



***Mound City
Financial Services, Inc.***

2008 ANNUAL REPORT

Board of Directors

Barry J. Brodbeck
Keith R. Buchert
Dennis R. Cooley
Robert J. Just, Jr.
W. Phil Karrmann
Richard J. Kopp
Richard L. McWilliams
Douglas W. Speth
Craig L. Trongaard

Officers

Robert J. Just, Jr. - President & CEO
Craig L. Trongaard - Vice President &
Chairman of the Board of Directors
Donna J. Hoppenjan - Senior Vice President of Retail
Services
Peter Mumm - Vice President - Ag Lending
Joseph L. Witmer - Senior Vice President of Lending
Services
John R. Arendt - Vice President - Commercial Lending

Chad Bahr - Ag/Commercial Lending Officer, Mineral Point
Shane Bowdish - Commercial Lending/Business Development
Officer, Mt. Horeb
Lexie Buschor - Branch Manager and Personal
Banking Officer, Belmont
George Byykkonen - Alternative Investment
Representative
Angie Craugh - Executive Assistant
Patricia Cullen - Internal Auditor
John Digman - Assistant Vice President, Retail Lending
Jenny Dochnahl - Branch Manager and Personal Banking
Officer, Mineral Point
Diane Genthe - Vice President of Operations
Molly Heimerdinger - Credit Analyst
Gloria Holmes - Retail Lending Underwriter
Tyler Kennicker - Investment Representative
Keri Kluck - Loan Operations Supervisor
Donna Martin - Compliance Officer
Amanda McWilliams - Branch Manager and
Personal Banking Officer, Mount Horeb
Jeffrey Miesen - Assistant Vice President of Lending
Jessica Neis - Branch Manager and Personal Banking
Officer, Cuba City
Cara Nodorft - Personal Banking Officer
Kathy Olson - Customer Service Representative Supervisor
Justin Olthafer - Assistant Vice President - Information
Technology
Jayne Osterholz - Personal Banking Officer
Vicki Pluemer - Personal Banking Officer and
Heritage Club Director
Nancy Salzmann - Assistant Vice President - Personal Banking
Barbara Skaife - Marketing Officer
Susan Smith - Vice President - Retail Lending
Jeffrey Stange - Assistant Vice President - Commercial
Lending

Staff

Sandy Adams - Administrative Assistant
Julie Bockhop - Customer Service Representative,
Cuba City
Barb Bratton - Accounting Clerk
Sarah Brindley - Customer Service Representative,
Mineral Point
Amanda Brown - Customer Service Representative
Sally Carey - Loan Clerk and Administrative
Assistant
Cheselle Custer - Administrative Assistant
Loni Droessler - Customer Service Representative
Heather Fitzsimons - Customer Service
Representative, Mineral Point
Sarah Frisch - Customer Service Representative,
Mount Horeb
Betty Frost - Customer Service Representative,
Mount Horeb
Kari Geyer - Human Resources Assistant
Megan Geyer - Part-time Customer Service
Representative
Deanne Gorman - Lobby Receptionist
Cody Hefty - Part-time Customer Service
Representative, Mount Horeb
Sarah Imobersteg - Investment Services Assistant
Hilary Izzard - Youth Apprentice, Platteville
Sara Jacobson - Part-time Customer Service
Representative
Toni Kettler - Customer Service Representative,
Motor Branch
Toni Klein - ATM Customer Service Representative
Linda Kress - Accounting Clerk
Janice Laufenberg - Customer Service Representative,
Mineral Point
Linda Martin - Senior Accounting Clerk
Denise McDonald - Customer Service Representative,
Belmont
Amanda McFall - Customer Service Representative
Jenni Mullikin - Senior Accounting Clerk
Jennifer Nolan - Customer Service Representative,
Cuba City
Sarah Olson - Administrative Assistant
Carole Peterson - Customer Service Representative
Brandon Popp - Network Administrator Assistant
Sarah Rogers - Administrative Assistant
Julie Runde - Administrative Assistant
Tyler Speth - Youth Apprenticeship, Cuba City
Pam Stark - Senior Customer Service Representative,
Motor Branch
Judy Steinhoff - Part-time Accounting Clerk
Vicki Stuelke - Accounting Clerk
Becky Sullivan - Customer Service Representative -
Belmont
Tammy Wagner - Customer Service Representative -
Motor Branch
Ellen Wedige - Senior Customer Service
Representative

**MOUND CITY FINANCIAL SERVICES, INC.
AND SUBSIDIARIES**

ANNUAL REPORT

YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006



MOUND CITY FINANCIAL SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mound City Financial Services, Inc. (Parent Company Only) Financial Information

CONDENSED BALANCE SHEETS	December 31,	
	2008	2007
ASSETS		
Cash and due from banks	\$ 285,137	\$ 444,484
Investment in subsidiaries	21,794,620	20,821,848
Other assets	271,293	271,500
TOTAL ASSETS	\$ 22,351,050	\$ 21,537,832
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Subordinated debt	\$ 5,155,000	\$ 5,155,000
Other liabilities	331,071	333,160
Total Liabilities	5,486,071	5,488,160
 Stockholders' Equity		
Common stock	31,494	31,494
Additional paid-in capital	7,618,010	7,618,010
Retained earnings	10,569,109	9,824,906
Accumulated other comprehensive loss	200,044	63,082
Treasury stock	(1,553,678)	(1,487,820)
Total Stockholders' Equity	16,864,979	16,049,672
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 22,351,050	\$ 21,537,832

MESSAGE FROM THE PRESIDENT

Dear Shareholder:

Unprecedented is the term that most closely defines the nation's economic situation today. The consensus is that the root cause of our financial crisis began with sub-prime housing loans, mostly originated by unregulated mortgage brokers, not banks, and securitized by investment bankers, Fannie Mae and Freddie Mac. These loans, which were poorly underwritten, have led to a growing number of defaults and subsequent foreclosures, resulting in a glut of unoccupied housing, a stand still in real estate development, and deflation in the housing markets.

Mound City Bank, like most, if not all, Wisconsin community banks, did not participate in the sub-prime lending activity. In fact, at year end 2008, we do not have a single one to four family mortgage loan in the process of foreclosure. This is especially significant when you factor in that our one to four family lending portfolio grew by over 33% in 2008 to \$59,723,000.

We are not however immune to the effects of the financial crisis. The slow down in commercial real estate development has led to an increase in non-performing loans, almost exclusively within the participation loan portion of our portfolio. Management has reacted to this trend by setting strict standards for further participation loan approvals and is working diligently towards resolving the identified problem credits. Overall, asset quality remains solid with little or no increase in delinquency or default in our local portfolio which makes up by far the largest portion of our lending activity. Still, we are cautious about 2009 and beyond, due to the worsening recession and the effects it may have on our local businesses and farming operations.

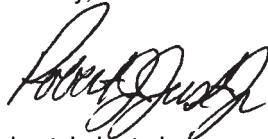
It is irritating for us at Mound City Bank and other community banks to have the constant reminder that we have been bailed out to the tune of \$700 billion. Nothing could be further from the truth. Mound City Bank and Mound City Financial Services, Inc. have not participated in the Federal Capital Purchase Program (TARP). After reviewing the terms of the program, your Board of Directors determined that it was not in the best interest of our shareholders to participate as the funding was not currently necessary, the cost of the capital was too high, and many of the terms of the program were extremely unfriendly to our shareholders.

Another fallacy often repeated is that banks have stopped lending. Once again that is not the case at Mound City Bank where we saw our overall net lending volume grow by 22.35% to \$205,322,861 as of December 31, 2008. Likewise, we enjoyed deposit growth at the rate of 22.66% to \$216,238,848, and total assets grew at the pace of 17.17% to \$262,221,096 as of December 31, 2008. A great deal of our successful growth is due to the establishment of our two new branch offices in Mount Horeb and Mineral Point, Wisconsin. Both offices were on target for their deposit and lending growth goals in 2008. We also enjoyed growth in each of our more mature offices and markets.

Net earnings for 2008 were down by 28.39% to \$1,060,904. While disappointing, these earnings were not far from our projections as we expected significantly higher costs associated with personnel and facilities in the new branches. With a decrease in net income and the ever increasing importance of capital, the Board of Directors determined to maintain our dividend at the previous year's level of \$11.00 per share. We expect our growth to moderate in 2009 with total assets projected to increase at approximately 8%. We expect earnings to improve slightly in 2009 with the full understanding that the depth and length of the national recession will certainly have an effect on our performance.

Despite what you hear and read on a daily basis in the news media, we at Mound City Bank are proud of our Bank and proud to be Bankers. On behalf of your board of Directors, our management team, and our entire staff, I am pleased to present you with our 2008 Annual Report.

Sincerely,



Robert J. Just, Jr.
President & CEO

FINANCIAL HIGHLIGHTS

	December 31,				
	2008	2007	2006	2005	2004
Statement of Operations					
Interest Income	\$14,021,998	\$13,408,617	\$12,477,308	\$11,017,612	\$9,920,451
Interest Expense	7,141,272	7,494,314	6,960,055	5,625,072	4,673,284
Net Interest Income	6,880,726	5,914,303	5,517,253	5,392,540	5,247,167
Provision for Loan Losses	1,234,163	217,151	225,976	300,000	538,000
Net Interest Income After Provision for Loan Losses	5,646,563	5,697,152	5,291,277	5,092,540	4,709,167
Noninterest Income	1,699,871	1,551,573	1,421,488	1,358,107	1,249,188
Noninterest Expenses	6,196,036	5,235,834	4,848,825	4,765,408	4,502,675
Income Before Income Taxes	1,150,398	2,012,891	1,863,940	1,685,239	1,455,680
Provision for Income Taxes	89,494	531,379	481,157	485,173	392,170
Net Income	\$1,060,904	\$1,481,512	\$1,382,783	\$1,200,066	\$1,063,510

Statement of Condition

Total Assets	\$262,221,096	\$223,786,748	\$210,414,243	\$202,782,616	\$197,176,673
Federal Funds Sold	253,000	NONE	2,401,000	3,591,000	3,136,000
Investment Securities	36,310,127	37,576,822	39,252,631	37,641,481	35,241,190
Loans	205,322,861	167,815,375	152,913,704	147,750,095	144,110,714
Total Deposits	216,238,848	176,297,615	169,650,499	169,495,195	162,413,339
Other Borrowings	21,800,000	21,000,000	19,000,000	13,000,000	15,000,000
Subordinated Debentures	5,155,000	5,155,000	4,130,000	4,130,000	4,130,000
Stockholders' Equity	16,864,979	16,049,672	15,024,339	14,489,060	13,833,424

Averages

Average Assets	\$242,450,946	\$212,859,261	\$204,749,099	\$199,160,445	\$192,646,596
Average Loans	187,618,194	157,043,704	150,040,001	146,483,450	142,173,800
Average Deposits	195,960,739	171,028,072	167,667,123	169,424,888	157,681,528
Average Equity	16,457,326	15,537,006	14,615,429	14,161,242	13,508,989

Ratios

Asset Growth Rate	17.17%	6.36%	3.76%	2.84%	2.48%
Loan Growth Rate	22.35%	9.75%	3.49%	2.53%	.49%
Deposit Growth	22.66%	3.73%	0.27%	4.36%	3.30%
Loan to Deposit Ratio	94.95%	95.19%	89.98%	87.17%	88.73%
Return on Average Assets	0.44%	0.70%	0.68%	0.60%	0.55%
Return on Average Equity	6.45%	9.54%	9.46%	8.47%	7.87%
Stockholders' Equity to Average Assets	6.96%	7.54%	7.34%	7.28%	7.18%
Earnings per Share	\$36.78	\$50.50	\$46.46	\$39.79	\$34.91
Dividend Paid per Share	\$11.00	\$11.00	\$10.00	\$9.00	\$8.00

MOUND CITY FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007

ASSETS	2008	2007
Cash and due from banks	\$ 5,691,314	\$ 6,102,427
Federal funds sold	253,000	-
Cash and cash equivalents	<u>5,944,314</u>	6,102,427
Interest bearing deposits in banks	2,856,824	768,895
Securities available-for-sale	32,760,127	34,776,822
Securities held to maturity, at amortized cost	3,550,000	2,800,000
Federal Home Loan Bank stock, at cost	1,091,113	1,091,113
Loans, net of allowance of \$2,372,150 in 2008 and \$1,634,190 in 2007	205,322,861	167,815,375
Premises and equipment, net	4,596,811	4,682,119
Cash surrender value of life insurance	2,670,603	2,577,092
Other assets	<u>3,428,443</u>	3,172,905
TOTAL ASSETS	\$ 262,221,096	\$ 223,786,748
LIABILITIES AND STOCKHOLDERS' EQUITY		
<hr/>		
Liabilities		
Deposits		
Demand	\$ 19,192,095	\$ 15,727,976
Savings and NOW	57,110,968	63,342,045
Other time	139,935,785	97,227,594
Total Deposits	<u>216,238,848</u>	176,297,615
Federal Funds purchased	-	3,621,000
Other borrowings	21,800,000	21,000,000
Subordinated debt	5,155,000	5,155,000
Other liabilities	2,162,269	1,663,461
Total Liabilities	<u>245,356,117</u>	207,737,076
Stockholders' Equity		
Common stock, no par value, 300,000 shares authorized; 31,494 shares issued, 28,791 shares outstanding	31,494	31,494
Additional paid-in-capital	7,618,010	7,618,010
Retained earnings	10,569,109	9,824,906
Accumulated other comprehensive income	200,044	63,082
Treasury stock, at cost; 2,703 and 2,613 shares at December 31, 2008 and 2007, respectively	(1,553,678)	(1,487,820)
Total Stockholders' Equity	<u>16,864,979</u>	16,049,672
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 \$ 262,221,096	 \$ 223,786,748

MOUND CITY FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2008, 2007 and 2006

	2008	2007	2006
INTEREST INCOME:			
Loans, including fees	\$ 12,338,413	\$ 11,513,923	\$ 10,591,783
Investment securities			
Taxable	989,259	1,216,852	1,186,888
Tax exempt	624,422	525,400	515,811
Federal funds sold	27,690	75,646	112,376
Other	42,214	76,796	70,450
Total Interest Income	<u>14,021,998</u>	<u>13,408,617</u>	<u>12,477,308</u>
INTEREST EXPENSE:			
Deposits	5,828,353	6,224,687	5,941,391
Federal funds purchased	31,725	57,175	9,894
Other borrowings	936,324	841,322	678,370
Subordinated debt	344,870	371,130	330,400
Total Interest Expense	<u>7,141,272</u>	<u>7,494,314</u>	<u>6,960,055</u>
Net Interest Income Before Provision For Loan Losses	6,880,726	5,914,303	5,517,253
PROVISION FOR LOAN LOSSES	1,234,163	217,151	225,976
Net Interest Income After Provision For Loan Losses	<u>5,646,563</u>	<u>5,697,152</u>	<u>5,291,277</u>
NONINTEREST INCOME:			
Service fees	680,315	646,397	643,068
Net gain on sale of securities available-for-sale	-	5,174	1,445
Net gain on loan sales	65,308	39,882	52,245
Mutual fund sales commission	214,141	206,215	177,882
Other income	740,107	653,905	546,848
Total Noninterest Income	<u>1,699,871</u>	<u>1,551,573</u>	<u>1,421,488</u>
NONINTEREST EXPENSES:			
Salaries and employee benefits	3,706,507	3,097,414	2,881,677
Occupancy	670,700	540,659	477,633
Computer services	325,637	314,149	303,856
Other real estate owned	110,250	46,040	4,230
Other	1,382,942	1,237,572	1,181,429
Total Noninterest Expenses	<u>6,196,036</u>	<u>5,235,834</u>	<u>4,848,825</u>
Income Before Income Taxes	1,150,398	2,012,891	1,863,940
INCOME TAX EXPENSE	89,494	531,379	481,157
NET INCOME	<u>\$ 1,060,904</u>	<u>\$ 1,481,512</u>	<u>\$ 1,382,783</u>
Earnings Per Share	\$ 36.78	\$ 50.50	\$ 46.46
Weighted Average Shares Outstanding	28,844	29,337	29,765

MOUND CITY FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years ended December 31, 2008, 2007 and 2006

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2005	\$31,494	\$7,618,010	\$7,575,972	\$ (282,541)	\$(736,416)	\$14,206,519
Comprehensive income						
Net income	-	-	1,382,783	-	-	1,382,783
Change in net unrealized gains(losses) on available-for-sale securities	-	-	-	48,706	-	48,706
Reclassification adjustment for net gains realized in net income	-	-	-	(1,445)	-	(1,445)
Income tax effect	-	-	-	(16,254)	-	(16,254)
Comprehensive Income						<u>1,413,790</u>
Cash dividends paid - \$10.00 per share	-	-	(296,570)	-	-	(296,570)
Purchase of 463 shares of treasury stock	-	-	-	-	(299,400)	(299,400)
Balance, December 31, 2006	31,494	7,618,010	8,662,185	(251,534)	(1,035,816)	15,024,339
Comprehensive income						
Net income	-	-	1,481,512	-	-	1,481,512
Change in net unrealized gains(losses) on available-for-sale securities	-	-	-	481,863	-	481,863
Reclassification adjustment for net gains realized in net income	-	-	-	(5,174)	-	(5,174)
Income tax effect	-	-	-	(162,073)	-	(162,073)
Comprehensive Income						<u>1,796,128</u>
Cash dividends paid - \$11.00 per share	-	-	(318,791)	-	-	(318,791)
Purchase of 616 shares of treasury stock	-	-	-	-	(452,004)	(452,004)
Balance, December 31, 2007	31,494	7,618,010	9,824,906	63,082	(1,487,820)	16,049,672
Comprehensive income						
Net income	-	-	1,060,904	-	-	1,060,904
Change in net unrealized gains on available-for-sale securities	-	-	-	207,518	-	207,518
Income tax effect	-	-	-	(70,556)	-	(70,556)
Comprehensive Income						<u>1,197,866</u>
Cash dividends paid - \$11.00 per share	-	-	(316,701)	-	-	(316,701)
Purchase of 90 shares of treasury stock	-	-	-	-	(65,858)	(65,858)
Balance, December 31, 2008	\$31,494	\$7,618,010	\$10,569,109	\$ 200,044	\$ (1,553,678)	\$16,864,979