363	$24,318
Daily average balance	$9,602	$19,628
Weighted average rate	0.32%	0.98%

PSB pledges municipal investment securities to the Federal Reserve to be able to borrow short-term Discount Window advances. At December 31, 2020, the maximum amount of available advances from the Discount Window totaled $100,000, subject to available collateral pledged. At December 31, 2020, PSB had pledged municipal securities with a market value of $33,009, which permitted Discount Window advances up to $30,556 against this collateral. There were no Discount Window advances outstanding at December 31, 2020 or 2019.

PSB maintains federal funds lines of credits with several correspondent banks. As of December 31, 2020, available federal fund lines of credit totaled $33,000. There were no federal fund advances outstanding at December 31, 2020 or 2019.

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, 2022, 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 3.25%. As of December 31, 2020, and 2019, 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 loss allowances to nonperforming assets, and minimum loan loss allowances to nonperforming assets. PSB was in compliance with all covenants at December 31, 2020 or 2019.

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 rate of 4.50% for a five-year fixed term. The Notes are held by related parties including directors, former directors and significant shareholders. Total interest expense on senior subordinated notes was $113 during 2020, $113 during 2019, and $111 during 2018. Senior Subordinated Notes outstanding were $2,500 at both December 31, 2020 and 2019.

NOTE 12 Junior Subordinated Debentures

PSB has issued $7,732 of junior subordinated debentures to PSB Holdings Statutory Trust I (the "Trust") in connection with an issue of trust preferred securities during 2005 which mature in September 2035. The debentures currently pay a variable rate of interest based on changes in the three-month LIBOR plus 1.70%, adjusted quarterly. During 2018, PSB entered into a cash flow hedge to fix the payments of interest on the debentures for a five-year period ending June 2023 at a rate of 3.00%, resulting in an all in cost of 4.70%. At December 31, 2020, the three-month LIBOR rate, used to determine the rate paid for the period December 15, 2020 through March 15, 2021, was 0.22%, resulting in a coupon rate of 1.92%. Total interest expense on the junior subordinated debentures was $364 in 2020, $366 in 2019, and $326 in 2018. The subordinated debentures may be prepaid by PSB in part or in full on a quarterly basis.

PSB has fully and unconditionally guaranteed all the obligations of the 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 Trust. The trust preferred securities qualify as Tier 1 capital for regulatory capital purposes.

NOTE 13 Derivative Instruments and Hedging Activities

PSB is exposed to certain risks relating to its ongoing business operations. The primary risk managed by using derivative instruments is interest rate risk. 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 swap 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, 2020, and 2019, PSB had the following outstanding interest rate swap that was entered into to hedge variable-rate debt:

	2020	2019
Notional amount	$ 7,500	$ 7,500
Pay fixed rate	3.00%	3.00%
Receive variable rate	0.22%	1.89%
Maturity	6/15/2023	6/15/2023
Unrealized loss (fair value)	$ 530	$ 452

This agreement provided for PSB to receive payments at a variable rate determined by the three-month LIBOR in exchange for making payments at a fixed rate. Actual maturities may differ from scheduled maturities due to call options and/or early termination provisions. Risk management results for the year ended December 31, 2020, 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, 2020, approximately $214 of losses reported in other comprehensive income related to the interest rate swap ($156 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, 2021. The interest rate swap agreement was secured by cash and cash equivalents of $780 at December 31, 2020.

During 2020, PSB reclassified $174 ($126 after tax impacts) of interest rate swap settlements which increased comprehensive income. During 2019, PSB reclassified $42 ($31 after tax impacts) of interest rate swap settlements which increased comprehensive income. During 2018, PSB reclassified $12 ($9 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 statement of income during each year.

NOTE 14 Retirement and Deferred Compensation Plans

PSB has established a 401(k) profit sharing plan for its employees. PSB matches 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, 2020, 2019, and 2018 was $813, $812, and $800 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 15% 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. The liability outstanding under the agreements was $5,306 and $5,422 at December 31, 2020 and 2019, respectively. The amount charged to operations was $584, $556, and $563, for 2020, 2019, and 2018, respectively.

PSB maintains a postretirement plan for several former executives in which PSB pays a portion of health insurance premiums for individuals in the plan. The liability outstanding under the plan was $63 and $76 at December 31, 2020 and 2019, respectively.

NOTE 15 Self-Funded Health Insurance Plan

PSB has established an employee medical benefit plan to self-insure claims up to $75 during part of 2019 (amount increased to $85 during 2019) and $85 during 2020 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 $86 as of December 31, 2020, and $100 as of December 31, 2019. Health and dental insurance expense recorded in 2020, 2019, and 2018 was $1,055, $871, and $1,123, respectively.

NOTE 16 Income Taxes

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

	2020	2019	2018
Current income tax provision:			
Federal	$2,729	$2,541	$2,051
State	1,382	1,193	994
Total current	4,111	3,734	3,045
Deferred income tax (benefit) provision:			
Federal	(529)	(129)	80
State	(298)	(54)	24
Total deferred	(827)	(183)	104
Total provision for income taxes	$3,284	$3,551	$3,149

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:

	2020		2019		2018	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Tax expense at statutory rate	$ 2,935	21.0	$ 3,108	21.0	$ 2,827	21.0
Increase (decrease) in taxes resulting from:						
Tax-exempt interest	(424)	(3.0)	(366)	(2.5)	(354)	(2.6)
Bank-owned life insurance	(89)	(0.6)	(86)	(0.6)	(78)	(0.6)
State income tax	856	6.1	900	6.1	804	6.0
Other	6	0.0	(5)	-	(50)	(0.4)
Provision for income taxes	$ 3,284	23.5	$ 3,551	24.0	$ 3,149	23.4

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:

	2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 2,972	$ 1,903
Deferred compensation and directors' fees	1,748	1,567
Foreclosed assets	169	285
Unrealized loss on interest rate swaps	145	124
Other	17	204
Gross deferred tax assets	5,051	4,083
Deferred tax liabilities:		
Premises and equipment	657	464
Mortgage servicing rights	454	479
Deferred net loan origination costs	32	89
Unrealized gain on securities available for sale	1,830	616
Prepaid expenses	133	124
Gross deferred tax liabilities	3,106	1,772
Net deferred tax asset	$ 1,945	$ 2,311

With few exceptions, PSB is no longer subject to federal or state examinations by taxing authorities for years before 2016.

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

	2020		2019		2018	
	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 securities available for sale	$5,031	$1,454	$4,529	$1,241	($1,055)	($289)
Reclassification adjustment for net security gain included in net income	(504)	(138)	(209)	(57)	-	-
Amortization of unrealized gain on securities available for sale transferred to securities held to maturity	-	-	(4)	(1)	(54)	(15)
Unrealized loss on interest rate swap	(249)	(68)	(291)	(80)	(218)	(60)
Reclassification adjustment of interest rate swap settlements included in earnings	174	48	43	12	12	3
Totals	$4,452	$1,296	$4,068	$ 1,115	($1,315)	($361)

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 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:

	2020	2019
Commitments to extend credit – Fixed and variable rates	$199,861	$150,334
Commercial standby letters of credit – Variable rate	4,093	4,942
Unused home equity lines of credit – Variable rate	39,675	37,768
Unused credit card commitments – Variable rate	1,106	428
Credit enhancement under the FHLB of Chicago Mortgage Partnership Finance program	205	205
Totals	$249,033	$193,677

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 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 $1,106 at December 31, 2020, including $831 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 $13,181 and $8,266 in firm commitments to deliver loans to these providers outstanding at December 31, 2020 and 2019, 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, 2020, PSB serviced payments on $4,112 of first lien residential loan principal under these terms for the FHLB. At December 31, 2020, the maximum PSB obligation for such guarantees would be approximately $205 if total foreclosure losses on the entire pool of loans exceed approximately $855. 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 $14,100 and $15,540 of FHLB public unit deposit letters of credit outstanding at December 31, 2020 and 2019, 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.

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.

NOTE 18 Stock Based Compensation

PSB granted shares of restricted stock to certain employees having a market value of $200, $290, and $343, during 2020, 2019, and 2018, respectively. As of December 31, 2020, unvested shares of 26,499 vest to employees based on continued PSB service over a six-year period and are recognized as compensation expense over the vesting period. While, unvested shares of 6,654 vest based on attainment of loan and deposit growth goals through June 2024. 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, 2020, 2019, and 2018.

	Unvested Shares	Weighted Average Grant Value
January 1, 2018	59,184	$ 12.56
Restricted shares granted	14,808	23.17
Restricted shares vested	(18,519)	(10.18)
Unvested restricted shares forfeited	(10,641)	(13.52)
December 31, 2018	44,832	$ 16.78
Restricted shares granted	13,763	22.89
Restricted shares vested	(12,500)	(13.23)
Unvested restricted shares forfeited	(2,283)	(15.72)
December 31, 2019	43,812	$ 19.75
Restricted shares granted	7,273	27.50
Restricted shares vested	(13,149)	(17.46)
Unvested restricted shares forfeited	(4,783)	(18.11)
December 31, 2020	33,153	$ 22.09

During 2020, total compensation expense of $212 (before tax benefits of $58) was recorded from amortization of restricted shares expected to vest. During 2019, total compensation expense of $214 (before tax benefits of $58) was recorded from amortization of restricted shares expected to vest. During 2018, total compensation expense of $179 (before tax benefits of $49) was recorded from amortization of restricted shares expected to vest.

During 2020, PSB adopted a stock option plan that granted share options to certain employees. The initial grant date of stock options granted under the plan was January 2, 2021. The stock options vest to employees based on continued PSB service over a four-year period and will be recognized as compensation expense over the vesting period. The fair value of each option award is estimated on the date of grant using a Black-Sholes model. Expected volatilities are based on historical volatilities of PSB common stock and historical volatilities of a peer group common stock (29%). The expected term of options granted represents the period of time that options granted are expected to be outstanding (6.25 years). 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 (0.69%).

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

	Stock Options	Restricted Stock	Total
2021	$ 22	$ 203	$ 225
2022	21	132	153
2023	21	95	116
2024	21	66	87
2025	-	33	33
Total	$ 85	$ 529	$ 614

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, 2020, 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 $34,899. 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, 2020, the Bank met all capital adequacy requirements. In addition, as of December 31, 2020, 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:

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2020:						
Common Equity Tier 1 capital (to risk weighted assets)	$102,161	13.29%	$34,599	4.50%	$49,977	6.50%
Tier 1 capital (to risk weighted assets)	$102,161	13.29%	$46,133	6.00%	$61,510	8.00%
Total capital (to risk weighted assets)	$111,787	14.54%	$61,510	8.00%	$76,888	10.00%
Tier 1 capital (to average assets)	$102,161	9.30%	$43,962	4.00%	$54,953	5.00%
As of December 31, 2019:						
Common Equity Tier 1 capital (to risk weighted assets)	$96,393	13.14%	$33,010	4.50%	$47,682	6.50%
Tier 1 capital (to risk weighted assets)	$96,393	13.14%	$44,014	6.00%	$58,685	8.00%
Total capital (to risk weighted assets)	$103,346	14.09%	$58,685	8.00%	$73,356	10.00%
Tier 1 capital (to average assets)	$96,393	10.17%	$37,930	4.00%	$47,412	5.00%

NOTE 20 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 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:

	2020	2019	2018
Weighted average shares outstanding	4,455,670	4,481,251	4,496,525
Effect of dilutive stock options outstanding	-	-	-
Diluted weighted average shares outstanding	4,455,670	4,481,251	4,496,525
Basic earnings per share	$2.40	$2.51	$2.29
Diluted earnings per share	$2.40	$2.51	$2.29

NOTE 21 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.

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 impaired 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.

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 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.

At December 31, 2020 and 2019, Level 2 securities included a common stock investment in Bankers' Bancorporation, Madison, Wisconsin, that was not traded on an active market. During 2020 and 2019, the Bank received trade and book value range data from Bankers' Bancorporation to estimate fair value.

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.

Impaired loans – Loans are not measured at fair value on a recurring basis. Carrying value of impaired 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, impaired loans considered to be collateral dependent are measured at fair value on a nonrecurring basis. The fair value measurement of an impaired 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 impaired 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 impaired 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 impaired loans while an improving economy or falling interest rates would be expected to increase fair value of collateral dependent impaired 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. Significant unobservable inputs at December 31, 2020, used to measure fair value included:

Direct annual servicing cost per loan	$ 95
Direct annual servicing cost per loan in process of foreclosure	$ 1,000
Weighted average prepayment speed: CPR	26.21%
Weighted average prepayment speed: PSA	921.41%
Weighted average cash flow discount rate	7.00%
Asset reinvestment rate	3.50%
Short-term cost of funds	1.00%
Escrow inflation adjustment	1.00%
Servicing cost inflation adjustment	2.00%

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)
2020				
Assets:				
Securities available for sale:				
U.S. government corporations and agencies securities	$2,969	$ -	$2,969	$ -
U.S. agency issued residential MBS and CMO	68,927		68,927	
U.S. agency issued commercial mortgage-backed securities	42,033	-	42,033	-
Obligations of states and political subdivisions	86,609	-	86,609	-
Privately issued collateralized loan obligations	19,605	-	19,605	-
Privately issued collateralized commercial mortgage securities	488	-	488	-
Nonrated SBA loan fund	950	-	950	-
Bankers' Bancorporation common stock	638	-	638	
Trust preferred securities	6,077	-	6,077	-
Total securities available for sale	228,296	-	228,296	-
Loans held for sale	954	-	954	-
Mortgage rate lock commitment	623	-	623	-
Total assets	$229,873	$ -	$229,873	$ -
Liabilities – Interest rate swap agreements	$530	$ -	$530	$ -
2019				
Assets:				
Securities available for sale:				
U.S. agency issued residential MBS and CMO	$69,367	$ -	$69,367	$ -
U.S. agency issued commercial mortgage-backed securities	10,359	-	10,359	-
Obligations of states and political subdivisions	67,270	-	67,270	-
Privately issued collateralized loan obligations	19,560	-	19,560	-
Privately issued collateralized commercial mortgage securities	3,239		3,239	-
Negotiable FDIC insured bank certificates of deposit	1,470	-	1,470	-
Nonrated SBA loan fund	950	-	950	-
Bankers' Bancorporation common stock	583		583	-
Trust preferred securities	1,650	-	1,650	-
Total securities available for sale	174,448	-	174,448	-
Loans held for sale	545	-	545	-
Mortgage rate lock commitment	173	-	173	-
Total assets	$175,166	$ -	$175,166	$ -
Liabilities – Interest rate swap agreements	$ 452	$ -	$ 452	$ -

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		
	Assets 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)
2020				
Assets:				
Impaired loans	$10,667	$ -	$5,421	$5,246
Real estate foreclosed or held for sale	1,619	-	1,619	-
Mortgage servicing rights	1,657	-	-	1,657
Total assets	$13,943	$ -	$7,040	$6,903
2019				
Assets:				
Impaired loans	$1,560	$ -	$404	$1,156
Real estate foreclosed or held for sale	460	-	400	60
Mortgage servicing rights	1,747	-	-	1,747
Total assets	$3,767	$ -	$804	$2,963

At December 31, 2020, loans with a carrying amount of $11,247 were considered impaired and were written down to their estimated fair value of $10,667, net of a valuation allowance of $580. At December 31, 2019, loans with a carrying amount of $1,842 were considered impaired and were written down to their estimated fair value of $1,560, net of a valuation allowance of $282. Changes in the valuation allowances are reflected through earnings as a component of the provision for loan losses or as a charge-off against the allowance for loan losses.

In 2020, real estate foreclosed or held for sale with a fair value of $1,619 were acquired through or in lieu of foreclosure or transfer from premises and equipment, which is the fair value net of estimated costs to sell. During 2020, there was one real estate foreclosed or held for sale written down to fair value, which resulted in an impairment charge included in earnings for the year ended December 31, 2020 of $50. In 2019, real estate foreclosed or held for sale with a fair value of $460 were acquired through or in lieu of foreclosure or transfer from premises and equipment, which is the fair value net of estimated costs to sell. During 2019, there was one real estate foreclosed or held for sale written down to fair value, which resulted in an impairment charge included in earnings for the year ended December 31, 2019 of $53.

At December 31, 2020, mortgage servicing rights with a carrying amount of $1,883 were considered impaired and were written down to their estimated fair value of $1,657, resulting in an impairment allowance of $226. At December 31, 2019, mortgage servicing rights with a carrying amount of $1,894 were considered impaired and were written down to their estimated fair value of $1,747, resulting in an impairment allowance of $147. 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.

Bank certificates of deposit – Fair value of fixed rate certificates of deposit included in other investments is estimated by discounting future cash flows using current rates at which similar certificates could be purchased, which is a Level 3 measurement. These certificates of deposit are issued directly to PSB by the issuing bank and are subject to penalties for early withdrawal.

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 impaired 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 impaired 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.

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.

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

	December 31, 2020				
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy Level		
			Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$38,528	$38,528	$38,528	$ -	$ -
Securities	228,296	228,296	-	227,658	638
Bank certificates of deposit	1,231	1,251	-	-	1,251
Net loans receivable and loans held for sale	821,910	824,115	-	6,375	817,740
Accrued interest receivable	3,527	3,527	-	-	3,527
Mortgage servicing rights	1,657	1,657	-	-	1,657
Mortgage rate lock commitments	623	623	-	623	-
FHLB stock	2,283	2,283	-	-	2,283
Cash surrender value of bank-owned life insurance	17,795	17,795	-	17,795	-
Financial liabilities:					
Deposits	$932,137	$933,302	$ -	$ -	$933,302
FHLB advances	62,000	65,072	-	65,072	-
Other borrowings	12,239	12,239	-	-	12,239
Senior subordinated notes	2,500	2,416	-	-	2,416
Junior subordinated debentures	7,732	2,113	-	-	2,113
Interest rate swap agreements	530	530	-	530	-
Accrued interest payable	350	350	-	-	350

	December 31, 2019				
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy Level		
			Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$49,028	$49,028	$49,028	$ -	$ -
Securities	174,448	174,448	-	173,865	583
Bank certificates of deposit	4,983	5,011	-	-	5,011
Net loans receivable and loans held for sale	708,196	707,215	-	949	706,266
Accrued interest receivable	2,776	2,776	-	-	2,776
Mortgage servicing rights	1,747	1,747	-	-	1,747
Mortgage rate lock commitments	173	173	-	173	-
FHLB stock	2,073	2,073	-	-	2,073
Cash surrender value of bank-owned life insurance	16,773	16,773	-	16,773	-
Financial liabilities:					
Deposits	$781,790	$782,355	$ -	$ -	$782,355
FHLB advances	73,496	73,955	-	73,955	-
Other borrowings	6,131	6,131	-	-	6,131
Senior subordinated notes	2,500	2,280	-	-	2,280
Junior subordinated debentures	7,732	288	-	-	288
Interest rate swap agreements	452	452	-	452	-
Accrued interest payable	810	810	-	-	810

NOTE 22 Condensed Parent Company Only Financial Statements

The following are condensed balance sheets as of December 31, 2020 and 2019, and condensed statements of income and cash flows for the years ended December 31, 2020, 2019, and 2018, for PSB Holdings, Inc.

Balance Sheets
December 31, 2020 and 2019

Assets	2020	2019
Cash and due from banks	$6,637	$5,641
Investment in Peoples State Bank	108,948	98,148
Other assets	603	560
TOTAL ASSETS	$116,188	$104,349
Liabilities and Stockholders' Equity		
Accrued dividends payable	$935	$893
Senior subordinated notes	2,500	2,500
Junior subordinated debentures	7,732	7,732
Other liabilities	594	533
Total stockholders' equity	104,427	92,691
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$116,188	$104,349

Statements of Income
Years Ended December 31, 2020, 2019, and 2018

	2020	2019	2018
Income:			
Dividends from Peoples State Bank	$ 4,000	$5,100	$3,600
Other interest and dividends	19	32	22
Total income	4,019	5,132	3,622
Expenses:			
Interest expense on senior subordinated notes	113	113	111
Interest expense on junior subordinated debentures	364	366	326
Other expenses	446	325	172
Total expenses	923	804	609
Income before income taxes and equity in undistributed net income of Peoples State Bank	3,096	4,328	3,013
Recognition of income tax benefit	245	208	159
Net income before equity in undistributed net income of Peoples State Bank	3,341	4,536	3,172
Equity in undistributed net income of Peoples State Bank	7,348	6,711	7,140
Net income	$10,689	$11,247	$10,312

Statements of Cash Flows
Years Ended December 31, 2020, 2019, and 2018

	2020	2019	2018
Increase (decrease) in cash and due from banks:			
Cash flows from operating activities:			
Net income	$10,689	$11,247	$10,312
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of Peoples State Bank	(7,348)	(6,711)	(7,140)
Increase in other assets	(43)	(28)	(28)
Increase in other liabilities	5	24	13
Increase in dividends payable	42	85	85
Net cash provided by operating activities	3,345	4,627	3,242
Cash flows from financing activities:			
Dividends declared	(1,871)	(1,793)	(1,602)
Purchase of treasury stock	(478)	(794)	(900)
Net cash used in financing activities	(2,349)	(2,587)	(2,502)
Net increase in cash and due from banks	996	2,040	740
Cash and due from banks at beginning	5,641	3,601	2,861
Cash and due from banks at end	$6,637	$5,641	$3,601

NOTE 23 Summary of Quarterly Results (Unaudited)

	Three Months Ended			
	March 31	**June 30**	**September 30**	**December 31**
2020				
Interest income	$9,726	$9,291	$9,155	$9,442
Interest expense	1,935	1,528	1,261	1,011
Net interest income	7,791	7,763	7,894	8,431
Provision for loan losses	1,800	1,800	1,300	675
Noninterest income	2,355	3,138	2,929	2,991
Net income	1,610	3,190	2,637	3,252
Basic earnings per share*	0.36	0.72	0.59	0.73
Diluted earnings per share*	0.36	0.72	0.59	0.73
2019				
Interest income	$9,604	$9,839	$10,098	$9,988
Interest expense	2,032	2,041	2,154	2,019
Net interest income	7,572	7,798	7,944	7,969
Provision for loan losses	400	150	150	150
Noninterest income	2,117	1,903	1,802	1,839
Net income	2,731	2,572	3,131	2,813
Basic earnings per share*	0.61	0.57	0.70	0.63
Diluted earnings per share*	0.61	0.57	0.70	0.63
2018				
Interest income	$8,076	$8,685	$9,063	$9,365
Interest expense	1,262	1,406	1,805	1,888
Net interest income	6,814	7,279	7,258	7,477
Provision for loan losses	30	30	10	60
Noninterest income	1,590	1,553	1,615	1,718
Net income	2,355	2,767	2,661	2,529
Basic earnings per share*	0.52	0.62	0.59	0.56
Diluted earnings per share*	0.52	0.62	0.59	0.56

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

NOTE 24 Merger with Waukesha Bankshares, Inc.

On December 16, 2020, PSB announced the execution of an agreement to acquire Waukesha Bankshares, Inc. and its wholly owned subsidiary Sunset Bank and Savings. Sunset Bank and Savings is located in Waukesha, Wisconsin and had total assets of $137,000 at December 31, 2020. The acquisition is expected to close in April of 2021.