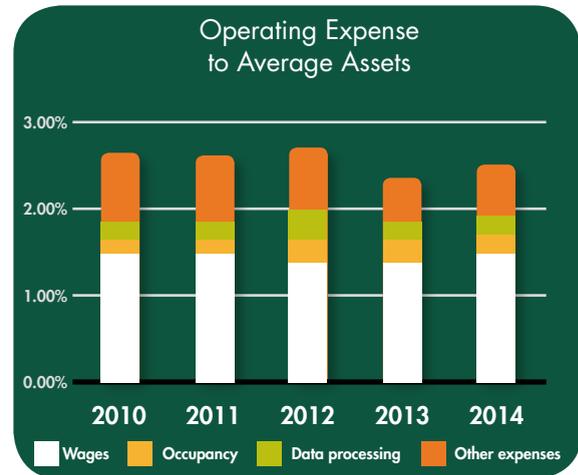
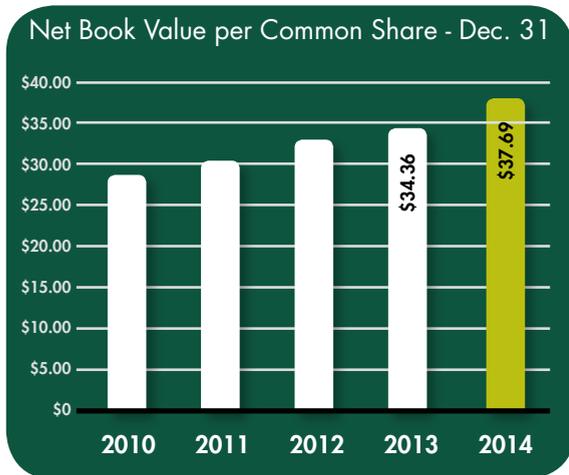
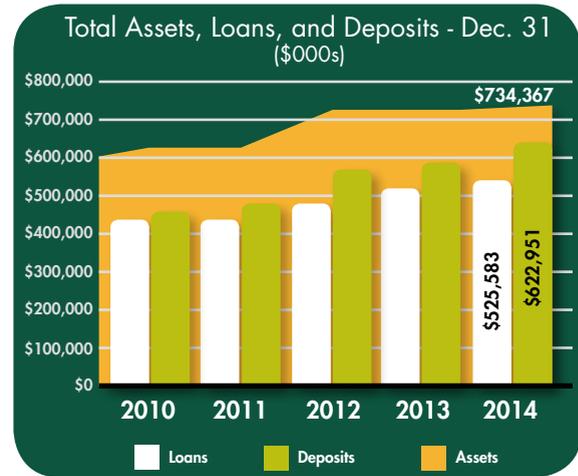
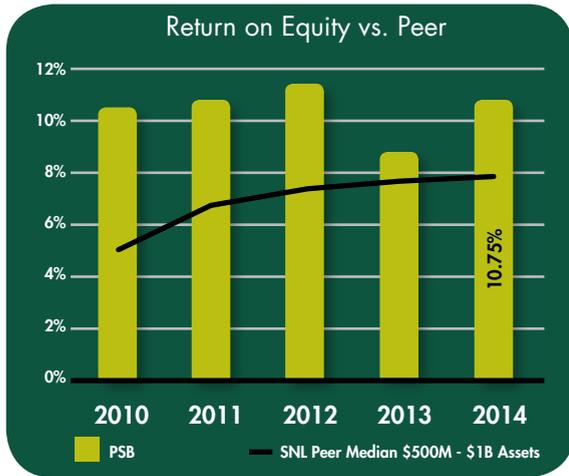


# 2014 ANNUAL REPORT



PSB Holdings, Inc.

# Performance Snapshot | 2014



Visit [www.psbholdingsinc.com](http://www.psbholdingsinc.com) to download a PDF of the report, or share it on:





## President's Letter 2014

Dear Shareholders,

When Peoples State Bank opened its doors in 1962, it did so with an unshakable conviction that outstanding customer satisfaction, quality service, and reinvesting in communities were paramount to success.

That culture still holds true today. Whether it's helping a veteran buy a new home, rolling out state-of-the-art technologies to help businesses prevent cyber fraud, or reinvesting in our children's future through local education, I see our story come to life every day.

### **A Market Leader**

Our story is also told through achievements. For the fifth consecutive year, Peoples was recognized as one of the "Top 200 Community Banks" by American Banker Magazine and remains the only bank in Central Wisconsin on the list. And, for the third straight year, Peoples was voted "Best Bank" in the Wausau Daily Herald "Reader's Choice" Awards.

Peoples continues to hold top market share in residential mortgages, and helped 762 people realize their dreams of buying a new home or save money on a refinance in 2014.

Our small business banking expertise cements us as a top-notch lender for small business financing; evidenced by our recognition as one of the top 25 SBA lenders in the state by the Milwaukee Business Journal.

We wouldn't be where we are today without outstanding staff. In particular I would like to recognize Vice President - Chief Operating Officer Leif Christianson as one of the "Elite 8" bank technology executives in the country, Vice President of Risk Management Chris Pfender as one of the prestigious "20 Under Forty" local leaders, and Vice President Mortgage Banker Val Dreger as Woman of the Year in Eagle River, WI.

A yellow Kretz High Lift forklift is positioned in a large, well-lit lumber mill warehouse. The warehouse is filled with stacks of lumber, many of which are branded with the Kretz logo. The wooden structure of the building is visible in the background, and the floor is a smooth concrete surface.

## Seeing the Potential in Small Business

When the recession hit in 2007, it felt like the “Great Depression” to Kretz Lumber Co., a business that depended heavily on construction. As an Employee Stock Ownership Plan with state-of-the-art kiln technology and a reputation for the world’s highest quality hard maple, the company knew it had the ability for long-term success if it could weather the current storm.

Kretz was looking for a local banking partner that would see their potential and give them a hand to get back up.

Peoples helped them get back up with a revolving line of credit, capital line for equipment financing, checking, and treasury management services. Working capital financing was vital, due to high raw materials costs and seasonality in log harvesting and lumber demand.

“With our working relationship with Peoples and the services they provide, it helps us strengthen our balance sheet,” said Troy Brown, President of Kretz.

“I was impressed by the due diligence Peoples put into working with us. They really wanted to understand our business. We weren’t just a number.”

Kretz Lumber Co., Inc.  
Antigo, WI

## Customer Focus

We enjoy a position of having the same products and technology as big banks do, but with the personalized service and local commitment of a community bank. We are banking on this position with an improved customer centric model in 2015 to give Peoples a long-term competitive advantage.

It was with the customer in mind that we completed a 2,500 square-foot renovation in Rib Mountain to improve the customer experience. We're also planning a 2015 expansion project in Eagle River to provide more space, privacy, and easier drive-through accessibility.

## Continued Growth

Peoples has a continued focus on growth through organic growth and acquisitions. In 2014 we acquired the Northwoods National Bank, Rhinelander, Wisconsin branch of The Baraboo National Bank. This moved our market share to #1 in Rhinelander. We have further developed our skill set in bank acquisition processes and will continue to evaluate opportunities that strengthen our shareholder value.

The majority of our income comes from business banking products. In 2014, we reached new heights with our treasury management services helping more businesses manage their cash flow and harness advanced technology for instant access to online banking, on-site deposit, and fraud detection and prevention services.

## Financial Strength

Peoples had a record year in 2014 with \$6.4 million in net income, a 36% increase over 2013 on lower credit costs. Our continued financial strength gives our customers stability and confidence in a winning team.

## Looking Ahead

Growth of deposit liquidity and capital in the industry will lead to a more competitive loan environment in 2015. Although the economy is stronger nationally, in our local markets the economic growth is not as robust, resulting in slower business loan growth locally. To address these challenges, we are pursuing several strategies:

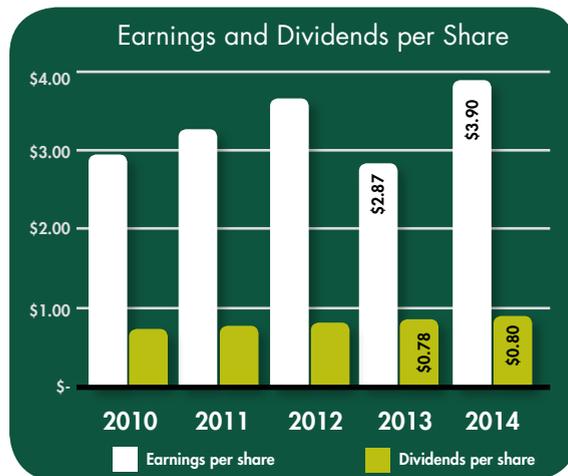
- Targeted business loan growth in outside markets growing at faster rates to diversify geographic and industry loan portfolio
- Continue refining business banking niches and market appropriately
- Pursue acquisition activities to uncover opportunities for asset growth and increased shareholder value
- Perfect a culture of customer centricity to provide extraordinary customer experience and differentiate us from competitors

Peoples has proven it can shine in the face of competition, and we take a long-range approach in upholding our sound credit and underwriting standards. We believe we are positioned well for disciplined future growth and thank all of our shareholders, employees and customers for being a part of the Peoples success story.

Sincerely,



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



# Putting Businesses on the Fast Track

Drag racer Jim Greenheck created the first CTech trailer cabinets in 1995 after continually watching his trailer cabinets fall apart while driving from race to race. Fast forward 20 years and CTech Manufacturing has grown into a highly respected name in aluminum cabinets, drawer systems, and mobile aluminum carts servicing the racing industry and supplying other major businesses.

Headquartered in Weston, WI, CTech faced the same trials as other local manufacturers during economic shifts. "After the wheels fell off the economy, Peoples had the vision to understand downturns, and realized that companies like us were in business for the long haul," said Vice President Dean Lee. "They took the attitude that 'they weren't giving up, just warming up' to help advance the companies they had partnered with."

Peoples worked with CTech on a business loan, business checking and savings, and a full suite of treasury management services including direct deposit payroll, credit card processing and on-site deposit. But perhaps of greatest benefit was direct communication with local decision makers at the bank, which resulted in personalized service, faster delivery, and a shared vision for success.



Greenheck Racing/dba CTech Manufacturing  
Weston, WI

# Business Banking

---

Our business value proposition rests on truly understanding the customer's business and management's vision for their company, and then providing direct access to local decision makers, rapid response on loan decisions, and custom financial solutions. Because Peoples has financial strength and an expert team, our customers have the confidence in us to handle all of their financial needs.

Over the past few years Peoples has invested heavily in technology to add more value to businesses. Examples include online banking, direct deposit payroll and other ACH processing, wire transfers, multiple security features to prevent ACH and check fraud, smartphone alerts, and on-site deposit.

With this technology, we are able to bring in larger companies to bank with us and expand beyond our immediate footprint. In 2015 Peoples plans to bring a stronger focus to business lending, including an increase in SBA lending to help small businesses and equipment financing in both the local market and beyond.

# Retail Banking

---

Despite an expected industry decline in mortgages due to rising interest rates, Peoples grew our mortgage portfolio by a higher margin than our peers, bringing in revenue 14% over budget with \$83 million in new real estate loans in 2014. A key differentiator is reacting quickly to assist customers faster than large banks. We've focused on providing expertise for first time home buyers and building solid relationships with customers and realtors. In turn, we're leading mortgage production in the three counties we serve.

Nearly two decades ago, we created Peoples Wealth Management, offering financial advisory services and consultation. The team now includes an operations manager, two licensed financial advisors, and a licensed service advisor. In 2014 we saw a rise in advisory activity across our locations; a direct result of qualified employee referrals.

Our branch network posted a strong performance, growing core deposits. Retail sales teams leveraged our profiling skills and technology to uncover and document valuable customer information to meet the immediate and future needs of our business and retail customers.

# 2014 Snapshot

---

Top **25** SBA Lender

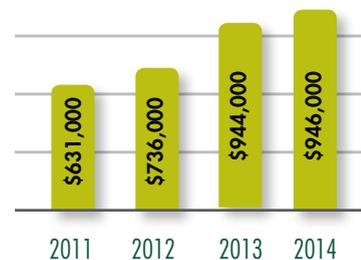
**210** new  
business customers

**\$52.7** Million  
retail & commercial local  
deposit growth

**16,905**  
total households served

**\$83** Million  
new residential  
real estate loans

Wealth Management  
Gross Commissions





## Home Sweet Home

After six months of searching for the perfect home, Ashley and Bryan Martin finally found it. The house was in a friendly neighborhood, within walking distance to the lake, and 12-year-old Lily had claimed a bedroom on the spot. With that decision made, they now had to make another. Ashley's grandmother, also her realtor, urged her to go to Peoples for help in getting a loan as a first time home buyer.

Ashley was surprised to learn from her Peoples mortgage banker, Val, that there was a special grant called the Down Payment Plus program, designed just for people like her who didn't have a lot of money to put down but had dreams of buying their first home. Val showed Ashley how to complete the steps, and the Martin family was approved for an \$8,000 grant.

"It was such a relief. With the grant, we ended up putting less money down at closing and were able to put more money into renovations for the house," Ashley said.

"Working with Peoples was so easy. Val held my hand every step of the way. It was like working with a friend," she said. "I'll never go to a different bank, that's for sure."

Ashley, Bryan and  
Lily Martin  
Eagle River, WI

# Financial Highlights

From Scott Cattanch, Chief Financial Officer  
PSB Holdings Inc. & Peoples State Bank

Peoples delivered a record performance in 2014 with \$6.4 million in net income and \$3.90 earnings per share, an increase of 36% over 2013. The stock price increased 14% from \$31.25 to \$35.50 per share. We consistently deliver on low operating expenses and high performance ratios compared to our peers. Other highlights include:

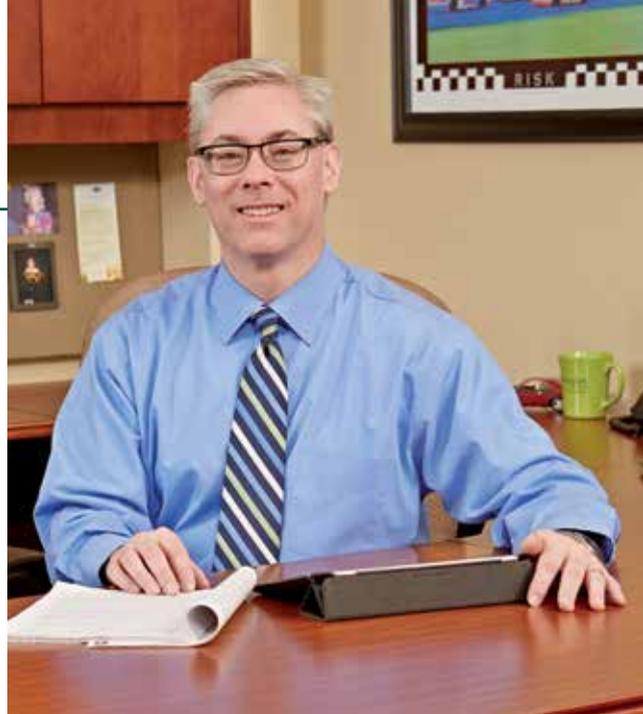
- In 2014, loan growth was less than expected. However this was offset by lower funding costs, higher margins, and credit costs that were less than expected.

- We anticipated a 24% mortgage decline due to rising interest rates, but ended the year with mortgage banking revenue 14% over budget and gained ground in market share as a result.
- Return on equity was 10.75%, placing Peoples in the top 20% of banks our size.

- Net book value per share reached \$37.69 at December 31, 2014, a 10% increase over 2013.

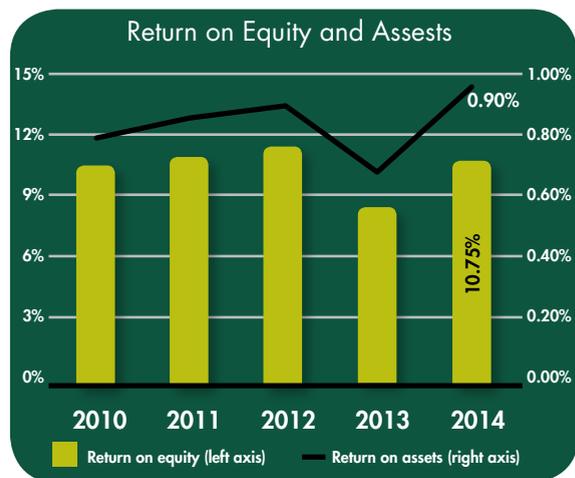
- Peoples continued its 50 year tradition of cash dividends, including 21 consecutive years of increased dividends per share with \$0.80 in cash dividends paid per share, up 2.6% from last year.

Late in 2014, Peoples voluntarily removed its stock from SEC registration. This will save the company about \$200,000 per year in reporting costs, and allows the Bank to



be managed with a long-term view. PSB stock continues to trade on the OTCQB Marketplace under the ticker PSBQ and quarterly financial reports are still posted on our investor relations website, [www.psbholdingsinc.com](http://www.psbholdingsinc.com).

We are also adding more value to our shareholders by starting a voluntary stock buyback program in 2015 for shareholders who hold individual stock certificates outside of a brokerage account and wish to sell them at current market prices. These share buybacks and increased loan growth with well-managed expenses are expected to continue our positive income momentum into 2015.



# Summary Balance Sheets - Dec. 31

(\$000s except per share data)

	2014	2013	2012	2011	2010
Cash and cash equivalents	<b>\$25,106</b>	\$31,522	\$48,847	\$38,205	\$40,331
Securities	<b>144,157</b>	133,279	145,209	108,677	108,379
Loans receivable, net	<b>525,583</b>	509,880	477,991	437,557	431,801
Premises and equipment	<b>10,841</b>	9,669	10,240	9,928	10,464
Other assets	<b>28,680</b>	27,191	29,679	28,500	30,118
<b>Total assets</b>	<b>\$734,367</b>	\$711,541	\$711,966	\$622,867	\$621,093
Deposits	<b>\$622,951</b>	\$577,514	\$565,442	\$481,509	\$465,257
FHLB advances	<b>20,271</b>	38,049	50,124	50,124	57,434
Other borrowings	<b>10,324</b>	20,441	20,728	19,691	31,511
Senior subordinated notes	<b>4,000</b>	4,000	7,000	7,000	7,000
Junior subordinated debentures	<b>7,732</b>	7,732	7,732	7,732	7,732
Other liabilities	<b>7,628</b>	7,052	6,493	6,449	5,469
Stockholders' equity	<b>61,461</b>	56,753	54,447	50,362	46,690
<b>Total liabilities and stockholders' equity</b>	<b>\$734,367</b>	\$711,541	\$711,966	\$622,867	\$621,093
Net book value per share	<b>\$37.69</b>	\$34.36	\$32.93	\$30.44	\$28.43

# Summary Statements of Income

(\$000s except per share data)

	2014	2013	2012	2011	2010
Net interest income	<b>\$22,132</b>	\$21,305	\$20,153	\$19,557	\$19,099
Provision for loan losses	<b>560</b>	4,015	785	1,390	1,795
Net interest income after loan loss provision	<b>21,572</b>	17,290	19,368	18,167	17,304
Noninterest income	<b>5,694</b>	5,623	6,568	5,337	5,363
Operating expenses	<b>17,920</b>	16,506	17,392	15,778	15,925
Net income before income taxes	<b>9,346</b>	6,407	8,544	7,726	6,742
Provision for income taxes	<b>2,906</b>	1,663	2,535	2,421	1,988
Net income	<b>\$6,440</b>	\$4,744	\$6,009	\$5,305	\$4,754
Diluted earnings per share	<b>\$3.90</b>	\$2.87	\$3.61	\$3.21	\$2.89
Cash dividends per share	<b>\$0.80</b>	\$0.78	\$0.74	\$0.71	\$0.69
Average common shares outstanding	<b>1,651,045</b>	1,652,700	1,663,147	1,652,861	1,642,469
Return on average assets	<b>0.90%</b>	0.68%	0.91%	0.87%	0.79%
Return on average equity	<b>10.75%</b>	8.37%	11.33%	10.78%	10.59%



## Board of Directors 2014

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

**William J. Fish**

Chairman of PSB Holdings, Inc. and  
Peoples State Bank  
President BILCO, Inc.  
(McDonald's Franchisee)

**Charles A. Ghidorzi**

Managing Member  
Ghidorzi Construction  
Company, LLC

**Lee A. Guenther**

CEO  
T.A. Solberg Co., Inc.

**Karla M. Kieffer**

Co-owner and VP Sales  
SUN Printing

**Peter W. Knitt**

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

**David K. Kopperud**

Retired President  
Peoples State Bank

**Kevin J. Kraft**

CEO  
JARP Industries, Inc.

**Thomas R. Polzer**

President  
Polzer of Wausau, LLC  
M&J Sports, Inc.

**William M. Reif**

CEO  
Wausau Coated Products, Inc.

**Timothy J. Sonnentag**

President & CEO  
County Materials Corporation



## Senior Management 2014

FRONT ROW: Scott Cattanach, Maureen Jorgensen, Donna Staples, Peter Knitt, Keith Baars  
BACK ROW: Tom Knudsen, Pat Heier, Chris Pfender, Leif Christianson

**Keith Baars**

Vice President  
Commercial Banking

**Scott Cattanach**

Senior Vice President  
Chief Financial Officer

**Leif Christianson**

Vice President  
Chief Operating Officer

**Pat Heier**

Senior Vice President  
Group Leader  
Commercial Banking

**Maureen Jorgensen**

Senior Vice President  
Retail Sales & Service

**Peter Knitt**

President  
Chief Executive Officer

**Tom Knudsen**

Senior Vice President  
Northern Market President

**Chris Pfender**

Vice President  
Risk Management

**Donna Staples**

Senior Vice President  
Human Resources Director

# Special Recognition

---

## Elite 8 - Leif Christianson

Vice President & COO Leif Christianson was recognized as one of the 2014 Elite 8 outstanding bank technology executives by Bank Systems & Technology magazine. The magazine selects just eight executives each year across the nation who stand out for their exemplary leadership and innovative approaches to financial systems and bank technology. For a community bank the size of Peoples to have an executive with this honor is amazing. Thank you, Leif, for your visionary leadership and help in establishing Peoples as one of the top community banks in the U.S.



---

## 20 Under Forty - Chris Pfender

The Daily Herald Media selected Chris Pfender, Vice President Risk Management, as one of the 20 tremendous leaders under the age of 40 in the Greater Wausau Area. The award is to celebrate the next generation of leaders who are helping their employers and their community thrive. Chris was chosen from more than 60 outstanding nominations for his innovative approaches to risk management, leadership in M&A activities at Peoples, and dedicated community service. Congratulations, Chris, as a 20 Under Forty honoree.



---

## Woman of the Year - Val Dreger

Each year, the Eagle River Chamber of Commerce selects a Woman of the Year who embodies the spirit of local growth and enhances the lives of others. In 2014, that woman was Val Dreger, Vice President Mortgage Banker. For over 24 years, Val has helped people obtain the American dream and she holds a special place with many in helping them build or own their first home. She also tirelessly serves on many community service projects. Thank you, Val, for making Peoples and our community a great place to work, live and flourish.



A woman with long brown hair, wearing a dark top and brown boots, stands in the center. To her left is a young boy with blonde hair wearing a bright green jacket and dark pants. To her right is a young girl with blonde hair wearing a colorful striped jacket and dark pants. They are standing in a grassy field with several large orange pumpkins in the foreground. In the background, there is a tall corn stalk on the left, a hay bale with a pumpkin on top, and a building with a blue roof and trees under a clear sky.

# Helping our Communities Thrive

The hearts of Peoples employees are endless. Take, for example, the employee who is a volunteer firefighter. The Iraq War veteran who became a guardian for two Korean War veterans on the Never Forgotten Honor Flight. An employee who helped her handicapped customer adopt a dog after learning his beloved pet had died. The mother who keeps score at the boys high school hockey games. And the scores of employees who wrapped presents over Christmas, taking monetary donations for formula and diapers for underserved children.

In 2014, Peoples employees proudly gave back **7,176** hours, or an average of 44 hours per employee, to a variety of community organizations and programs throughout Central and Northern Wisconsin.

Peoples is proud to support the communities we serve. As an organization, we've also given over **\$100,000** to a wide range of community programs from the United Way, to Junior Achievement, economic development, performing arts, and domestic abuse shelters. Giving back to the community is truly a part of our mission.

**7,176**  
hours  
given back

Over  
**\$100,000**  
donated

# PSB Holdings, Inc.

**At Peoples, It's about you:**  
our customers, employees and shareholders.



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

