Denmark Bancshares, Inc. and Subsidiaries

2020 Audited Financial Statements

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Denmark Bancshares, Inc. ("DBI"), headquartered in Denmark, Wisconsin, is a diversified one-bank holding company. Denmark State Bank ("DSB"), DBI's subsidiary bank, offers eight full-service banking offices located in Denmark, Bellevue, Howard, Lawrence, Reedsville, Shawano, Sheboygan and Whitelaw, serving primarily Brown, Kewaunee, Manitowoc, Outagamie, Shawano and Sheboygan Counties.

SELECTED FINANCIAL DATA

	Year Ended December 31,				
	2020	2019	2018	2017	2016
INCOME STATEMENT DATA					
Interest income	$22,589	$22,681	$21,005	$18,467	$17,216
Interest expense	4,554	4,264	2,813	1,940	1,713
Net interest income	$18,035	$18,417	$18,192	$16,527	$15,503
Less: Provision for credit losses	735	0	375	375	150
Net interest income after provision for credit losses	$17,300	$18,417	$17,817	$16,152	$15,353
Plus: Noninterest income	$4,431	$3,320	$2,071	$2,260	$2,923
Less: Noninterest expense	16,563	15,136	14,233	14,052	12,497
Net noninterest expense	($12,132)	($11,816)	($12,162)	($11,792)	($9,574)
Income before income taxes	$5,168	$6,601	$5,655	$4,360	$5,779
Income tax expense	1,270	1,649	1,568	1,560	1,855
Net income	$3,898	$4,952	$4,087	$2,800	$3,924
PER SHARE DATA					
Earnings	$1.22	$1.54	$1.26	$0.86	$1.16
Cash dividends declared	0.5900	0.5850	0.5475	0.5250	0.5075
Book value (year-end)	20.75	20.02	19.00	18.41	18.09
BALANCE SHEET DATA					
Average balances:					
Total loans	$470,019	$423,965	$403,631	$369,981	$343,288
Investment securities	35,410	36,884	51,096	59,205	63,534
Assets	608,691	517,272	486,533	462,567	440,552
Deposits	512,877	425,194	408,347	385,242	362,538
Stockholders' equity	65,549	63,443	61,041	60,131	61,247
Year-end balances:					
Total loans	$475,953	$434,770	$420,827	$372,480	$367,494
Allowance for possible credit losses	7,668	6,891	6,787	6,258	5,754
Investment securities	31,329	35,595	42,066	57,527	61,444
Assets	646,441	552,594	506,202	474,520	459,568
Deposits	563,275	457,435	417,224	396,690	379,987
Long-term debt	14,067	25,725	23,991	14,004	13,265
Stockholders' equity	65,029	63,993	61,469	59,714	59,351
FINANCIAL RATIOS					
Return on average equity	5.95%	7.81%	6.70%	4.66%	6.41%
Return on average assets	0.64%	0.96%	0.84%	0.61%	0.89%
Net interest spread (tax-equivalent)	2.87%	3.47%	3.74%	3.61%	3.63%
Dividend payout ratio	47.95%	38.03%	43.54%	61.11%	43.64%
Average equity to average assets	10.77%	12.26%	12.55%	13.00%	13.90%
Allowance for credit losses to loans	1.61%	1.58%	1.61%	1.68%	1.57%
Non-performing loans to allowance for credit losses	7.03%	6.33%	9.86%	18.66%	16.94%

Dollars in thousands except per share data.

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Independent Auditor's Report

To the Board of Directors
Denmark Bancshares, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Denmark Bancshares, Inc. and its subsidiaries, which comprise the consolidated statement of financial condition as of December 31, 2020 and 2019 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, 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 of America; 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 of America. Those standards require that we plan and perform the audits 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 judgment, 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 basis 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 Denmark Bancshares, Inc. and its subsidiaries as of December 31, 2020 and 2019 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

February 8, 2021

Denmark Bancshares, Inc. and Subsidiaries
Consolidated Statements of Financial Condition
As of December 31,

	2020	2019
Assets		
Cash and due from banks	$24,100,714	$15,977,558
Federal funds sold	94,209,679	46,986,167
Investment securities available for sale, at fair value	31,329,356	35,594,726
Loans	475,952,665	434,769,797
Allowance for loan losses	(7,668,435)	(6,890,881)
Net loans	$468,284,230	$427,878,916
Loans held for sale	1,404,587	69,000
Premises and equipment, net	6,105,294	5,593,768
Other investments	2,995,438	3,110,725
Accrued interest receivable	1,624,762	1,389,559
Bank-owned life insurance	12,667,909	12,322,611
Other assets	3,719,503	3,670,473
TOTAL ASSETS	$646,441,472	$552,593,503
Liabilities		
Deposits		
Noninterest-bearing	$135,667,583	$94,872,127
Interest-bearing	427,606,925	362,562,563
Total Deposits	$563,274,508	$457,434,690
Short-term borrowings	0	866,658
Accrued interest payable	272,609	412,689
Other liabilities	3,798,254	4,161,375
Long-term debt	14,066,975	25,725,429
Total Liabilities	$581,412,346	$488,600,841
Stockholders' Equity		
Common stock, no par value, authorized 10,000,000 Class A shares; outstanding 3,042,302 at 12/31/2020 and 3,105,200 at 12/31/2019	$17,836,258	$17,687,411
Common stock, no par value, authorized 1,000,000 Class B non-voting shares; outstanding 91,815 as 12/31/2020 and 91,905 at 12/31/2019	614,035	614,035
Treasury stock shares, at cost (532,700 Class A and 28,365 Class B shares at 12/31/2020 and 455,829 Class A and 28,275 Class B shares at 12/31/2019)	(11,528,855)	(9,677,244)
Paid in capital	1,309,054	1,115,603
Retained earnings	56,203,275	54,174,470
Accumulated other comprehensive income	786,074	268,670
Deferred stock-based compensation	(190,715)	(190,283)
Total Stockholders' Equity	$65,029,126	$63,992,662
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$646,441,472	$552,593,503

The accompanying notes are an integral part of these financial statements.

Denmark Bancshares, Inc. and Subsidiaries
Consolidated Statements of Income
For the Years Ended December 31,

	2020	2019
Interest Income		
Loans including fees	$21,559,807	$21,076,013
Investment securities:		
Taxable	550,280	655,514
Tax-exempt	205,475	263,381
Interest on federal funds sold	168,004	577,155
Other interest income	105,727	108,968
	$22,589,293	$22,681,031
Interest Expense		
Deposits	$3,205,033	$3,603,528
Short-term borrowings	4,979	10,114
Long-term debt	1,343,698	650,359
	$4,553,710	$4,264,001
Net interest income	$18,035,583	$18,417,030
Provision for Credit Losses	735,000	0
Net interest income after provision for credit losses	$17,300,583	$18,417,030
Other Income		
Service fees and commissions	$708,724	$911,783
Other investment gains	65,081	0
Loan sale gains	2,457,821	541,696
Bank-owned life insurance	345,298	337,478
Other	854,153	1,528,979
	$4,431,077	$3,319,936
Other Expense		
Salaries and employee benefits	$11,121,461	$9,684,186
Data processing expenses	1,640,018	1,533,385
Occupancy expenses	1,534,601	1,542,359
Professional fees	618,580	793,721
Marketing expenses	373,554	363,954
Printing and supplies	175,066	167,070
Directors fees	171,320	197,410
FDIC insurance premiums	134,185	65,000
Other operating expenses	794,768	789,343
	$16,563,553	$15,136,428
Income before income taxes	$5,168,107	$6,600,538
Income tax expense	1,270,159	1,648,919
NET INCOME	$3,897,948	$4,951,619
EARNINGS PER COMMON SHARE	$1.22	$1.54

The accompanying notes are an integral part of these financial statements.

Denmark Bancshares, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Years Ended December 31,

	2020	2019
Net income	$3,897,948	$4,951,619
Other comprehensive income, net of tax		
Unrealized holding gains arising during period	708,773	603,421
Income tax expense related to items of other comprehensive income	(191,369)	(162,922)
Other comprehensive income, net of tax	$517,404	$440,499
Comprehensive income	$4,415,352	$5,392,118

The accompanying notes are an integral part of these financial statements.

Denmark Bancshares, Inc. and Subsidiaries
Consolidated Statement of Changes in Stockholders' Equity

	Common Stock Class A Amount	Common Stock Class B Amount	Treasury Shares Amount	Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Deferred Stock-Based Compensation	Total
BALANCE, DECEMBER 31, 2018	$17,559,940	$614,035	($8,393,343)	$901,877	$51,106,173	($171,829)	($175,800)	$61,441,053
Net income					4,951,619			4,951,619
Other comprehensive income, net of tax						440,499		440,499
Issuance of Class A restricted common stock				181,194			(181,194)	0
Issuance of Class A common stock	127,471							127,471
Stock-based compensation expense				32,532			166,711	199,243
Treasury stock acquisitions			(1,283,901)					(1,283,901)
Cash dividend declared, $0.585 per share					(1,883,322)			(1,883,322)
BALANCE, DECEMBER 31, 2019	$17,687,411	$614,035	($9,677,244)	$1,115,603	$54,174,470	$268,670	($190,283)	$63,992,662
Net income					3,897,948			3,897,948
Other comprehensive income, net of tax						517,404		517,404
Issuance of Class A restricted common stock				174,158			(174,158)	0
Issuance of Class A common stock	148,847							148,847
Stock-based compensation expense				19,293			173,726	193,019
Treasury stock acquisitions			(1,851,611)					(1,851,611)
Cash dividend declared, $0.59 per share					(1,869,143)			(1,869,143)
BALANCE, DECEMBER 31, 2020	$17,836,258	$614,035	($11,528,855)	$1,309,054	$56,203,275	$786,074	($190,715)	$65,029,126

The accompanying notes are an integral part of these financial statements.

Denmark Bancshares, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended December 31,

	2020	2019
Cash Flows from Operating Activities:		
Net income	$3,897,948	$4,951,619
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	737,399	730,974
Provision for credit losses	735,000	0
Gains on sales of loans	(2,457,821)	(541,696)
Loss on sale of other real estate and other assets	7,418	17,572
Gain on sale of other investments	(65,081)	0
Amortization of bond premium	209,194	230,428
Accretion of bond discount	(2,403)	(2,908)
Increase in fair value of equity securities	(142,309)	(869,304)
Mortgage loans originated for sale	(92,655,877)	(26,534,258)
Proceeds from sale of mortgage loans	93,778,111	27,156,954
Stock-based compensation	193,019	199,243
Income from BOLI	(345,298)	(337,478)
(Increase) decrease in interest receivable	(235,203)	60,622
(Decrease) increase in interest payable	(140,080)	76,455
(Benefit) provision for deferred taxes	(159,652)	258,466
Other, net	(424,334)	(103,838)
Net Cash Provided by Operating Activities	$2,930,031	$5,292,851
Cash Flows from Investing Activities:		
Maturities, pay-downs, calls and sales of AFS securities	10,125,742	13,788,645
Purchases of AFS securities	(5,358,390)	(6,941,749)
Purchases of other investments	(239,324)	(468,800)
Proceeds from redemption or sale of other investments	562,001	139,845
Federal funds sold, net	(47,223,512)	(30,140,091)
Proceeds from sale of foreclosed assets	113,593	0
Net increase in loans made to customers	(41,251,133)	(13,838,485)
Purchases of premises and equipment	(1,259,117)	(796,616)
Net Cash Used in Investing Activities	($84,530,140)	($38,257,251)
Cash Flows from Financing Activities:		
Net increase in deposits	$105,839,818	$40,211,029
Purchase of treasury stock	(1,851,611)	(1,283,901)
Issuance of common stock	148,847	127,471
Dividends paid	(1,888,677)	(1,849,371)
Debt proceeds	6,705,719	10,463,471
Debt repayments	(19,230,831)	(8,387,936)
Net Cash Provided by Financing Activities	$89,723,265	$39,280,763
Net increase in cash and due from banks	$8,123,156	$6,316,363
Cash and due from banks, beginning	15,977,558	9,661,195
CASH AND DUE FROM BANKS, ENDING	$24,100,714	$15,977,558
Noncash Investing Activities:		
Loans transferred to other real estate owned	$110,819	$0

The accompanying notes are an integral part of these financial statements.

NOTE 1 – FINANCIAL STATEMENTS

Nature of Organization
Denmark Bancshares, Inc. ("DBI") is a bank holding company as defined in the Bank Holding Company Act of 1956, as amended. As such, it exercises control over Denmark State Bank ("DSB"), Denmark Agricultural Credit Corporation ("DACC") and DBI Properties, Inc. The majority of DBI's assets are held by DSB. DSB, a wholly owned subsidiary of DBI, operates under a state bank charter, and provides a variety of banking services to its customers. Denmark Investments, Inc. ("DII") was a wholly owned subsidiary of DSB which was domiciled in Nevada. This entity was dissolved as of December 31, 2020. DBI Properties, Inc. was formed in February 2009 for the purpose of holding certain foreclosed properties.

DBI makes agribusiness, commercial and residential loans to customers throughout the state, but primarily in eastern Wisconsin. DBI has a diversified loan portfolio; however, a substantial portion of their debtors' ability to honor their contract is dependent upon the agribusiness economic sector. The main loan and deposit accounts are fully disclosed in Notes 4 and 8. The significant risks associated with operating DBI include interest rate risk, credit risk, liquidity risk and concentration risk.

DACC was formed for the purpose of extending credit for agricultural loans utilizing funding sources with a lower cost of funds than those available to DSB. Over the last several years, DACC's cost of funds was no longer more favorable than funding available to DSB. A cost-benefit analysis was performed during 2020 and the decision was made to put DACC into a dormant status, thereby moving all loans out of this entity and eliminating the availability of its $30 million line of credit. This will be re-evaluated as market conditions change to determine if it would be beneficial to reactivate DACC's line of credit.

Basis of Consolidation
The consolidated financial statements include the accounts of Denmark Bancshares, Inc. and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in the financial statements include fair values of securities, fair values of financial instruments, valuation of deferred tax assets and the determination of the allowance for loan losses, which are discussed specifically in the following sections of this footnote.

During 2020, the COVID-19 pandemic arose with related monetary easing by the Federal Reserve and legislative actions by U.S. Congress. From the time the national emergency was declared through December 31, 2020, the most impacted estimate has been DBI's estimate of the allowance from loan losses. While it is not yet possible to estimate the complete impact of the pandemic, DBI has made specific estimates in these consolidated financial statements which may change significantly as more information becomes available.

Comprehensive Income
Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, however, such as unrealized gains and losses on available-for-sale securities, are reported as a direct adjustment to the equity section of the balance sheet. Such items, along with the net income, are considered components of comprehensive income.

Cash Flows
For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks. Cash flows from demand deposits, NOW accounts, savings accounts, federal funds purchased and sold, cash receipts and payments of loans and time deposits are reported net. For purposes of cash flow reporting, income taxes paid were $1,270,000 and $1,475,000 and interest paid was $4,693,790 and $4,187,546 for the years ended December 31, 2020 and 2019, respectively.

Investment Securities
Investment securities are designated as available-for-sale. Debt securities classified as available-for-sale are stated at estimated fair value, with unrealized gains and losses, net of any applicable deferred income taxes, reported as a separate component of stockholders' equity. Realized gains or losses on dispositions are recorded in other operating income on the trade date, based on the net proceeds and the adjusted carrying amount of the securities sold 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 DBI to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans

Loans are reported at the principal amount outstanding, net of the allowance for loan losses. Interest on loans is calculated and accrued by using the simple interest method on the daily balance of the principal amount outstanding. Loan origination fees are credited to income when received and the related loan origination costs are expensed as incurred. During 2020, as a result of the COVID-19 pandemic, DSB granted loans to qualified customers under the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"). DSB made $45.3 million fully guaranteed commercial loans to customers with a coupon rate of 1%. The SBA paid an origination fee of 1-5% of the loan balance depending on the size of the loan. DSB is recognizing the fee income over the life of the loan which is accelerated in the event the PPP loan is forgiven.

DBI's customer information system tracks the past due status of all loans beginning with the first day a payment is late. On a daily basis, reports are generated and available to lenders with all loans past due one day or more to allow them to actively monitor the portfolio and attempt to keep past due levels to a minimum. Past due loans are discussed on a weekly basis at management meetings with loan officers.

All loans are given an internal risk rating when the loan is originated. The internal risk ratings are defined as:

- *Non-classified loans* are assigned a risk rating of 1 – 4, with a one-rated credit being the highest quality. Non-classified loans have credit quality that ranges from well above average quality to some inherent weaknesses that may present higher than average risk due to conditions affecting the borrower, the borrower's industry or economic environment.
- *Special mention loans* are assigned a risk rating of 5. Potential weaknesses exist that deserve management's close attention. If left uncorrected, the potential weaknesses may result in deterioration of repayment prospects or in DSB's credit position at some future date.
- *Substandard loans* are assigned a risk rating of 6. These loans 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.
- *Doubtful loans* are risk rated 7 and have all the weaknesses of a substandard credit plus the added characteristic that the weaknesses make collection or liquidation in full on the basis of current facts, conditions and values highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonable specific pending factors, which may work to the advantage of strengthening the asset, its classification as an estimated loss is deferred until its more exact status can be determined.
- *Loss loans* are internally risk rated as an 8. A loss amount has been determined and this has been charged-off against the allowance for loan losses. All or a portion of the charge-off may be recovered in the future and any such recoveries would also be recorded through the allowance.

DBI's policy is to place into nonaccrual status all loans that are contractually past due 90 days or more, along with other loans as to which reasonable doubt exists to the full and timely collection of principal and/or interest based on management's view of the financial condition of the borrower. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

Loan charge-offs for all loans will occur as soon as there is a reasonable probability of loss. When the amount of the loss can be readily calculated, the charge-off will be recorded as soon as practical within the calendar quarter the loss was identified. Loans that are partially charged-off will be placed in nonaccrual status unless the remaining loan is restructured with adequate collateral and payments are assured and current.

A loan is impaired when, based on current information and events, it is probable that not all amounts due will be collected according to the contractual terms of the loan agreement. Interest income is recognized in the same manner described above for nonaccrual loans. Further detail on the analysis of impaired loans can be found below in the discussion of the Allowance for Loan Losses.

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that have been incurred in the loan portfolio. The allowance is based on two basic accounting principles: (1) *Financial Accounting Standards Board* ("*FASB") Accounting Standards Codification (ASC) Topic 310-10 "Receivables – Overall,"* which requires that losses be accrued when it is probable that DBI will not collect all principal and interest payments according to the loan's contractual terms, and (2) *FASB ASC Topic 450, "Contingencies,"* which requires that losses be accrued when they are probable of occurring and estimable.

On a quarterly basis, management utilizes a systematic methodology to determine an appropriate allowance for loan losses. This methodology includes a loan grading system that requires quarterly reviews; identification of loans to be evaluated on an individual basis for impairment; results of independent reviews of asset quality and the adequacy of the allowance by regulatory agencies; consideration of current trends and volumes of nonperforming, past-due, nonaccrual and potential problem loans; as well as national and local economic trends and industry conditions.

In applying the methodology, all troubled debt restructurings ("TDRs"), regardless of size, are considered impaired and will be individually evaluated. Nonaccrual and watchlist commercial real estate, construction and land development, agricultural real estate, multifamily residential real estate, commercial, and agricultural production loans over $50,000 are evaluated individually to determine if they are impaired. Nonaccrual residential real estate or consumer loans that are larger than customary for DBI, in addition to those that have a significant collateral shortfall, will also be considered impaired and evaluated individually as there would be no pool of similar loans to evaluate these loans under *ASC Topic 450.* Impairment is measured on a loan-by-loan basis by either the present value of expected cash flows discounted at the loan's effective interest rate or the net realizable value of the collateral if the loan is collateral dependent. If the estimated net realizable value of the collateral is less than the recorded investment in the loan, an impairment is recognized by creating a valuation allowance in conjunction with *ASC Topic 310-10.*

Loans that are not impaired are segmented into groups by type of loan. The following loan types are utilized so each segment of loans will have similar risk factors: (1) residential real estate, (2) agricultural real estate, (3) commercial real estate, (4) construction and land development, (5) commercial, (6) agricultural, (7) consumer and other, and (8) guaranteed loans. These loans are further segmented by internal risk ratings of non-classified, special mention, substandard and doubtful, which are defined above. The guaranteed portion of loans is not assigned any allocation in the allowance for loan losses since they are guaranteed by various government entities.

Risk factor percentages are applied to the risk rating segments of the non-impaired loans to calculate an allowance allocation in conjunction with *ASC Topic 450.* The risk factor percentages are based on historical loan loss experience for each loan type and are adjusted for current economic conditions and trends as well as internal loan quality trends. The current economic conditions take into account items such as changes in vacancy rates for rental properties; changes in property values based on actual sales transactions; changes in current prices such as dairy commodities; and other available economic data. The internal loan quality trends take into account items such as changes in lending or underwriting policies, changes in the volume and nature of the portfolio, changes in management depth and expertise, changes in loan review or oversight, changes in effects of concentrations, and the impact of changes to the regulatory and competitive environment.

The above steps result in calculations that estimate the credit losses inherent in the portfolio at that time. The calculations are used to confirm the adequacy and appropriateness of the actual balance of the allowance, recognizing that the allowance represents an aggregation of judgments and estimates by management. Given the judgments described above, DBI maintains an unallocated reserve within its allowance for loan losses which quantifies inherent uncertainty and subjectivity of the estimate. DBI periodically evaluates the appropriateness of the unallocated reserve through review of observable trends and other factors to ensure it's consistent with those overall credit trends.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Mortgage Servicing Rights

DBI recognizes as assets the rights to service mortgage loans for others, known as mortgage servicing rights ("MSRs"). DBI services the single-family mortgages it sells to the Federal National Mortgage Association ("FNMA" or "Fannie Mae"). DBI determines the fair value of MSRs at the date the loan is sold. To determine the fair value of MSRs, DBI calculates the present value of estimated future net servicing income using assumptions that market participants would use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, default rates, cost to service, escrow account earnings, contractual servicing fee income, ancillary income and late fees.

Subsequent to the date of transfer, DBI has elected to measure its MSRs under the amortization method. Under this method, MSRs are amortized in proportion to, and over the period of, estimated net servicing income. MSRs are evaluated for impairment on a quarterly basis based on the fair value of those assets. Impairment is determined by stratifying MSRs into groupings based on predominant risk characteristics, such as interest rate, vintage and loan type. If, by individual stratum, the carrying amount of the MSRs exceeds fair value, a valuation reserve is established through a charge to earnings. The valuation reserve is adjusted as the fair value changes. MSRs are included in the other assets category in the accompanying Consolidated Statements of Financial Condition.

Other Real Estate Owned

Other real estate owned represents real estate of which DBI has taken control in partial or total satisfaction of loans. Other real estate owned is carried at fair value, less estimated costs to sell. Losses at the time the property is received as satisfaction of the loan are charged to the allowance for loan losses. Subsequent gains and losses, as well as operating income or expense related to other real estate owned, are charged to expense. DBI did not hold any properties as other real estate owned at December 31, 2020 and 2019, respectively. Residential real estate loans that are in the process of foreclosure totaled approximately $205,800 and $1,200 at December 31, 2020 and 2019, respectively.

Other Investments

Other investments are equity securities which are carried at fair value and consist primarily of Federal Home Loan Bank ("FHLB") stock, Farmer Mac stock, AgriBank stock and privately-held bank stocks. Because the other investments do not have readily determinable fair values, DBI carries the securities at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the security by the same investee. Other investments are evaluated for impairment on an annual basis. As a member of the FHLB, DSB is required to hold stock in the FHLB based on the anticipated amount of FHLB borrowings to be advanced. This stock is recorded at cost, which approximates fair value. Transfer of the stock is substantially restricted.

Premises and Equipment

Premises and equipment owned are stated at cost less accumulated depreciation which is computed principally on the straight-line method over the estimated useful lives of the assets.

Bank-Owned Life Insurance

Consistent with many community banking organizations, DBI invests in bank-owned life insurance ("BOLI") to protect itself against replacement costs and lost income associated with the untimely death of a key member of the bank's management, as well as to serve as a source of funding for the bank's employee benefit expenses. BOLI is recorded at its cash surrender value, or the amount that can be realized upon immediate liquidation.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability method. Under this method the net deferred income taxes are provided for timing differences between book and tax bases of assets and liabilities in the consolidated financial statements and those reported for income tax purposes. A liability may also be recognized for unrecognized tax benefits from uncertain tax positions. Unrecognized tax benefits represent the differences 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 tax benefits are classified as income taxes.

Treasury Stock

Treasury stock is shown at cost. During the years ended December 31, 2020 and 2019, DBI repurchased 76,961 and 51,584 shares of common stock, respectively, at the average purchase price of $24.06 and $24.89 per share, respectively. The shares repurchased were part of a share repurchase plan.

Stock-Based Compensation

Compensation cost is recognized for restricted stock awards issued to employees and directors based upon the fair value of the awards at the date of the grant. Compensation cost is recognized over the required service period, generally defined as the vesting period. In addition, the Company has an employee stock purchase plan which allows for a 10% discount on the purchase of the Company's common stock through periodic deferrals of participating employees' compensation. The Company recognizes the discount as compensation cost over the period earned. Please refer to Note 12 for additional details on the stock-based compensation plan.

Earnings per Common Share

Earnings per common share are computed based on the weighted average number of shares of common stock outstanding during each year. DBI has a stock-based compensation plan for the executive management team. The shares of restricted stock are issued when granted, therefore basic and diluted earnings per share are equal and presented as one number. The number of shares used in computing basic earnings per share is 3,186,672 and 3,224,557 for the years ended December 31, 2020 and 2019, respectively.

Community Foundation

In 2016, DSB formed the Denmark State Bank Foundation (the "Foundation"), a donor-advised fund of a 501(c)(3) public charity under the Greater Green Bay Community Foundation. The Foundation was formed to provide financial contributions to a variety of non-profit organizations in the communities served by the bank, for the purpose of making a positive, long-lasting impact on those communities. There were no contributions made by DSB to the Foundation during 2020 or 2019. The Foundation had a balance of $373,379 and $457,989 of net assets as of December 31, 2020 and 2019, respectively. DBI's Board of Directors authorized contributions of $80,000 from the Foundation during 2020 to assist various community organizations that were negatively impacted by the COVID-19 pandemic.

Subsequent Events

The financial statements are related disclosures include evaluation of events up through and including February 8, 2021 which is the date the financial statements were available to be issued.

Upcoming Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, *Financial Instruments - Credit Losses; Measurement of Credit Losses on Financial Instruments*. The ASU includes increased disclosures and various changes to the accounting and measurement of financial assets including DBI's loans and available-for-sale investment securities. Each financial asset presented on the statement of condition would have a unique allowance for credit losses that is deducted from the amortized cost basis to present the net carrying value. The amendments in this ASU also eliminate the probable initial recognition threshold in current U.S. GAAP and, instead, reflect an entity's current estimate of all expected credit losses using reasonable and supportable forecasts. The new credit loss guidance will be effective for DBI's year ending December 31, 2023. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the first reporting period in which the guidance is effective. Early adoption for all institutions is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. DBI believes this standard will have an impact on the consolidated financial statements and is assessing the significance.

NOTE 2 – RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

As of December 31, 2019, DSB was required to maintain usable vault cash and noninterest-bearing deposits, as well as deposits with the Federal Reserve Bank of $3,810,000. As of March 26, 2020, the Federal Reserve Bank eliminated reserve requirements for certain depository institutions, including DSB. As such, there was no reserve requirement as of December 31, 2020.

In the normal course of business, DBI maintains cash and due from bank balances with correspondent banks. Balances in these accounts may exceed the Federal Deposit Insurance Corporation's ("FDIC's") insured limit of $250,000. Management believes these financial institutions have strong credit ratings and that the credit risk related to these deposits is minimal.

NOTE 3 – INVESTMENT SECURITIES

The amortized cost and estimated fair market value of debt securities available for sale were as follows:

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government-sponsored agency MBS	$11,254,909	$444,630	($1,016)	$11,698,523
State and local governments	18,051,916	635,530	0	18,687,446
Asset-backed securities	945,718	0	(2,331)	943,387
	$30,252,543	$1,080,160	($3,347)	$31,329,356

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government-sponsored agency MBS	$14,899,717	$168,312	($29,046)	$15,038,983
State and local governments	19,242,397	272,515	(31,858)	19,483,054
Asset-backed securities	1,084,572	0	(11,883)	1,072,689
	$35,226,686	$440,827	($72,787)	$35,594,726

There were no available-for-sale securities sold during 2020 or 2019.

The amortized cost and estimated fair values of debt securities at December 31, 2020, by maturity were as follows:

	Debt Securities Available-for-Sale	
Amounts Maturing	Amortized Cost	Estimated Fair Value
Within one year	$1,477,371	$1,485,432
From one through five years	6,140,251	6,280,208
From five through ten years	10,434,294	10,921,806
After ten years	0	0
Subtotal	$18,051,916	$18,687,446
Mortgage and asset-backed securities	$12,200,627	$12,641,910
Total	$30,252,543	$31,329,356

Certain state and local governments' securities are allocated according to their put date. Fair values of debt securities are estimated based on financial models or prices paid for similar securities. It is possible interest rates could change considerably resulting in a material change in the estimated fair value of the debt securities.

Information pertaining to securities with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

December 31, 2020	Less Than Twelve Months		Over Twelve Months	
Debt Securities Available for Sale	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
U.S. Government-sponsored agency MBS	$0	$0	$1,016	$143,844
State and local governments	0	0	0	0
Asset-backed securities	0	0	2,331	943,387
Total securities available for sale	$0	$0	$3,347	$1,087,231

December 31, 2019	Less Than Twelve Months		Over Twelve Months	
Debt Securities Available for Sale	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
U.S. Government-sponsored agency MBS	$12,951	$4,217,027	$16,095	$1,442,238
State and local governments	31,858	4,945,194	0	0
Asset-backed securities	11,883	1,072,689	0	0
Total securities available for sale	$56,692	$10,234,910	$16,095	$1,442,238

All debt securities with unrealized losses are assessed to determine if the impairment is other-than-temporary. Factors that are evaluated include the mortgage loan types supporting the securities, delinquency and foreclosure rates, credit support, weighted average loan-to-value, year of origination, borrower profile, existing and projected debt burden, underlying cash flow of the borrower and exposure to risks, among others.

There were no issuers of debt securities for which a significant concentration of investments (greater than 10 percent of stockholders' equity) was held as of December 31, 2020.

Debt securities with an estimated fair value of $12.4 million and $13.6 million at December 31, 2020 and 2019, respectively were pledged to secure public deposits and for other purposes required or permitted by law.

NOTE 4 – LOANS

Major categories of loans included in the loan portfolio are as follows:

	December 31, 2020	December 31, 2019
Real Estate:		
Residential	$68,705,548	$71,067,603
Commercial	146,984,921	126,936,306
Construction	21,352,112	21,990,050
Agricultural	73,348,676	78,873,523
	310,391,257	298,867,482
Commercial	118,640,622	82,395,128
Agricultural	37,873,555	43,692,253
Consumer and other	9,874,302	9,595,317
Unsecured Loans	229,262	219,617
Total Loans Receivable	$477,008,998	$434,769,797
Allowance for loan losses	(7,668,435)	(6,890,881)
Deferred loan fees	(1,056,333)	0
Total Loans, Net	$468,284,230	$427,878,916

During 2020, DSB funded loans under the Paycheck Protection Program designed to provide liquidity to small businesses during the COVID-19 pandemic. The loans are guaranteed by the SBA and loan proceeds to borrowers are forgivable by the SBA if certain criteria are met. DSB originated PPP loans totaling $45.3 million during the year. As of December 31, 2020, there were approximately $37.3 million of PPP loans included on the balance sheet. PPP processing fees received from SBA totaling $1.9 million were deferred and recognized as interest income using the effective yield method. Upon forgiveness of a loan and resulting repayment by the SBA, any unrecognized net fee for a given loan is recognized as interest income. DSB recognized $0.8 million of the fees in 2020.

Recorded Investment in Loans
As of December 31,

	2020		**2019**	
	Ending Balance	Ending Balance Individually Evaluated for Impairment	Ending Balance	Ending Balance Individually Evaluated for Impairment
Residential Real Estate	$68,705,548	$66,032	$71,067,603	$114,717
Commercial Real Estate	146,984,921	0	126,936,306	0
Construction & Land Dev	21,352,112	205,799	21,990,050	0
Agricultural Real Estate	73,348,676	366,029	78,873,523	428,017
Commercial	118,640,622	15,516	82,395,128	40,768
Agricultural	37,873,555	210,537	43,692,253	230,011
Consumer and other	10,103,564	0	9,814,934	0
Total	$477,008,998	$863,913	$434,769,797	$813,513

The following tables show the investment in impaired loans and the corresponding allowance for those loans along with the recognized interest income associated with impaired loans:

Impaired Loans
As of December 31, 2020, and 2019

2020	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Residential Real Estate	$66,032	$130,055	$0	$146,609	$1,048
Commercial Real Estate	0	0	0	0	0
Construction & Land Dev	205,800	205,800	0	209,634	0
Agricultural Real Estate	366,029	404,055	0	412,672	7,891
Commercial	15,516	16,907	0	22,063	0
Agricultural	78,289	85,811	0	108,411	4,754
Consumer and other	0	0	0	0	0
With a related allowance:					
Residential Real Estate	$0	$0	$0	$0	$0
Commercial Real Estate	0	0	0	0	0
Construction & Land Dev	0	0	0	0	0
Agricultural Real Estate	0	0	0	0	0
Commercial	0	0	0	0	0
Agricultural	132,247	132,247	23,209	141,632	7,212
Consumer and other	0	0	0	0	0
Total:					
Residential Real Estate	$66,032	$130,055	$0	$146,609	$1,048
Commercial Real Estate	0	0	0	0	0
Construction & Land Dev	205,800	205,800	0	209,634	0
Agricultural Real Estate	366,029	404,055	0	412,672	7,891
Commercial	15,516	16,907	0	22,063	0
Agricultural	210,536	218,058	23,209	250,043	11,966
Consumer and other	0	0	0	0	0
Total	$863,913	$974,875	$23,209	$1,041,021	$20,905

2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance:					
Residential Real Estate	$96,007	$177,398	$0	$212,048	$1,787
Commercial Real Estate	0	0	0	0	0
Construction & Land Dev	0	0	0	0	0
Agricultural Real Estate	428,017	453,187	0	456,286	0
Commercial	5,367	5,368	0	7,212	475
Agricultural	113,397	118,877	0	133,832	1,686
Consumer and other	0	0	0	0	0
With a related allowance:					
Residential Real Estate	$18,710	$18,710	$18,710	$20,444	$987
Commercial Real Estate	0	0	0	0	0
Construction & Land Dev	0	0	0	0	0
Agricultural Real Estate	0	0	0	0	0
Commercial	35,401	35,575	11,560	60,648	0
Agricultural	116,614	116,614	23,323	124,858	8,226
Consumer and other	0	0	0	0	0
Total:					
Residential Real Estate	$114,717	$196,108	$18,710	$232,492	$2,774
Commercial Real Estate	0	0	0	0	0
Construction & Land Dev	0	0	0	0	0
Agricultural Real Estate	428,017	453,187	0	456,286	0
Commercial	40,768	40,943	11,560	67,860	475
Agricultural	230,011	235,491	23,323	258,690	9,912
Consumer and other	0	0	0	0	0
Total	$813,513	$925,729	$53,593	$1,015,328	$13,161

No additional funds are committed to be advanced in connection with impaired loans.

Allowance for Loan Losses
For the Years Ended December 31, 2020 and 2019

2020	Beginning Balance 1/1/2020	Charge-offs	Recoveries	Provision	Ending Balance 12/31/2020	Ending Balance Individually Evaluated for Impairment
Residential Real Estate	$495,092	($30,889)	$41,861	($11,718)	$494,346	$0
Commercial Real Estate	1,846,168	0	0	918,796	2,764,964	0
Construction & Land Dev	189,214	0	34,034	5,632	228,880	0
Agricultural Real Estate	1,608,848	0	0	(176,609)	1,432,239	0
Commercial	934,341	(43,135)	3,900	274,367	1,169,473	0
Agricultural	1,004,654	0	33,255	(281,350)	756,559	23,209
Consumer and other	18,401	(3,987)	7,515	(3,103)	18,826	0
Unallocated	794,163	0	0	8,985	803,148	0
Total	$6,890,881	($78,011)	$120,565	$735,000	$7,668,435	$23,209

2019	Beginning Balance 1/1/2019	Charge-offs	Recoveries	Provision	Ending Balance 12/31/2019	Ending Balance Individually Evaluated for Impairment
Residential Real Estate	$536,958	($18,071)	$30,721	($54,516)	$495,092	$18,710
Commercial Real Estate	1,370,385	0	65,404	410,379	1,846,168	0
Construction & Land Dev	100,456	0	0	88,758	189,214	0
Agricultural Real Estate	1,976,789	0	0	(367,941)	1,608,848	0
Commercial	1,133,514	(1,898)	3,760	(201,035)	934,341	11,560
Agricultural	1,280,143	(18,895)	52,150	(308,744)	1,004,654	23,323
Consumer and other	10,588	(15,723)	6,672	16,864	18,401	0
Unallocated	377,928	0	0	416,235	794,163	0
Total	$6,786,761	($54,587)	$158,707	$0	$6,890,881	$53,593

Nonaccrual loans totaled $0.5 million and $0.4 million at December 31, 2020 and 2019, respectively. They were comprised of agricultural real estate loans totaling $224,000, construction and land development loans for $206,000, 1-4 family residential real estate loans totaling $51,000, ag production loans totaling $43,000 and commercial loans of $16,000 as of December 31, 2020 and agricultural real estate loans totaling $280,000, 1-4 family residential real estate loans totaling $96,000, commercial loans of $35,000 and ag production loans totaling $25,000 as of December 31, 2019. There were no loans past due ninety days or more and still accruing at December 31, 2020 or 2019. A schedule of loans by the number of days past due (including nonaccrual loans) along with a schedule of credit quality indicators follows:

Age Analysis of Past Due Financing Receivables

	30-89 Days Past Due	90 Days & Over	Total Past Due	Current	Total Loans
December 31, 2020					
Residential Real Estate	$151,937	$0	$151,937	$68,553,611	$68,705,548
Commercial Real Estate	0	0	0	146,984,921	146,984,921
Construction & Land Dev	0	205,800	205,800	21,146,312	21,352,112
Agricultural Real Estate	0	142,727	142,727	73,205,949	73,348,676
Commercial	0	15,516	15,516	118,625,106	118,640,622
Agricultural	0	35,404	35,404	37,838,151	37,873,555
Consumer and other	0	0	0	10,103,564	10,103,564
Total	$151,937	$399,447	$551,384	$476,457,614	$477,008,998

	30-89 Days Past Due	90 Days & Over	Total Past Due	Current	Total Loans
December 31, 2019					
Residential Real Estate	$181,636	$1,172	$182,808	$70,884,795	$71,067,603
Commercial Real Estate	0	0	0	126,936,306	126,936,306
Construction & Land Dev	0	0	0	21,990,050	21,990,050
Agricultural Real Estate	0	191,270	191,270	78,682,253	78,873,523
Commercial	37,944	2,825	40,769	82,354,359	82,395,128
Agricultural	877	0	877	43,691,376	43,692,253
Consumer and other	0	0	0	9,814,934	9,814,934
Total	$220,457	$195,267	$415,724	$434,354,073	$434,769,797

Credit Quality Indicators

December 31, 2020	Non-Classified	Special Mention	Substandard	Doubtful	Total
Residential Real Estate	$66,836,261	$1,112,712	$690,544	$66,031	$68,705,548
Commercial Real Estate	142,559,524	3,778,826	646,571	0	146,984,921
Construction & Land Dev	19,540,491	0	1,811,621	0	21,352,112
Agricultural Real Estate	58,769,266	7,102,308	7,296,631	180,471	73,348,676
Commercial	106,584,728	7,228,570	4,811,808	15,516	118,640,622
Agricultural	34,670,706	793,645	2,309,357	99,847	37,873,555
Consumer and other	10,074,961	12,998	15,605	0	10,103,564
Total	$439,035,937	$20,029,059	$17,582,137	$361,865	$477,008,998

December 31, 2019	Non-Classified	Special Mention	Substandard	Doubtful	Total
Residential Real Estate	$69,177,325	$1,019,822	$787,933	$82,523	$71,067,603
Commercial Real Estate	124,741,389	2,182,974	11,943	0	126,936,306
Construction & Land Dev	20,437,182	1,528,036	24,832	0	21,990,050
Agricultural Real Estate	63,425,492	8,090,150	7,269,045	88,836	78,873,523
Commercial	74,357,577	6,047,544	1,952,063	37,944	82,395,128
Agricultural	39,916,630	999,221	2,659,788	116,614	43,692,253
Consumer and other	9,762,394	52,540	0	0	9,814,934
Total	$401,817,989	$19,920,287	$12,705,604	$325,917	$434,769,797

During the year ended December 31, 2020 there were no loans modified as a troubled debt restructuring ("TDR") and there was one agricultural real estate loan and one agricultural production loan with a recorded investment of $148,000 and $89,000, respectively prior to and following the modification modified as TDRs during 2019. During the years ended December 31, 2020 and 2019, there were no loans that were previously modified as a TDR that subsequently defaulted.

In March 2020, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was passed into law. Among other things, the CARES act suspends the requirements related to the accounting for TDRs for certain loan modifications related to the COVID-19 pandemic. As a result of the pandemic, DSB provided a loan modification program to borrowers that included certain concessions such as interest-only or payment deferrals. As of December 31, 2020, there were $4.0 million of loans that remained under a modification agreement but are not disclosed as TDRs. Regardless of whether a modification is classified as a TDR, DSB continues to apply policies for risk rating, accrued interest and classifying loans as impaired.

NOTE 5 – OTHER INVESTMENTS

Major categories of equity investments are as follows:

	December 31, 2020	December 31, 2019
FHLB Stock	$656,978	$579,921
Privately held bank stocks	1,593,080	1,790,950
Other	745,380	739,854
Total	$2,995,438	$3,110,725

During the year ended December 31, 2020 there was one downward adjustment to the fair value of DBI's equity securities for $7,254. There were no downward adjustments to the fair value of DBI's equity investments for the year ended 2019. The cumulative amount of downward adjustments is $7,254. The downward adjustment in 2020 was recorded as a result of a publicly traded stock price. Upward adjustments to the fair value of equity investments for the years ended December 31, 2020 and 2019 were $149,563 and $869,304, respectively. On a cumulative basis, upward fair value adjustments of $1,037,667 have been recorded for DBI's equity investments. The upward adjustments recognized during 2020 were a result of observable transactions on one of these investments, as well as a publicly traded stock price. DBI adjusted the carrying amount of these investments based on the share price indicated by these observable transactions. DBI sold three of its equity investments during the year ended December 31, 2020 for proceeds of $562,001 resulting in a gain on sale of $65,081. There were no sales of equity investments during 2019.

NOTE 6 – PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	December 31,	
	2020	2019
Land	$1,121,783	$890,283
Buildings and improvements	8,387,078	7,664,350
Furniture and fixtures	5,849,136	5,608,504
	$15,357,997	$14,163,137
Less: Accumulated depreciation	($9,258,114)	($8,569,369)
Net depreciated value	$6,099,883	$5,593,768
Construction in progress	5,411	0
Premises and equipment, net	$6,105,294	$5,593,768

Leases are classified as operating or finance leases at the lease commencement date. Two operating leases for financial centers have remaining terms ranging from 2 years to 6.3 years, which include varying renewal options. Lease extension options are included in the lease term if it is reasonably certain DBI will exercise the option. DBI does not have any financing leases as of December 31, 2020 and 2019. DBI has elected to not recognize leases with original lease terms of 12 months or less (short-term leases) on its balance sheet.

Lease expense for operating and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent DBI's right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of the lease payments over the lease term. When the rate implicit in the lease is unknown, the present value of the lease payments is determined using our incremental borrowing rate based on the FHLB amortizing advance rate, adjusted for the lease term and other factors.

DBI has real estate lease agreements with lease and non-lease components, which are generally accounted for separately. Non-lease components such as common area maintenance charges, real estate taxes and insurance are not included in the measurement of the lease liability since they are generally able to be segregated.

The components of total lease cost, which are included in occupancy expenses on the consolidated statements of income, were as follows for the year ending:

	December 31, 2020	December 31, 2019
Operating lease cost	$148,131	$144,740
Short-term lease cost	28,974	49,076
Total lease cost	$177,105	$193,816

The following table shows the future minimum rent payments required under the leases described above as of December 31, 2020:

Years Ending December 31,	Operating Leases
2021	$137,840
2022	140,361
2023	115,022
2024	115,022
2025	115,022
Thereafter	153,364
Total	$776,631

Supplemental balance sheet information related to leases was as follows:

	December 31, 2020	December 31, 2019
Operating lease right-of-use assets	$708,422	$1,356,713
Operating lease liabilities	$715,356	$1,384,914
Operating lease weighted average remaining lease term (years)	5.98	10.35
Operating lease weighted average discount rate	2.67%	3.17%

NOTE 7 – MORTGAGE SERVICING RIGHTS

MSRs are recognized based on the fair value of the servicing right on the date the corresponding mortgage loan is sold. An estimate of DBI's MSRs is determined using assumptions that market participants would use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, default rates, cost to service, escrow account earnings, contractual servicing fee income, ancillary income and late fees. Subsequent to the date of transfer, DBI has elected to measure its MSRs under the amortization method. Under this method, MSRs are amortized in proportion to, and over the period of, estimated net servicing income.

DBI has recorded MSRs related to loans sold without recourse to FNMA. DBI sells conforming, fixed-rate, closed-end, residential real estate mortgages to FNMA. The unpaid principal balances of residential mortgage loans serviced for FNMA were $134.2 million and $79.7 million at December 31, 2020 and 2019, respectively.

The change in amortized MSRs and the related valuation allowance is presented below:

	December 31,	
	2020	2019
Mortgage servicing rights, beginning of period	$480,322	$434,761
Additions from originated servicing	744,931	216,791
Amortization expense	(227,688)	(95,175)
Change in valuation allowance	(168,845)	(76,055)
Mortgage servicing rights, end of period	$828,720	$480,322

DBI evaluates mortgage servicing rights for impairment on a quarterly basis. There was a valuation allowance for amortized MSRs of $244,900 and $76,055 as of December 31, 2020 and 2019, respectively. Impairment is determined by stratifying MSRs into groupings based on predominant risk characteristics, such as interest rate and loan type. If, by individual stratum, the carrying amount of the MSRs exceeds fair value, a valuation reserve is established. The valuation reserve is adjusted as the fair value changes. At December 31, 2020 and 2019, fair value was determined using discount rates of 9.0% for 2020 and 9.5% for 2019. At December 31, 2020 and 2019, estimates of prepayment speeds ranged from 9.78% to 35.69% and 7.04% to 26.62%, respectively.

NOTE 8 – INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following:

	December 31,	
	2020	2019
NOW accounts	$69,244,709	$49,873,694
Savings accounts	79,262,713	48,603,365
Money market accounts	149,613,460	133,031,867
Time deposit accounts	129,486,043	131,053,637
Total	$427,606,925	$362,562,563

The following table shows the maturity distribution of time deposit accounts:

	December 31, 2020	December 31, 2019
Within one year	$72,723,715	$71,616,574
One to two years	34,527,310	33,208,303
Two to three years	8,680,964	12,283,216
Three to four years	5,438,250	4,452,802
Over four years	8,115,804	9,492,742
Total	$129,486,043	$131,053,637

Time deposits of $250,000 or more totaled $17.5 million and $17.8 million at December 31, 2020 and 2019, respectively.

NOTE 9 – SHORT-TERM BORROWINGS

Short-term borrowings included a line of credit for $0 and $0.9 million at December 31, 2020 and 2019, respectively. During 2019, the line of credit was secured by AgriBank stock and agricultural loans with a carrying value of $12.6 million. The pledged notes also secured long-term debt for a total combined borrowing line of $30 million. The short-term line of credit had a variable interest rate of 2.25% at December 31, 2019. The $30 million line of credit at AgriBank is unavailable as of December 31, 2020 given the decision to move DACC to a dormant status during 2020.

As of December 31, 2020, DSB had available and unused federal funds lines of credit with two correspondent institutions up to $20.3 million, as well as an unused $20 million line at the Federal Reserve Bank's discount window. Federal funds purchased generally mature within one day from the transaction date. There were no federal funds purchased outstanding as of December 31, 2020 or 2019.

NOTE 10 – LONG-TERM DEBT

Long-term debt consisted of the following:

	For the Years Ended December 31,			
	2020		2019	
	Rates	Amount	Rates	Amount
Federal Home Loan Bank:				
Fixed rate advances	1.38% - 3.06%	$14,066,975	1.38% - 3.13%	$21,198,727
AgriBank, FCB:				
Fixed rate advances		0	1.71% - 3.45%	4,526,702
Total		$14,066,975		$25,725,429

The following is a summary of scheduled maturities of borrowed funds as of December 31, 2020:

	Weighted Average Rate	Amount
2021	1.38%	$5,000,000
2023	2.65%	9,066,975
Total		$14,066,975

The notes payable to the FHLB are secured by residential mortgages with a carrying amount of $72.5 million and $68.5 million, along with $0.7 million and $0.6 million of FHLB stock as of December 31, 2020 and 2019, respectively.

DBI has two unsecured lines of credit totaling $20 million with a correspondent bank that had no balance drawn as of December 31, 2020. These lines have an interest rate tied to the 3-month LIBOR plus 190 basis points and mature in September 2021. The interest rate on the line of credit would have been 2.14 percent at December 31, 2020 if DBI had any outstanding borrowings. DBI is subject to minimum fixed-charge coverage ratio, leverage capital and total risk-based capital covenants as well as a maximum non-performing loan covenant for these borrowings.

As of December 31, 2020, DSB had a total of $54.6 million of unused lines of credit with banks to be drawn upon as needed subject to borrowing guidelines.

NOTE 11 – INCOME TAXES

The provision for income taxes in the consolidated statement of income is as follows:

		2020	2019
Current:	Federal	$991,092	$1,008,382
	State	438,720	382,071
		$1,429,812	$1,390,453
Deferred:	Federal	($115,324)	$131,080
	State	(44,329)	127,386
		($159,653)	$258,466
Total provision for income taxes		$1,270,159	$1,648,919

Applicable income taxes for financial reporting purposes differ from the amount computed by applying the statutory federal income tax rate for the reasons noted in the table below:

	2020		2019	
	Amount	%	Amount	%
Tax at statutory federal income tax rate	$1,085,302	21%	$1,386,112	21%
Increase (decrease) in tax resulting from:				
Tax-exempt interest	(66,079)	(1)	(84,180)	(1)
Stock option compensation	0	0	0	0
State income tax, net of federal tax benefit	311,637	6	406,610	6
Bank-owned life insurance	(72,513)	(1)	(70,870)	(1)
Other, net	11,812	0	11,247	0
Applicable income taxes	$1,270,159	25%	$1,648,919	25%

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The major components of the net deferred tax asset as of December 31, 2020 and 2019 are presented below:

	2020	2019
Deferred tax assets:		
Allowance for loan losses	$1,780,717	$1,475,276
State tax net operating loss carryforward	95,627	104,929
Deferred compensation	49,491	63,660
Other	0	14,592
Total deferred tax assets	$1,925,835	$1,658,457
Deferred tax liabilities:		
Accumulated depreciation on fixed assets	$433,191	$469,380
Security accretion	3,428	4,184
Mortgage servicing rights	227,303	131,744
Stock dividends received	66,986	66,986
Appreciation on equity securities	275,280	243,591
Unrealized gains on available-for-sale securities	290,740	99,371
Other	17,423	0
Total deferred tax liabilities	$1,314,351	$1,015,256
Net deferred tax asset	$611,484	$643,201

Income tax returns for the years ended 2016 through 2020 are open to examination by applicable federal and state taxing authorities. DBI has a state tax net operating loss carryforward of $1.5 million at December 31, 2020. The net operating loss could begin to expire if unused by 2031.

NOTE 12 – EMPLOYEE BENEFIT PLAN

DBI has a 401(k) Safe Harbor plan which makes employees who are at least eighteen years old eligible to contribute. Provisions of the 401(k) Safe Harbor plan through December 31, 2020 provide for the following:

- DBI will make Safe Harbor matching contributions equal to 100% of each employee's salary deferrals up to a maximum of 6%. Employee contributions above 6% do not receive any matching contribution.

DBI provides no post-retirement benefits to employees except for the 401(k) Safe Harbor plan which are currently funded. DBI expensed contributions of $492,535 and $425,226 for the years 2020 and 2019, respectively, related to this plan.

In 2016, the Board approved the Long-Term Incentive Plan (the "Plan") for executive officers. In 2019, the Plan was amended to include awards for the directors, as well. The Plan allows for the issuance of restricted stock to executive officers and directors that are subject to a service period restriction. The Plan initially allowed for the issuance of up to 36,000 shares of restricted stock. An additional 36,000 shares were authorized in 2020. There were 41,165 shares available to be issued at December 31, 2020.

Nonvested Shares	*Shares*	*Weighted-Average Grant-Date Fair Value*
Nonvested at January 1, 2020	21,732	$21.22
Granted	7,167	24.30
Vested	(8,301)	19.06
Nonvested at December 31, 2020	20,598	$23.16

The fair value as of the date of the grant was $174,158, or $24.30 per share, and $181,194, or $23.00 per share, for awards granted in 2020 and 2019, respectively. At December 31, 2020 there was unrecognized compensation expense of $190,715 which will be fully recognized over the next 2.2 years.

The Company adopted the 2017 Employee Stock Purchase Plan (the "ESPP"). The ESPP allows employees to make elective payroll contributions throughout the year not to exceed $25,000. Payroll deferrals are used to purchase common stock of the Company at a 10% discount based on the lower of the fair value on the first day of the year or the last day of the year. Share-based compensation expense related to the ESPP of $19,293 and $32,532 was recognized during the year-ended December 31, 2020 and 2019, respectively.

NOTE 13 – COMMITMENTS AND CREDIT RISK

DBI and its subsidiaries are parties to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial position. The contract or notional amounts of those instruments reflect the extent of involvement DBI and its subsidiaries have in particular classes of financial instruments.

	Contract or Notional Amount December 31, 2020	Secured Portion
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$123,290,700	$122,379,076
Standby letters of credit and financial guarantees written	1,742,641	1,742,641

	Contract or Notional Amount December 31, 2019	Secured Portion
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$103,391,506	$102,480,836
Standby letters of credit and financial guarantees written	2,378,422	2,378,422

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. DBI and its subsidiaries evaluate each customer's creditworthiness on a case-by-case basis. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties. As of December 31, 2020, variable rate commitments totaled $74.3 million.

Standby letters of credit are conditional commitments issued by DSB to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support commercial business transactions. When a customer fails to perform according to the terms of the agreement, DSB honors drafts drawn by the third party in amounts up to the contract amount. A majority of the letters of credit expire within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial and residential properties. All letters of credit are secured.

NOTE 14 – RELATED PARTY TRANSACTIONS

At December 31, 2020 and 2019, certain DBI subsidiary executive officers, directors and companies in which they have a ten percent or more beneficial interest were indebted to DBI and its subsidiaries. Total indebtedness outstanding was $2.8 million and $1.6 million as of year-end 2020 and 2019, respectively. All such loans were made in the ordinary course of business and at rates and terms similar to those granted to other borrowers.

Deposit balances with DBI's executive officers, directors and affiliated companies in which they are principal owners were $13.2 million and $5.3 million at December 31, 2020 and 2019, respectively.

NOTE 15 – FAIR VALUE MEASUREMENT

Fair value is the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in a transaction between market participants on the measurement date. Some assets and liabilities are measured on a recurring basis while others are measured on a non-recurring basis, as required by U.S. GAAP, which also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. The three levels of inputs defined in the standard that may be used to measure fair value are as follows:

- *Level 1:* Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- *Level 2:* Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
- *Level 3:* Significant unobservable inputs that are supported by little, if any, market activity. These unobservable inputs reflect estimates that market participants would use in pricing the assets or liability.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. DBI's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset and liability.

It is DBI's policy to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers during the years ended December 31, 2020 or 2019.

Assets Recorded at Fair Value on a Recurring Basis

Investment securities available for sale are recorded at fair value on a recurring basis. The fair value measurement of most of DBI's AFS securities is currently determined by an independent provider using Level 2 inputs. The measurement is based upon quoted prices for similar assets, if available. If quoted prices are not available, fair values are measured using matrix pricing models, or other model-based valuation techniques requiring observable inputs other than quoted prices such as yield curves, prepayment speed and default rates.

Assets measured at fair value on a recurring basis, are summarized in the table below:

	December 31, 2020			
	Fair Value Measurements Using			
Description	Level 1	Level 2	Level 3	Fair Value
U.S. Government-sponsored agency MBS	$0	$11,698,523	$0	$11,698,523
State and local governments	0	18,687,446	0	18,687,446
Asset-backed securities	0	943,387	0	943,387
Total securities available for sale	$0	$31,329,356	$0	$31,329,356

	December 31, 2019			
	Fair Value Measurements Using			
Description	Level 1	Level 2	Level 3	Fair Value
U.S. Government-sponsored agency MBS	$0	$15,038,983	$0	$15,038,983
State and local governments	0	19,483,054	0	19,483,054
Asset-backed securities	0	1,072,689	0	1,072,689
Total securities available for sale	$0	$35,594,726	$0	$35,594,726

Assets Recorded at Fair Value on a Nonrecurring Basis

Other investments do not have readily determinable fair values. DBI carries the securities at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the security by the same investee. When an observable price change in an orderly transaction occurs during the year, the investment is classified as nonrecurring Level 1 within the valuation hierarchy.

A loan is considered impaired when, based on current information or events, it is probable that not all amounts due will be collected according to the contractual terms of the loan agreement. Impairment is measured based on the fair value of the underlying collateral. The collateral value is determined based on appraisals and other market valuations for similar assets. The value of impaired loans is typically 65% - 80% of appraised value. Under *FASB ASC Topic 820, "Fair Value Measurements and Disclosures,"* the fair value of impaired loans is reported before selling costs of the related collateral, while

FASB ASC Topic 310, "Receivables," requires that impaired loans be reported on the balance sheet net of estimated selling costs. Therefore, significant estimated selling costs would result in the reported fair value of impaired loans being greater than the measurement value of impaired loans as maintained on the balance sheet. In most instances, selling costs were estimated for real estate-secured collateral and included broker commissions, legal and title transfer fees and closing costs. Given the valuation technique and significant unobservable inputs utilized to determine the fair value, impaired loans are classified as nonrecurring Level 3 assets.

Assets measured at fair value on a nonrecurring basis, are summarized in the following table:

	December 31, 2020			
	Fair Value Measurements Using			
Description	Level 1	Level 2	Level 3	Fair Value
Other investments	$275,280	$0	$0	$275,280
Impaired loans	0	0	109,038	109,038
Total Assets	$275,080	$0	$109,038	$384,318

	December 31, 2019			
	Fair Value Measurements Using			
Description	Level 1	Level 2	Level 3	Fair Value
Other investments	$1,309,004	$0	$0	$1,309,004
Impaired loans	0	0	117,132	117,132
Total Assets	$1,309,004	$0	$117,132	$1,426,136

The tables below summarize fair value of financial assets and liabilities at December 31, 2020 and 2019.

	December 31, 2020				
	Carrying Amount	Fair Value	Fair Value Hierarchy Level		
			Level 1	Level 2	Level 3
Financial Assets					
Cash and federal funds sold	$118,310,394	$118,310,394	$118,310,394	$0	$0
Investment securities	31,329,356	31,329,356	0	31,329,356	0
Loans, net of allowance for loan losses	468,284,230	473,648,020	0	0	473,648,020
Loans held for sale	1,404,587	1,433,418	0	1,433,418	0
Mortgage servicing rights	828,720	828,720	0	0	828,720
Other investments	2,995,438	2,995,438	275,280	0	2,720,158
Accrued interest receivable	1,624,762	1,624,762	0	1,624,762	0
TOTAL	$624,777,487	$630,170,108	$118,585,674	$34,387,536	$477,196,898
Financial Liabilities					
Deposits	$563,274,508	$565,911,465	$433,788,465	$132,123,000	$0
Borrowings	14,066,975	14,660,147	0	14,660,147	0
Accrued interest payable	272,609	272,609	0	272,609	0
TOTAL	$577,614,092	$580,844,221	$433,788,465	$147,055,756	$0

	December 31, 2019				
	Carrying Amount	Fair Value	Fair Value Hierarchy Level		
			Level 1	Level 2	Level 3
Financial Assets					
Cash and federal funds sold	$62,963,725	$62,963,725	$62,963,725	$0	$0
Investment securities	35,594,726	35,594,726	0	35,594,726	0
Loans, net of allowance for loan losses	427,878,916	436,337,571	0	0	436,337,571
Loans held for sale	69,000	69,000	0	69,000	0
Mortgage servicing rights	480,322	620,063	0	0	620,063
Other investments	3,110,725	3,110,725	1,309,004	0	1,801,721
Accrued interest receivable	1,389,559	1,389,559	0	1,389,559	0
TOTAL	$531,486,973	$540,085,369	$64,272,729	$37,053,285	$438,759,355
Financial Liabilities					
Deposits	$457,434,690	$458,813,745	$326,381,053	$132,432,692	$0
Borrowings	26,592,087	27,373,510	0	27,373,510	0
Accrued interest payable	412,689	412,689	0	412,689	0
TOTAL	$484,439,466	$486,599,944	$326,381,053	$160,218,891	$0

NOTE 16 – REGULATORY MATTERS

DSB 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 possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on DSB's financial statements. Under capital adequacy guidelines and regulatory framework for prompt corrective action, DSB must meet specific capital guidelines that involve quantitative measures of DSB's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. DSB's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require DSB to maintain minimum amounts and ratios (set forth in the table below) of Tier 1 and Total capital to risk-weighted assets and of Tier 1 capital to average assets. In addition, DSB is also required to maintain minimum amounts and ratios of Common Equity Tier 1 capital to risk-weighted assets. It is management's opinion, as of December 31, 2020, that DSB meets all applicable capital adequacy requirements. DBI will be subject to the same minimum amounts and ratios as DSB once total assets exceed $3 billion.

As of December 31, 2020, the most recent notification from the Federal Deposit Insurance Corporation categorized DSB as well-capitalized under the regulatory framework for prompt corrective action. To be categorized well-capitalized DSB must maintain minimum total risk-based, tier 1 risk-based and tier 1 leverage ratios as set forth in the table below. These tables do not include the 2.5 percent capital conservation buffer requirement. A Bank with a capital conservation buffer greater than 2.5 percent of risk-weighted assets would not be restricted by payout limitations. However, if the 2.5 percent threshold is not met, the Bank would be subject to increased limitations on capital distributions and discretionary bonus payments to executive officers as the capital conservation buffer approaches zero. Capital ratios for DBI are provided for information purposes only as there are no regulatory capital requirements for the holding company.

	Amount		Minimum for Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provision:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2020						
Denmark Bancshares, Inc.						
Total Capital (to Risk-Weighted Assets)	$70,274,205	14.6%	N/A	N/A	N/A	N/A
Tier 1 Capital (to Risk-Weighted Assets)	$64,243,052	13.4%	N/A	N/A	N/A	N/A
Tier 1 Capital (to Average Assets)*	$64,243,052	9.9%	N/A	N/A	N/A	N/A
Denmark State Bank						
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	$55,653,663	12.0%	$20,842,086	≥4.5%	$30,105,235	≥6.5%
Total Capital (to Risk-Weighted Assets)	$61,466,328	13.3%	$37,052,597	≥8.0%	$46,315,747	≥10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$55,653,663	12.0%	$27,789,448	≥6.0%	$37,052,597	≥ 8.0%
Tier 1 Capital (to Average Assets)*	$55,653,663	8.7%	$25,655,250	≥4.0%	$32,069,063	≥ 5.0%
As of December 31, 2019						
Denmark Bancshares, Inc.						
Total Capital (to Risk-Weighted Assets)	$69,384,508	15.4%	N/A	N/A	N/A	N/A
Tier 1 Capital (to Risk-Weighted Assets)	$63,723,992	14.1%	N/A	N/A	N/A	N/A
Tier 1 Capital (to Average Assets)*	$63,723,992	11.9%	N/A	N/A	N/A	N/A
Denmark State Bank						
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	$53,593,883	12.5%	$19,304,110	≥4.5%	$27,883,714	≥6.5%
Total Capital (to Risk-Weighted Assets)	$58,970,032	13.7%	$34,318,417	≥8.0%	$42,898,022	≥10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$53,593,883	12.5%	$25,738,813	≥6.0%	$34,318,417	≥ 8.0%
Tier 1 Capital (to Average Assets)*	$53,593,883	10.2%	$20,976,326	≥4.0%	$26,220,407	≥ 5.0%

*Average assets are based on the most recent quarter's adjusted average total assets.

Wisconsin law provides that state chartered banks may declare and pay dividends out of undivided profits but only after provision has been made for all expenses, losses, required reserves, taxes and interest accrued or due from the bank. Payment of dividends in some circumstances may require the written consent of the Wisconsin Department of Financial Institutions – Division of Banking ("WDFI").