UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

# FORM 10-K

**[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2005

Commission file number 0-21554

**DENMARK BANCSHARES, INC.**
(Exact name of registrant as specified in its charter)

| **Wisconsin** | **39-1472124** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**103 East Main Street, Denmark, Wisconsin 54208-0130**
(Address of principal executive offices)

Registrant's telephone number, including area code: **(920) 863-2161**
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: **Common Stock, no par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities. Yes _ No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.
Yes __ No X

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):
___ Large Accelerated Filer **X Accelerated Filer** ___ Non-accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes__ No X

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2005, was $92,194,570 (105,083 shares at $877.35 per share, which is equal to the weighted average purchase price of shares sold during the registrant’s second fiscal quarter, according to information available to the registrant).

As of March 1, 2006, there were 119,835 shares of the registrant's Common Stock (no par value) issued and outstanding.

## DOCUMENTS INCORPORATED BY REFERENCE

| Documents* | Part of Form 10-K into Which Portions of Documents are Incorporated |
|---|---|
| Annual Report to Shareholders for the fiscal year ended December 31, 2005 | Parts I, II and IV |
| Proxy Statement for Annual Meeting of Shareholders on April 25, 2006 | Parts II and III |

*Only the portions of documents specifically listed herein are to be deemed incorporated by reference.

# DENMARK BANCSHARES, INC.

**PART I**

## ITEM 1. DESCRIPTION OF BUSINESS

### History and General Business of Denmark Bancshares, Inc.

Denmark Bancshares, Inc. ("DBI") was formed in 1983 as a Wisconsin bank holding company for the purpose of acquiring and holding the Common Stock of the Denmark State Bank ("DSB"). The holding company was formed to allow DSB to expand its line of financial products, enabling it to compete with other financial institutions. DBI acquired DSB in 1983 through an exchange offer for shares of DSB. DBI's subsidiaries are DSB, Denmark Agricultural Credit Corporation ("DACC"), which offers certain types of farm credit, and the McDonald-Zeamer Insurance Agency, Inc. ("McDonald"), which sells a full line of insurance products. Unless the context otherwise requires, when used herein the term "DBI" refers to Denmark Bancshares, Inc. and all of its subsidiaries.

### Securities and Exchange Commission Availability of Filings on Company Web Site

DBI electronically files the following reports with the SEC: Form 10-K (Annual Report), Form 10-Q (Quarterly Report), Form 8-K (Current Report) and Schedule 14A (Proxy Statement). DBI may file additional forms including amendments to these forms. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, at www.sec.gov, in which all forms filed electronically may be accessed. Additionally, our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K with the SEC and additional shareholder information are available free of charge as soon as reasonably practicable after such reports are electronically filed on DSB's website: www.denmarkstate.com on the "About Us" web page. This web page provides a link to the SEC's filing database.

### DSB

DSB offers a full line of retail banking services, including checking, time deposits of various types, loans for business, real estate and personal use, and other miscellaneous banking services. DSB employs two experienced investment representatives that provide financial planning and sell annuities, mutual funds and other investment securities. DSB has seven offices, serving primarily Brown, Kewaunee, Manitowoc and Outagamie Counties. DSB also has seven automated teller machines at various locations throughout its market area. DSB also offers home banking 24 hours a day via telephone or personal computer. These services allow customers to transfer funds between deposit accounts and inquire about their balances or recent transaction activity as well as providing information about current interest rates.

No significant portion of the loan portfolio of DSB is concentrated in one individual or group of individuals, and management believes that the portfolio's industry weighting is prudent. Seasonal factors do not materially affect the size or quality of the loan portfolio of DSB. Set forth below is a schedule of the concentration of DBI's loans, including loans of DSB and DACC, at December 31, 2005:

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| *(In thousands)* | | | | | |
| Real Estate - Residential | $110,666 | $108,830 | $103,020 | $108,714 | $122,765 |
| Real Estate - Commercial | 63,211 | 51,240 | 40,334 | 38,770 | 35,760 |
| Real Estate - Agricultural | 34,980 | 31,621 | 32,040 | 27,661 | 27,870 |
| Real Estate - Construction | 29,159 | 28,179 | 16,819 | 10,384 | 11,152 |
| Commercial | 39,766 | 33,931 | 31,102 | 28,719 | 26,095 |
| Agricultural | 36,261 | 34,732 | 30,747 | 34,952 | 30,631 |
| Consumer and other loans | 11,028 | 11,304 | 11,613 | 11,693 | 10,834 |
| | $325,071 | $299,837 | $265,675 | $260,893 | $265,107 |

DSB offers a broad range of loans to individuals, businesses and farmers in its primary service area. DSB does not lend to foreign borrowers. Loans secured by residential real estate consist primarily of first lien mortgages on one-to-four family residential properties and represent DSB's largest category of loans. These loans, which can be amortized up to 30 years, are written primarily at fixed rates for one, three or five years. At the end of the term, the loan may be extended with payments based on interest rates prevailing at that time. A down payment of at least 10% is generally required for loan approval. DSB also makes home equity loans for a variety of purposes including education expenses, automobile purchases, debt consolidation, home improvements and other needs with flexible repayment terms.

Loans secured by commercial or agricultural real estate, which totaled more than $98 million and represented 30% of total loans outstanding at year-end, can be amortized up to 25 years and generally require a minimum down payment of 20% in cash or other collateral. Loans secured by commercial and agricultural real estate generally entail more risk than loans secured by residential real estate. These loans typically involve larger balances to single borrowers. Repayment of the loan is usually dependent on the success of the business occupying the property. The value of the real estate may be impacted by environmental issues or by supply and demand conditions in the market for commercial and retail space. DSB tries to mitigate this by requiring appraisals for all loans in excess of $250,000 and by requiring a higher intial down payment. DSB also requires that the borrower submit an annual financial statement.

Loans secured by construction real estate consist primarily of loans related to one-to-four family residential development. Constructions loans generally have terms up to one year and do not require amortization of the loan balance during the term. Construction loans present a higher degree of risk than permanent real estate loans. A borrower's ability to complete construction may be affected by a variety of factors such as cost overruns and construction delays caused by adverse weather conditions, contractor delays or other problems. DSB generally requires a minimum down payment of 15% in cash or other collateral.

Commercial and agricultural loans consist of secured loans to purchase equipment, livestock, vehicles, and other fixed assets. These loans may be structured as term loans or as revolving lines of credit to meet seasonal fluctuations. The term loans generally have a repayment schedule of up to five years. The revolving lines of credit are generally secured by accounts receivable, inventory or other business assets. Revolving lines of credit are generally reviewed on an annual basis and usually require substantial repayment of principal during the course of the year. In addition to securing these loans with business and farm assets, DSB often obtains personal guarantees from principals of the borrower. DSB normally requires a minimum down payment of at least 25% in cash or other collateral for these loans.

Consumer and other loans consists of a wide variety of loans both secured and unsecured to individuals for an array of personal needs. These loans include installment, single payment term notes, overdraft protection lines of credit and credit card loans.

**Denmark Agricultural Credit Corporation**

DACC commenced business in 1986 to provide a source of funds for farm loans and to provide a source of liquidity for DSB. As of the close of the fiscal year, DACC had lines of working capital credit in the aggregate amount of $35,000,000, including $30,000,000 from the AgriBank, FCB and $5,000,000 from a private lending institution. DACC originates loans and purchases loans exclusively from DSB. As of December 31, 2005, DACC held agricultural loans totaling $34,917,127. In 2005 the net income of DACC was equal to 24.8% of the consolidated net income of DBI.

**Insurance Subsidiary**

McDonald sells life, health, casualty, auto and all other general types of insurance, and performs certified residential appraisals for DSB. To date, the operations of McDonald have not represented a material portion of the consolidated operating results of DBI.

**Areas Serviced by DBI; Competition**

DBI serves Brown, Kewaunee, Manitowoc and Outagamie Counties, including the villages of Denmark, Bellevue, Maribel, Reedsville, Whitelaw and Wrightstown. The local economy of the area served is based on agriculture and light industry but the extended service area has a generally diversified economy. The local economic conditions prevailing at year-end varied by county but were comparable to conditions one year earlier based on employment statistics. As of December 2005, the unemployment rate in Brown County was 4.4% compared to 4.2%, 4.7% and 4.4% for Kewaunee, Manitowoc and Outagamie Counties, respectively.

Most of DBI's loans are to businesses and individuals in Wisconsin (and, more specifically, in its four-county geographic area) and any general adverse change in the economic conditions prevailing in these areas could reduce DBI's growth rate, impair its ability to collect loans or attract deposits, and generally have an adverse impact on the results of operations and financial condition of DBI. If these areas experience adverse economic, political or business conditions, DBI would likely experience higher rates of loss and delinquency on its loans than if its loans were more geographically diverse.

The agricultural economy and especially dairy farmers experienced a good year with milk prices averaging about $2 per hundredweight over the preceding five-year average. According to a report by the Wisconsin Department of Agricultural and Applied Economics at the University of Wisconsin-Madison and the Cooperative Extension of the University of Wisconsin, during 2005 milk prices averaged more than $14 per hundredweight compared to averages of $15, $11 and $10 for the years 2004, 2003 and 2002, respectively.

During the last five years the number of Wisconsin dairy farms has significantly declined from more than 21,800 in 1999 to less than 15,000 currently in operation. Larger dairy units have replaced many of the smaller family farms. As a result DBI has a smaller pool of agricultural borrowers to lend to while competing with a similar number of agricultural lenders.

The financial services industry is highly competitive. DBI faces intense competition from financial institutions in Denmark and surrounding markets, and from non-bank financial institutions, such as mutual funds, brokerage firms and insurance companies that are aggressively expanding into markets traditionally served by banks. Many of DBI's non-bank competitors are not subject to the same degree of regulation as are imposed on bank holding companies, federally insured banks and Wisconsin-chartered state banks. As a result, such non-bank competitors may have advantages over DBI in providing certain services. DBI also competes indirectly with regional and national financial institutions, many of which have greater liquidity, lending limits, access to capital and market recognition, resources and banking experience than DBI.

**Employees of DBI**

At December 31, 2005, DSB had 96 full-time equivalent employees; McDonald has four full-time employees. DBI considers its relationship with its employees to be excellent.

**Supervision and Regulation**

The operations of financial institutions, including banks and bank holding companies, are highly regulated, both at the federal and state levels. Numerous statutes and regulations affect the businesses of DBI and its subsidiaries. To the extent that the information below is a summary of statutory provisions, such information is qualified in its entirety by reference to the statutory provisions described. There are additional laws and regulations having a direct or indirect effect on the business of DBI or DSB.

In recent years, the banking and financial industry has been the subject of numerous legislative acts and proposals, administrative rules and regulations at both federal and state regulatory levels. As a result of many of such regulatory changes, the nature of the banking industry in general has changed dramatically in recent years as increasing competition and a trend toward deregulation have caused the traditional distinctions among different types of financial institutions to be obscured.

The performance and earnings of DSB, like other commercial banks, are affected not only by general economic conditions but also by the policies of various governmental regulatory authorities. In particular, the Federal Reserve System regulates monetary and credit conditions and interest rates in order to influence general economic conditions primarily through open-market operations in U.S. Government securities, varying the discount rate on bank borrowings, and setting reserve requirements against bank deposits. The policies of the Federal Reserve have a significant influence on overall growth and distribution of bank loans, investments and deposits, and affect interest rates earned on loans and investments. The general effect, if any, of such policies upon the future business and earnings of DSB cannot accurately be predicted.

*DBI*

As a registered bank holding company, DBI is subject to regulation under the Bank Holding Company Act of 1956, as amended (the "Act"). The Act requires every bank holding company to obtain the prior approval of the Federal Reserve Board (the "Board") before it may merge with or consolidate into another bank holding company, acquire substantially all the assets of any bank, or acquire ownership or control of any voting shares of any bank if after such acquisition it would own or control, directly or indirectly, more than 5% of the voting shares of such bank.

Under the Act, DBI is prohibited, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or holding company, and neither DBI nor any subsidiary may engage in any business other than banking, managing or controlling banks or furnishing services to or performing services for its subsidiaries. DBI may, however, own shares of a company the activities of which the Board has determined to be so closely related to banking or managing or controlling banks as to be a proper incident thereto, and the holding company itself may engage in such activities. DBI is authorized under the Act to own its two nonbank subsidiaries, DACC and McDonald.

As a registered bank holding company, DBI is supervised and regularly examined by the Board. Under the Act, DBI is required to file with the Board an annual report and such additional information as may be required. The Board can order bank holding companies and their subsidiaries to cease and desist from any actions which in the opinion of the Board constitute serious risk to the financial safety, soundness or stability of a subsidiary bank and are inconsistent with sound banking principles or in violation of law. The Board has adopted regulations that deal with the measure of capitalization for bank holding companies. Such regulations are essentially the same as those adopted by the FDIC, described below. The Board has also issued a policy statement on the payment of cash dividends by bank holding companies, wherein the Board has stated that a bank holding company experiencing earnings weaknesses should not pay cash dividends exceeding its net income or which could only be funded in ways that weaken the bank holding company's financial health, such as by borrowing.

Under Wisconsin law, DBI is also subject to supervision and examination by the Division of Banking of the Wisconsin Department of Financial Institutions (the "Division"). The Division is also empowered to issue orders to a bank holding company to remedy any condition or policy, which, in its determination, endangers the safety of deposits in any subsidiary state bank, or the safety of the bank or its depositors. In the event of noncompliance with such an order, the Division has the power to direct the operation of the state bank subsidiary and withhold dividends from the holding company. DBI, as the holder of the stock of a Wisconsin state-chartered bank, may be subject to assessment to restore impaired capital of the bank to the extent provided in Section 220.07, Wisconsin Statutes. Any such assessment would apply only to DBI and not to any shareholder of DBI.

Federal law prohibits the acquisition of "control" of a bank holding company by individuals or business entities or groups or combinations of individuals or entities acting in concert without prior notice to the appropriate federal bank regulator. For this purpose, "control" is defined in certain instances as the ownership of or power to vote 10% or more of the outstanding shares of the bank holding company.

On November 12, 1999, the Gramm-Leach-Bliley Act of 1999 was signed into law. This Act, commonly referred to as the Financial Modernization Act, is intended to modernize the financial industry. The Act, among other things, repeals the provisions of the 1933 Glass-Steagall Act and the 1956 Bank Holding Company Act prohibiting affiliations with other types of financial services firms. The Act allows bank holding companies to engage in a full range of financial activities through a new entity known as a financial holding company or a national bank to engage in financial activities through a financial subsidiary. The Act allows banks to affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. A bank holding company may become a financial holding company if each of its subsidiary banks is well capitalized, is well managed and has at least a satisfactory rating under the Community Reinvestment Act, by filing a declaration that the bank holding company wishes to become a financial holding company.

The Sarbanes-Oxley Act, which enacted sweeping measures that, among other things, tighten the rules governing auditors, corporate officers and executives, and investment banking research analysts, was signed into law as of July 30, 2002. This act requires chief executive officers and chief financial officers of public companies to personally certify that the reports their companies file with the SEC are accurate and complete. Those persons who are responsible for accounting or reporting violations are subject to harsh civil and criminal penalties.

*DSB*

As a state-chartered institution, DSB is subject to regulation and supervision by the Division and the Wisconsin Banking Review Board and is periodically examined by the Division's staff. Deposits of DSB are insured by the Bank Insurance Fund administered by the Federal Deposit Insurance Corporation (the "FDIC") and as a result DSB is also subject to regulation by the FDIC and periodically examined by its staff.

The Federal Deposit Insurance Act requires that the appropriate federal regulatory authority -- the FDIC in the case of DSB (as an insured state bank which is not a member of the Federal Reserve System) -- approve any acquisition by it through merger, consolidation, purchase of assets, or assumption of deposits. The same regulatory authority also supervises compliance by DSB with provisions of federal banking laws, which, among other things, prohibit the granting of preferential loans by a bank to executive officers, directors, and principal shareholders of the bank and of other banks, which have a correspondent relationship with the bank.

Wisconsin banking laws restrict the payment of cash dividends by state banks by providing that (i) dividends may be paid only out of a bank's undivided profits, and (ii) prior consent of the Division is required for the payment of a dividend which exceeds current year income if dividends declared have exceeded net profits in either of the two immediately preceding years. The various bank regulatory agencies have authority to prohibit a bank regulated by them from engaging in an unsafe or unsound practice; the payment of a dividend by a bank could, depending upon the circumstances, be considered such an unsafe or unsound practice. In the event that (i) the FDIC or the Division should increase minimum required levels of capital; (ii) the total assets of DSB increase significantly; (iii) the income of DSB decreases significantly; or (iv) any combination of the foregoing occurs, then the Board of Directors of DSB may decide or be required by the FDIC or the Division to retain a greater portion of DSB's earnings thereby reducing dividends.

Subsidiary banks of a bank holding company are subject to certain restrictions imposed by the Federal Reserve Act on any extensions of credit to the bank holding company or any of its subsidiaries, on investments in stock or other securities of the bank holding company and on the taking of such stock or securities as collateral for loans to any borrower. Under the Federal Reserve Act and regulations of the Board, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or any property or service.

The activities and operations of banks are subject to a number of additional detailed, complex and sometimes overlapping federal and state laws and regulations. These include state usury and consumer credit laws, state laws relating to fiduciaries, the Federal Truth-in-Lending Act and Regulation Z, the Federal Equal Credit Opportunity Act and Regulation B, the Fair Credit Reporting Act, the Financial Institutions Reform, Recovery and Enforcement Act of 1989, the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, the Community Reinvestment Act, anti-redlining legislation and the antitrust laws.

The Community Reinvestment Act includes provisions under which the federal bank regulatory agencies must consider, in connection with applications for certain required approvals, including applications to acquire control of a bank or holding company or to establish a branch, the records of regulated financial institutions in satisfying their continuing and affirmative obligations to help meet the credit needs of their local communities, including those of low and moderate-income borrowers.

FDICIA, among other things, establishes five tiers of capital requirements: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. The FDIC has adopted regulations, which define the relevant capital measures for the five capital categories. An institution is deemed to be "well capitalized" if it has a total risk-based capital ratio (total capital to risk-weighted assets) of 10% or greater, a Tier I risk-based capital ratio (Tier I Capital to risk-weighted assets) of 6% or greater, and a Tier I leverage capital ratio (Tier I Capital to total assets) of 5% or greater, and is not subject to a regulatory order, agreement, or directive to meet and maintain a specific capital level for any capital measure. The other categories are identified by descending levels of capitalization. Undercapitalized banks are subject to growth limitations and are required to submit a capital restoration plan. If an undercapitalized bank fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." Significantly undercapitalized banks may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. DSB currently exceeds the regulatory definitions of a well capitalized financial institution.

*Other Subsidiaries*

DBI's two non-bank subsidiaries are also subject to various forms of regulation. To the extent that lending of DACC is funded by loans from one or more Farm Credit Banks, its operations are subject to regulations promulgated by the Federal Farm Credit Administration. Currently, the AgriBank, FCB (a wholesale lending cooperative whose primary function is to provide credit to farm service centers) conducts a review of DACC's loan portfolio at least once every three years. Also, loans originated by DACC are subject to the same consumer protection regulation that governs loan procedures of DSB. McDonald is required to operate through individuals licensed as insurance agents in Wisconsin, and is subject to Wisconsin statutes and regulations governing marketing methods, providing minimum requirements for record keeping and mandating other internal procedures.

## ITEM 1A. RISK FACTORS

Following are potential risks that management considers material that could affect the future operating results and financial condition of DBI. The risks are not listed in any particular order of importance and there is the potential that there are other risks that have either not been identified or were identified as immaterial that could impair DBI's business, operating results or financial condition.

**Changing Economic Conditions in DBI's Primary Service Area Could Adversely Impact DBI's Financial Results and Condition**

Most of DBI's loans are to businesses and individuals in Wisconsin (and, more specifically, Brown, Kewaunee, Manitowoc and Outagamie Counties), and any general adverse change in the economic conditions prevailing in these areas could reduce DBI's growth rate, impair its ability to collect loans or attract deposits, and generally have an adverse impact on the results of operations and financial condition of DBI. If these areas experience adverse economic, political or business conditions, DBI would likely experience higher rates of loss and delinquency on its loans than if its loans were more geographically diverse.

**Changing Interest Rates May Adversely Impact the Profitability of DBI**

The profitability of DBI depends to a large extent on its net interest income, which is the difference between interest earned on its interest-earning assets, such as loans and investment securities, and its interest expense paid on interest-bearing liabilities, such as deposits and borrowings. DBI is unable to influence or to predict accurately fluctuations of market interest rates, which are affected by many factors including inflation, unemployment, general economic conditions throughout the world, and actions of the Federal Reserve in adjusting the money supply. At any given time, DBI's assets and liabilities will be such that they are affected differently by a given change in interest rates. As a result, an increase or decrease in rates could have a positive or negative effect on DBI's net income, capital and liquidity.

The mismatch between maturities and interest rate sensitivities of interest-earning assets and interest-bearing liabilities results in interest rate risk, which risk will change as the level of interest rates changes. DBI's liabilities consist primarily of deposits, which are either of a short-term maturity or have no stated maturity. These accounts typically can react more quickly to changes in market interest rates than DBI's assets because of the shorter maturity (or lack of maturity) and repricing characteristics of these deposits. Consequently, sharp increases or decreases in market interest rates may impact DBI's earnings negatively or positively, respectively.

Changes in interest rates will also affect the level of voluntary prepayments on DBI's loans and the receipt of payments on DBI's mortgage-backed securities, resulting in the receipt of proceeds that DBI may have to reinvest at a lower rate than the loan or mortgage-backed security being prepaid. Finally, changes in interest rates can result in the flow of funds away from banking institutions into investments in U.S. government and corporate securities, and other investment vehicles which, because of the absence of federal insurance premiums and reserve requirements, among other reasons, generally can pay higher rates of return than banking institutions.

**DBI's Concentration on Small to Medium-Sized Business Customers May Adversely Impact DBI's Results if the Economy Worsens**

One of the primary focal points of DBI's business development and marketing strategy is serving the banking and financial services needs of small to medium-sized businesses. Small to medium-sized businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities. If general economic conditions become unfavorable in Wisconsin, the businesses of DBI's lending clients and their ability to repay outstanding loans may be negatively affected. As a consequence, DBI's results of operations and financial condition may be adversely affected.

**DBI's Concentration in Agricultural-Related Loans May Adversely Impact DBI's Results if the Economy Worsens**

DBI has a concentration of agricultural-related loans amounting to approximately 22% of total loans as of December 31, 2005. The factors that influence the agricultural economy are complex and difficult to predict. These factors include, among other things, (i) the weather's effect on feed quality and quantity; (ii) the effect of governmental support programs on feed grain and dairy prices; (iii) import and export markets; (iv) energy costs as they relate to fuel and fertilizer costs; (v) interest rates; (vi) supply and demand for feed grain and dairy; and (vii) market fluctuations created by consumer reaction to animal health issues. If agricultural conditions become unfavorable in Wisconsin, the businesses of DBI's agricultural clients and their ability to repay outstanding loans may be negatively affected. As a consequence, DBI's results of operations and financial condition may be adversely affected.

**Government Regulation and Monetary Policy Could Limit DBI's Potential**

DBI and DSB are subject to extensive state and federal government supervision, regulation and control. Existing state and federal banking laws subject DBI and DSB to substantial limitations with respect to loans, purchase of securities, payment of dividends and many other aspects of DSB's banking business. There can be no assurance that future legislation or government policy will not adversely affect the banking industry or the operations of DSB, to the advantage of DSB's non-bank competitors. In addition, economic and monetary policy of the Federal Reserve may increase DSB's cost of doing business and affect its ability to attract deposits and make loans. The techniques used by the Federal Reserve include setting the reserve requirements of banks and establishing the discount rate on bank borrowings. The policies of the Federal Reserve have a direct effect on the amount of bank loans and deposits, and the interest rates charged and paid thereon.

**DBI's Allowance for Potential Loan Losses May Not Be Adequate**

DBI makes various assumptions and judgments about the collectability of its loan portfolio and provides an allowance for potential losses based on a number of factors. DBI's allowance for potential loan losses is established in consultation with its management and is maintained at a level considered adequate by management to absorb loan losses that are inherent in DBI's portfolio. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, that may be beyond DBI's control, and such losses may exceed current estimates. Although DBI's management believes that the allowance for potential loan losses as of the date hereof is adequate to absorb losses that may develop in its existing portfolio of loans, there can be no assurance that the allowance will prove sufficient to cover actual loan losses in the future.

In addition, federal and state regulators periodically review DBI's allowance for potential loan losses and may require DBI to increase its provision for potential loan losses or recognize further loan charge-offs, based on judgments different than those of DBI's management. Any increase in DBI's allowance for potential loan losses or loan charge-offs as required by these regulatory agencies would have a negative effect on the operating results of DBI.

**Significant Competition May Limit DBI's Potential for Success**

The financial services industry is highly competitive. DBI faces intense competition from financial institutions in Denmark and surrounding markets, and from non-bank financial institutions, such as mutual funds, brokerage firms and insurance companies that are aggressively expanding into markets traditionally served by banks. Many of DBI's non-bank competitors are not subject to the same degree of regulation as are imposed on bank holding companies, federally insured banks and Wisconsin-chartered state banks. As a result, such non-bank competitors may have advantages over DBI in providing certain services. DBI also competes indirectly with regional and national financial institutions, many of which have greater liquidity, lending limits, access to capital and market recognition, resources and banking experience than DBI.

**Loss of Key Personnel Could Adversely Impact DBI's Results**

DBI's and DSB's success has been and will be greatly influenced by their continuing ability to retain the services of their existing senior management and, as they expand, to attract and retain additional qualified senior and middle management. DBI has not entered into employment agreements or other contractual arrangements intended to discourage key personnel from leaving. The unexpected loss of the services of any of the key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on DBI's and DSB's business and financial results.

**Need for Technological Change May Limit DBI's Potential**

The banking industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. DBI's future success will depend in part on its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands for convenience as well as create additional efficiencies in DBI's operations. A number of DBI's competitors may have substantially greater resources to invest in technological improvements. There can be no assurance that DBI will be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to its customers.

**ITEM 2. DESCRIPTION OF PROPERTY**

The following table sets forth certain information relating to DBI's corporate offices and other facilities, all of which are owned by DBI or its subsidiaries except the Wrightstown - East branch which is leased:

| Location | Approximate Square Feet | Principal Uses |
|---|---|---|
| Denmark | 22,000 | Principal corporate and banking offices |
| Bellevue | 10,000 | Branch bank |
| Maribel | 5,300 | Branch bank |
| Reedsville | 3,700 | Branch bank |
| Whitelaw | 3,400 | Branch bank |
| Wrightstown - West | 6,750 | Branch bank |
| Wrightstown - East | 2,000 | Branch bank |
| Denmark | 5,000 | Investments, insurance and travel |
| Denmark | 1,000 | Insurance office occupied by McDonald |

Each of the foregoing properties is in good condition and is solely occupied by DBI.

In the opinion of management, all of DBI's properties are adequately covered by insurance. In addition to DBI's corporate offices and banking facilities, DBI from time to time acquires real estate upon foreclosure. DBI sells such real estate as soon as practicable after it is acquired.

**ITEM 3. LEGAL PROCEEDINGS**

Neither DBI nor any of its subsidiaries is a party to any legal proceedings, which, individually or in the aggregate, are material to DBI as a whole. From time to time DBI (through its subsidiaries) is involved in routine litigation, including collection matters.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2005.

## PART II

**ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The information contained under the caption "Market Information" in the Quarterly Financial Information section of the Annual Report is incorporated herein by reference. Information concerning restrictions that limit DBI's ability to pay dividends is contained under the caption "Stockholders' Equity" in the Management's Discussion and Analysis section of the Annual Report and is also incorporated herein by reference.

**Unregistered Sales of Equity Securities and Use of Proceeds**

Following are DBI’s monthly common stock purchases during the fourth quarter of 2005:

| Period | Total Number Of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans (1) | Maximum Number of Shares That May Yet Be Purchased Under the Plan (2) |
|---|---|---|---|---|
| October 1-31 | 45 | $874 | 45 | 6,539 |
| November 1-30 | 52 | $878 | 52 | 6,928 |
| December 1-31 | 5 | $882 | 5 | 6,984 |

(1) DBI announced a Stock Repurchase Policy on March 30, 1995, as an accommodation to shareholders.

(2) DBI limits purchases under the Policy in any six-month period to less than six percent of the common shares outstanding. The Policy has no fixed expiration date, although DBI may terminate the Policy at any time. DBI is not soliciting or encouraging shareholders to sell shares under the Policy.

**ITEM 6. SELECTED FINANCIAL DATA**

The information contained in the section captioned "Selected Financial Data" in the Annual Report is incorporated herein by reference.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The information contained in the section captioned "Management's Discussion and Analysis" in the Annual Report is incorporated herein by reference.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information contained under the subheading “Quantitative and Qualitative Disclosures About Market Risk” in the Management’s Discussion and Analysis section of the Annual Report is incorporated herein by reference.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements, including the notes thereto and the independent auditors' report, required by this item are contained in the sections captioned "Consolidated Financial Statements" and "Notes to the Consolidated Financial Statements" in the 2005 Annual Report and are incorporated herein by reference. The supplementary data required by this item is contained in the section captioned "Selected Financial Information" under the heading "Quarterly Financial Information".

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

The information in DBI's proxy statement, prepared for the 2006 Annual Meeting of Shareholders, which contains information concerning this item, under the caption "Ratification of Selection of Independent Public Accountants," is incorporated herein by reference.

**ITEM 9A. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures*

DBI's management, under the supervision and with the participation of DBI's principal executive officer and principal financial officer, has evaluated DBI's disclosure controls and procedures prior to the filing date of this report. Based on that evaluation, management believes that DBI's disclosure controls and procedures as of the end of the 2005 fiscal year are effective in ensuring that information required to be disclosed by DBI in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time period specified by the Securities and Exchange Commission's rules and forms.

There were no significant changes in DBI's internal controls or in other factors that could significantly affect these controls subsequent to the date of management’s evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

*Internal Control Over Financial Reporting*

Management’s Annual Report on Internal Control over Financial Reporting is on page 3 of the 2005 Annual Report and is incorporated herein by reference.

The Attestation Report of the Registered Public Accounting Firm on management’s assessment of the effectiveness of DBI’s internal control over financial reporting is on page 4 of the 2005 Annual Report and is incorporated herein by reference.

**ITEM 9B. OTHER INFORMATION**

None

## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained under the captions "Proposal I - Election of Directors", “Committees, Meetings and Compensation of Directors”, “Nominating Process and Shareholder Communications” and “Code of Ethics” in DBI's proxy statement for the 2006 Annual Meeting of Shareholders is incorporated herein by reference. Certain information with respect to DBI's other executive officers is set forth below:

| NAME | AGE | POSITION |
|---|---|---|
| Dennis J. Heim | 46 | Mr. Heim has served as Vice President of DBI since 1995 and Treasurer since 1993. Mr. Heim has also served as Senior Vice President and Chief Financial Officer of DSB since January 1999. Mr. Heim has held other positions with DSB since 1983. Dennis J. Heim is the brother of Michael L. Heim, a director of DBI. |
| Evonne J. Kreft | 45 | Ms. Kreft has served as a Vice President of DSB since 2004. Prior to 2004, she was an Assistant Vice President of DSB since 2001. Ms. Kreft has held other positions with DSB since 1982. |
| Roger L. Lemmens | 56 | Mr. Lemmens has served as a Vice President of DSB since 1991 and prior thereto was an Assistant Vice President of DSB since 1986. Mr. Lemmens has been a Branch Manager for DSB since 1988. Mr. Lemmens has also served as a director of DSB since February 1993. Roger L. Lemmens is the brother of Darrell R. Lemmens, Chairman of the Board and President of DBI. |
| Lonnie A. Loritz | 46 | Ms. Loritz has served as a Vice President of DSB since 2004. Prior to 2004, she was an Assistant Vice President of DSB since 2001. Ms. Loritz has held other positions with DSB since 1994. |
| John P. Olsen | 55 | Mr. Olsen has served as President of DACC since 1986, as Treasurer since 1996 and as a director of DACC since 1985. Mr. Olsen has served as a Senior Vice President and Chief Credit Officer of DSB since January 1999. Mr. Olsen has held other positions with DSB since 1985. |
| David H. Radue | 57 | Mr. Radue has served as a director, Vice President and Branch Manager of DSB since 1986. Mr. Radue was a director of the Maribel Bank from 1984 until its consolidation with DSB in 1986. Mr. Radue has also been a director of DACC since 1986. |
| Jeffrey J. Van Rens | 54 | Mr. Van Rens has served as a Vice President of DSB since 2002. Mr. Van Rens has held other positions with DSB since 1996. Mr. Van Rens has also been a director of DACC since 2002. |
| Glenn J. Whipp | 55 | Mr. Whipp has served as a director of DSB since 1983. Mr. Whipp has also been a Vice President and Branch Manager of DSB since 1984. |

### ITEM 11. EXECUTIVE COMPENSATION

The information in DBI's proxy statement, prepared for the 2006 Annual Meeting of Shareholders, which contains information concerning this item, under the captions "Committees, Meetings and Compensation of Directors", "Executive Compensation", "Board Compensation Committee Report on Executive Compensation", "Compensation Committee Interlocks and Insider Participation" and “Stock Performance Graph” is incorporated herein by reference.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information in DBI's proxy statement, prepared for the 2006 Annual Meeting of Shareholders, which contains information concerning this item, under the caption "Voting Securities and Security Ownership of Certain Beneficial Owners and Management," is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information in DBI's proxy statement, prepared for the 2006 Annual Meeting of Shareholders, which contains information concerning this item, under the caption "Certain Relationships and Related Transactions," is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information in DBI's proxy statement, prepared for the 2006 Annual Meeting of Shareholders, which contains information concerning this item, under the caption "Ratification of Selection of Independent Registered Public Accountants," is incorporated herein by reference.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) 1. and 2. Financial Statements and Financial Statement Schedules

The following financial statements and financial statement schedules are contained in the Annual Report to Shareholders and are incorporated herein by reference:

Consolidated Statements of Financial Condition as of December 31, 2005 and 2004

Consolidated Statements of Income for the years ended December 31, 2005, 2004 and 2003

Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2005, 2004 and 2003

Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Selected Financial Information

(a) 3. The "Index to Exhibits" is shown below.

**INDEX TO EXHIBITS**
**DENMARK BANCSHARES, INC.**
**FORM 10-K**

| Exhibit Number | Description of Exhibit |
|---|---|
| 3.1 | Articles of Incorporation [Incorporated by reference to Exhibit 3.1 to DBI's report on Form 10-Q for the quarter ended June 30, 2002] |
| 3.2 | Restated Bylaws [Incorporated by reference to Exhibit 3.2 to DBI's report on Form 10-Q for the quarter ended June 30, 2002] |
| 11.1 | Statement Re Computation of Per Share Earnings |
| 13.1 | Annual Report to Shareholders for the Fiscal Year Ended December 31, 2005 |
| 21.1 | List of Subsidiaries |
| 23.1 | Consent of Wipfli LLP |
| 31.1 | Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DENMARK BANCSHARES, INC.

By: /s/Darrell R. Lemmens
Darrell R. Lemmens,
Chairman of the Board,
President and a Director

Date: February 21, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

By: /s/ Darrell R. Lemmens
Darrell R. Lemmens,
Principal Executive Officer,
Chairman of the Board,
President and Director

By: /s/ Dennis J. Heim
Dennis J. Heim,
Vice President, Treasurer, Principal
Financial and Accounting Officer

By: /s/ Terese M. Deprey
Terese M. Deprey,
Secretary and Director

By: /s/ Mark E. Looker
Mark E. Looker,
Vice President and Director

By: /s/ Allen M. Peters
Allen M. Peters
Director

By: /s/ Edward Q. Opichka, DDS
Edward Q. Opichka, DDS
Director

By: /s/ Thomas N. Hartman
Thomas N. Hartman,
Director

By: /s/ Michael L. Heim
Michael L. Heim
Director

By: /s/ Thomas F. Wall
Thomas F. Wall,
Director

Date: February 21, 2006

# DENMARK BANCSHARES, INC.

## EXHIBIT (11.1)

## STATEMENT RE COMPUTATION OF PER SHARE EARNINGS

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| Net income | $2,585,874 | $3,857,920 | $4,342,108 |
| Weighted average shares outstanding | 120,387 | 121,100 | 110,195 |
| Net income per share | $21.48 | $31.86 | $39.40 |

# DENMARK BANCSHARES, INC.

## EXHIBIT (13.1)

## Annual Report

# *DENMARK*
# *Bancshares, Inc.*

**2005 ANNUAL REPORT**

## TABLE OF CONTENTS



Denmark Bancshares, Inc. ("DBI"), headquartered in Denmark, Wisconsin, is a diversified one-bank holding company. Denmark State Bank ("DSB"), DBI's subsidiary bank, offers seven full service banking offices located in the Villages of Denmark, Bellevue, Maribel, Reedsville, Whitelaw and Wrightstown, serving primarily Brown, Kewaunee, Manitowoc and Outagamie Counties. DBI also extends farm credit through its subsidiary Denmark Agricultural Credit Corporation ("DACC") and sells a full line of insurance products through its subsidiary McDonald-Zeamer Insurance Agency, Inc.

# SELECTED FINANCIAL DATA

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| **INCOME STATEMENT DATA** | | | | | |
| Interest income | $22,259 | $19,615 | $19,792 | $22,201 | $25,922 |
| Interest expense | 8,913 | 5,925 | 6,452 | 7,971 | 13,403 |
| Net interest income | $13,346 | $13,690 | $13,340 | $14,230 | $12,519 |
| Less: Provision for credit losses | 786 | 327 | 434 | 944 | 2,132 |
| Net interest income after provision for credit losses | $12,560 | $13,363 | $12,906 | $13,286 | $10,387 |
| Plus: Noninterest income | $1,567 | $1,734 | $2,027 | $1,707 | $1,430 |
| Less: Noninterest expense | 10,961 | 10,049 | 9,066 | 8,452 | 8,219 |
| Net noninterest expense | ($9,394) | ($8,315) | ($7,039) | ($6,745) | ($6,789) |
| Income before income taxes | $3,166 | $5,048 | $5,867 | $6,541 | $3,598 |
| Income tax expense | 580 | 1,190 | 1,525 | 1,817 | 753 |
| Net income | $2,586 | $3,858 | $4,342 | $4,724 | $2,845 |
| **PER SHARE DATA (1)** | | | | | |
| Net income | $21.48 | $31.86 | $39.40 | $43.49 | $26.00 |
| Cash dividends declared | 14.10 | 13.25 | 12.25 | 11.38 | 10.88 |
| Book value (year end) | 421.14 | 416.94 | 400.29 | 334.32 | 305.60 |
| **BALANCE SHEET DATA** | | | | | |
| Average balances: | | | | | |
| Total loans (includes loans held for sale) | $312,532 | $282,000 | $258,276 | $266,004 | $275,629 |
| Investment securities | 49,049 | 48,470 | 51,661 | 42,580 | 38,145 |
| Assets | 395,535 | 366,550 | 350,301 | 339,604 | 344,459 |
| Deposits | 284,568 | 265,916 | 259,625 | 249,722 | 245,252 |
| Stockholders' equity | 50,556 | 49,676 | 40,203 | 34,929 | 32,835 |
| Year-end balances: | | | | | |
| Total loans (includes loans held for sale) | $326,512 | $300,864 | $266,503 | $262,470 | $268,028 |
| Allowance for possible credit losses | 6,400 | 5,820 | 5,529 | 5,418 | 5,524 |
| Investment securities | 49,570 | 49,005 | 49,909 | 50,168 | 37,668 |
| Assets | 414,521 | 396,685 | 358,878 | 346,153 | 346,374 |
| Deposits | 298,254 | 288,758 | 263,731 | 257,964 | 252,688 |
| Long-term debt | 35,015 | 33,773 | 26,480 | 26,186 | 34,087 |
| Stockholders' equity | 50,553 | 50,383 | 48,569 | 36,150 | 33,371 |
| **FINANCIAL RATIOS** | | | | | |
| Return on average equity | 5.12% | 7.77% | 10.80% | 13.52% | 8.66% |
| Return on average assets | 0.65% | 1.05% | 1.24% | 1.39% | 0.83% |
| Net interest spread (tax-equivalent) | 3.42% | 3.93% | 3.95% | 4.28% | 3.41% |
| Average equity to average assets | 12.78% | 13.55% | 11.48% | 10.29% | 9.53% |
| Allowance for credit losses to loans | 1.96% | 1.93% | 2.07% | 2.06% | 2.06% |
| Non-performing loans to allowance for credit losses | 118.56% | 101.37% | 113.61% | 112.41% | 126.41% |

Dollars in thousands except per share data.

(1) Adjusted to reflect 2-for-1 stock split effective June 11, 2002.

## PRESIDENT'S LETTER

To Our Shareholders and Friends:

We are pleased to present the 2005 Annual Report of Denmark Bancshares, Inc. Your Bank enjoyed another successful year with growth in loans and deposits. Our financial strength establishes an excellent base for future growth and expansion.

Our semi-annual dividend of $7.10 per share to shareholders of record December 13, 2005, payable January 3, 2006, represents a 1.5% increase over the last semi-annual dividend and a 5% increase over the dividend paid in January 2005.

On behalf of your independent and locally owned Bank, I would like to recognize, with gratitude, the leadership of our directors, the support of our shareholders and customers, and finally the loyalty, hard work and dedication of our employees. As we go forward, we will strive to earn your continued confidence.

We ask that you continue to recommend our services to your friends, relatives and business associates.

Sincerely,

Darrell R. Lemmens
Chairman of the Board

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## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Denmark Bancshares, Inc. ("DBI") is responsible for establishing and maintaining adequate internal control over financial reporting. DBI's internal control system was designed to provide reasonable assurance as to the reliability of financial reporting and the preparation and presentation of the consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

DBI's management conducted an assessment, including testing, of the effectiveness of its internal control over financial reporting as of December 31, 2005. In making this assessment, DBI used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework.* Based on this assessment, DBI's management believes that, as of December 31, 2005, DBI's internal control over financial reporting is effective based on those criteria.

The independent registered public accounting firm, Wipfli LLP, has issued an audit report on our assessment of DBI's internal control over financial reporting, which is included herein.

| | |
|---|---|
| Darrell R. Lemmens | Dennis J. Heim |
| Chairman of the Board, President | Vice President and |
| and Chief Executive Officer | Chief Financial Officer |

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Denmark Bancshares, Inc., Denmark, Wisconsin

We have audited management's assessment, included in the accompanying Report of Management, that Denmark Bancshares, Inc. and Subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Denmark Bancshares, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, management's assessment that Denmark Bancshares, Inc. and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, Denmark Bancshares, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet and the related consolidated statements of income, stockholders' equity, and cash flows of Denmark Bancshares, Inc. and Subsidiaries, and our report dated January 27, 2006, expressed an unqualified opinion.

Wipfli LLP

Wipfli LLP
January 27, 2006
Green Bay, Wisconsin

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Denmark Bancshares, Inc.
Denmark, Wisconsin

We have audited the accompanying statements of financial condition of Denmark Bancshares, Inc. and Subsidiaries as of December 31, 2005 and 2004, and the related statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Denmark Bancshares, Inc. and Subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Denmark Bancshares, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated January 27, 2006, expressed an unqualified opinion on management's assessment of internal control over financial reporting and an unqualified opinion on the effectiveness of internal control over financial reporting.

Wipfli LLP

Wipfli LLP

January 27, 2006
Green Bay, Wisconsin

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

As of December 31,

### *ASSETS*

| ***Assets*** | 2005 | 2004 |
|---|---|---|
| Cash and due from banks | $10,495,063 | $11,274,172 |
| Interest-bearing deposits in other banks | 0 | 0 |
| Total Cash and Cash Equivalents | $10,495,063 | $11,274,172 |
| Federal funds sold | 5,140,000 | 14,119,000 |
| Investment Securities | | |
| Available-for-sale, at fair value | 11,016,664 | 9,007,457 |
| Held-to-maturity (fair value approximates $40,408,989 and $42,696,580, respectively) | 38,553,270 | 39,997,765 |
| Total Investment Securities | $49,569,934 | $49,005,222 |
| Loans less allowance for credit losses of $6,400,480 and $5,820,150, respectively | 318,670,892 | 294,017,313 |
| Loans held for sale | 1,440,529 | 1,026,397 |
| Premises and equipment, net | 10,180,630 | 8,433,277 |
| Other investments, at cost | 7,743,390 | 7,242,301 |
| Accrued interest receivable | 2,032,413 | 1,713,792 |
| Other assets | 9,247,763 | 9,853,961 |
| TOTAL ASSETS | $414,520,614 | $396,685,435 |

### *LIABILITIES AND STOCKHOLDERS' EQUITY*

| ***Liabilities*** | | |
|---|---|---|
| Deposits | | |
| Noninterest-bearing | $39,545,404 | $35,012,285 |
| Interest-bearing | 258,708,268 | 253,745,330 |
| Total Deposits | $298,253,672 | $288,757,615 |
| Short-term borrowings | 28,230,373 | 21,718,325 |
| Accrued interest payable | 1,265,875 | 842,827 |
| Other liabilities | 1,202,826 | 1,210,698 |
| Long-term debt | 35,015,216 | 33,772,738 |
| Total Liabilities | $363,967,962 | $346,302,203 |
| ***Stockholders' Equity*** | | |
| Common stock, no par value, authorized 640,000 shares; issued 120,038 and 120,839 shares, net of 1,492 shares of treasury stock in 2005 and 691 shares in 2004 | $16,975,172 | $17,678,887 |
| Paid in capital | 470,094 | 470,094 |
| Retained earnings | 33,191,504 | 32,300,582 |
| Accumulated other comprehensive loss | | |
| Unrealized losses on securities | (84,118) | (66,331) |
| Total Stockholders' Equity | $50,552,652 | $50,383,232 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $414,520,614 | $396,685,435 |

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

# CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31,

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| ***Interest Income*** | | | |
| Loans including fees | $19,405,904 | $16,921,457 | $16,888,656 |
| Investment securities: | | | |
| Taxable | 286,473 | 179,675 | 231,204 |
| Tax-exempt | 2,052,247 | 2,025,429 | 1,957,144 |
| Interest on federal funds sold | 69,500 | 81,060 | 166,320 |
| Other interest income | 445,336 | 407,370 | 548,900 |
| | $22,259,460 | $19,614,991 | $19,792,224 |
| ***Interest Expense*** | | | |
| Deposits | $6,659,753 | $4,342,960 | $4,852,903 |
| Short-term borrowings | 795,340 | 368,509 | 452,655 |
| Long-term debt | 1,458,106 | 1,213,335 | 1,146,398 |
| | $8,913,199 | $5,924,804 | $6,451,956 |
| Net interest income | $13,346,261 | $13,690,187 | $13,340,268 |
| ***Provision for Credit Losses*** | 786,000 | 327,000 | 434,000 |
| Net interest income after provision for credit losses | $12,560,261 | $13,363,187 | $12,906,268 |
| ***Other Income*** | | | |
| Service fees and commissions | $940,420 | $945,362 | $849,606 |
| Investment security gains | 0 | 0 | 0 |
| Loan sale gains | 134,309 | 257,189 | 684,960 |
| Bank owned life insurance | 211,000 | 222,000 | 129,500 |
| Other | 281,718 | 309,710 | 362,952 |
| | $1,567,447 | $1,734,261 | $2,027,018 |
| ***Other Expense*** | | | |
| Salaries and employee benefits | $6,615,689 | $6,151,745 | $5,473,044 |
| Occupancy expenses | 1,365,939 | 1,203,438 | 974,215 |
| Data processing expenses | 731,992 | 644,461 | 601,046 |
| Marketing expenses | 256,717 | 262,427 | 256,822 |
| Directors fees | 234,800 | 228,110 | 243,400 |
| Professional fees | 223,698 | 241,108 | 223,501 |
| Printing and supplies | 212,703 | 221,002 | 191,251 |
| Amortization of intangibles | 212,881 | 214,230 | 212,128 |
| Other operating expenses | 1,107,474 | 882,904 | 890,555 |
| | $10,961,893 | $10,049,425 | $9,065,962 |
| Income before income taxes | $3,165,815 | $5,048,023 | $5,867,324 |
| Income tax expense | 579,941 | 1,190,103 | 1,525,216 |
| NET INCOME | $2,585,874 | $3,857,920 | $4,342,108 |
| EARNINGS PER COMMON SHARE | $21.48 | $31.86 | $39.40 |

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

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| | Common Stock | | | | Accumulated Other | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Paid in Capital | Retained Earnings | Comprehensive Income (loss) | Total |
| Balance, December 31, 2002 | 108,129 | $8,906,475 | $113,151 | $27,113,719 | $16,239 | $36,149,584 |
| Comprehensive income | | | | | | |
| Net income | | | | 4,342,108 | | 4,342,108 |
| Other comprehensive loss, net of tax Change in unrealized loss on securities available-for-sale, net of applicable deferred income tax benefit of $45,895 | | | | | (70,680) | (70,680) |
| Total comprehensive income | | | | | | $4,271,428 |
| Cash dividend, $12.25 per share | | | | (1,408,961) | | (1,408,961) |
| Issuance of common stock | 10,850 | 7,837,681 | | | | 7,837,681 |
| Treasury stock sales | 2,536 | 1,496,491 | 356,987 | | | 1,853,478 |
| Treasury stock acquisitions | (180) | (134,409) | | | | (134,409) |
| Balance, December 31, 2003 | 121,335 | $18,106,238 | $470,138 | $30,046,866 | ($54,441) | $48,568,801 |
| Comprehensive income | | | | | | |
| Net income | | | | 3,857,920 | | 3,857,920 |
| Other comprehensive loss, net of tax Change in unrealized loss on securities available-for-sale, net of applicable deferred income tax benefit of $7,719 | | | | | (11,890) | (11,890) |
| Total comprehensive income | | | | | | $3,846,030 |
| Cash dividend, $13.25 per share | | | | (1,604,204) | | (1,604,204) |
| Treasury stock sales | 106 | 90,038 | (44) | | | 89,994 |
| Treasury stock acquisitions | (602) | (517,389) | | | | (517,389) |
| Balance, December 31, 2004 | 120,839 | $17,678,887 | $470,094 | $32,300,582 | ($66,331) | $50,383,232 |
| Comprehensive income | | | | | | |
| Net income | | | | 2,585,874 | | 2,585,874 |
| Other comprehensive loss, net of tax Change in unrealized loss on securities available-for-sale, net of applicable deferred income tax benefit of $8,727 | | | | | (17,787) | (17,787) |
| Total comprehensive income | | | | | | $2,568,087 |
| Cash dividend, $14.10 per share | | | | (1,694,952) | | (1,694,952) |
| Treasury stock sales | 87 | 76,299 | | | | 76,299 |
| Treasury stock acquisitions | (888) | (780,014) | | | | (780,014) |
| BALANCE, DECEMBER 31, 2005 | 120,038 | $16,975,172 | $470,094 | $33,191,504 | ($84,118) | $50,552,652 |

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| ***Cash Flows from Operating Activities:*** | | | |
| Net income | $2,585,874 | $3,857,920 | $4,342,108 |
| Adjustments to reconcile net income to | | | |
| net cash provided by operating activities: | | | |
| Depreciation | 747,337 | 653,625 | 517,462 |
| Provision for credit losses | 786,000 | 327,000 | 434,000 |
| Amortization of intangibles | 212,881 | 214,230 | 212,128 |
| Loss (gain) on sale of assets | 85,357 | (169,460) | (618,769) |
| Amortization of bond premium | 20,908 | 33,138 | 20,115 |
| Accretion of bond discount | (167,444) | (147,645) | (148,385) |
| Loans originated for sale | (11,848,512) | (21,594,022) | (59,129,023) |
| Proceeds from sale of loans | 11,339,900 | 21,616,408 | 60,482,595 |
| Common stock dividends | (315,795) | (333,800) | (436,470) |
| Income from bank owned life insurance | (211,000) | (222,000) | (129,500) |
| (Increase) decrease in interest receivable | (318,621) | (204,693) | 100,911 |
| Increase (decrease) in interest payable | 423,048 | 206,451 | (218,424) |
| Other, net | (170,671) | (135,807) | 504,782 |
| Net Cash Provided by Operating Activities | $3,169,262 | $4,101,345 | $5,933,530 |
| ***Cash Flows from Investing Activities:*** | | | |
| Maturities of held-to-maturity securities | $1,970,000 | $2,020,000 | $2,287,000 |
| Maturities and sales of available-for-sale securities | 10,980,274 | 5,285,735 | 21,261,889 |
| Purchases of held-to-maturity securities | (375,000) | (3,927,837) | (2,180,875) |
| Purchases of available-for-sale securities | (13,019,965) | (2,380,000) | (21,096,403) |
| Purchases of common stock | (45,000) | (45,000) | (2,758,730) |
| Purchase of bank owned life insurance | 0 | 0 | (5,000,000) |
| Money market mutual funds, net | (140,294) | 184,504 | 437,405 |
| Federal funds sold, net | 8,979,000 | (5,907,000) | 4,085,000 |
| Proceeds from sale of foreclosed assets | 1,177,800 | 513,360 | 874,899 |
| Net increase in loans made to customers | (25,799,791) | (34,772,175) | (6,260,040) |
| Capital expenditures | (2,563,947) | (3,048,275) | (2,405,430) |
| Net Cash Used by Investing Activities | ($18,836,923) | ($42,076,688) | ($10,755,285) |
| ***Cash Flows from Financing Activities:*** | | | |
| Net increase in deposits | $9,496,057 | $25,026,790 | $5,767,279 |
| Purchase of treasury stock | (780,014) | (517,389) | (134,409) |
| Sale of treasury stock | 76,299 | 89,994 | 1,853,478 |
| Sale of common stock | 0 | 0 | 7,837,681 |
| Dividends paid | (1,658,316) | (1,546,935) | (1,272,408) |
| Debt proceeds | 41,412,048 | 40,936,816 | 37,072,729 |
| Debt repayments | (33,657,522) | (30,185,946) | (42,566,413) |
| Net Cash Provided by Financing Activities | $14,888,552 | $33,803,330 | $8,557,937 |
| Net (decrease) increase in cash and cash equivalents | ($779,109) | ($4,172,013) | $3,736,182 |
| Cash and cash equivalents, beginning | 11,274,172 | 15,446,185 | 11,710,003 |
| CASH AND CASH EQUIVALENTS, ENDING | $10,495,063 | $11,274,172 | $15,446,185 |
| ***Noncash Investing Activities:*** | | | |
| Loans transferred to foreclosed properties | $589,000 | $610,609 | $1,234,985 |
| Total increase in unrealized loss on securities available-for-sale | $26,515 | $19,609 | $116,575 |

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

# NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## Nature of Organization

Denmark Bancshares, Inc. is a bank holding company as defined in the Bank Holding Company Act. As such, it exercises control over Denmark State Bank, Denmark Ag Credit Corporation and McDonald-Zeamer Insurance Agency, Inc. A majority of DBI's assets are held by Denmark State Bank.

Denmark State Bank, a wholly owned subsidiary of Denmark Bancshares, Inc., operates under a state bank charter, and provides full banking services to its customers. Denmark Investments Inc. is a wholly owned subsidiary of Denmark State Bank. DBI and its subsidiaries make agribusiness, commercial and residential loans to customers throughout the state, but primarily in eastern Wisconsin. DBI and its subsidiaries have 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 7. The significant risks associated with financial institutions include interest rate risk, credit risk, liquidity risk and concentration risk.

## 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 allowance for credit losses and accounting for the impairment of loans, which are discussed specifically in the following sections of this footnote.

## 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 $880,947, $1,051,854 and $1,177,657 and interest paid was $8,505,002, $5,735,119 and $6,682,440 for the years ended December 31, 2005, 2004 and 2003, respectively.

## Investment Securities

Investment securities are designated as available-for-sale or held-to-maturity when purchased and remain in that classification until they are sold or mature. Debt and equity 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. Debt securities classified as held-to-maturity are stated at cost adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income. Realized gains or losses on dispositions are recorded in other operating income on the settlement date, based on the net proceeds and the adjusted carrying amount of the securities sold using the specific identification method.

## Loans

Loans are reported at the principal amount outstanding, net of the allowance for credit 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. Capitalization of the fees net of the related costs would not have a material effect on the consolidated financial statements.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on loans is discontinued either when reasonable doubt exists as to the full, timely collection of interest or principal or when a loan becomes contractually past due by ninety days or more with respect to interest or principal. When a loan is placed on nonaccrual, all interest previously accrued but not collected is reversed against current period interest income. 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 fully current with respect to interest and principal and when, in the judgment of the management, the loans are estimated to be fully collectible as to both principal and interest.

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. Impaired loans are measured at the estimated fair value of the collateral. If the estimated fair value of the impaired loan is less than the recorded investment in the loan, an impairment is recognized by creating a valuation allowance. Interest income is recognized in the same manner described above for nonaccrual loans.

## Allowance for Credit Losses

The allowance for credit losses is established through a provision for credit losses charged to expense. Loans are charged against the allowance for credit losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes to be adequate to absorb losses inherent in existing loans, based on evaluations of the collectibility and prior loss experience of loans. The evaluations take into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, leases and commitments, and current and anticipated economic conditions that may affect the borrowers' ability to pay.

## 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.

## 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 the lower of cost or fair value, less estimated costs to sell. Losses at the time property is classified as other real estate owned are charged to the allowance for loan and lease losses. Subsequent gains and losses, as well as operating income or expense related to other real estate owned, are charged to expense. Other real estate owned, which is included in other assets, totaled $342,845 and $1,157,508 at December 31, 2005 and 2004, respectively.

## Other Investments

Other investments are carried at cost and consist primarily of Federal Home Loan Bank (FHLB) stock and AgriBank stock. 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. The estimated useful lives of the assets are forty years for buildings, fifteen years for leasehold improvements and three to seven years for furniture and equipment.

## Intangible Assets

Other intangibles, which include primarily core deposit intangibles, are amortized on a straight-line basis generally over a period of up to 15 years. Annually management reviews the intangible assets for impairment. Other intangibles are included in Other Assets.

## Income Taxes

Deferred income tax assets and liabilities are determined using the balance sheet method. Under this method the net deferred income taxes are provided for timing differences between items of income or expense reported in the consolidated financial statements and those reported for income tax purposes.

## Treasury Stock

Treasury stock consists of 1,492 and 691 shares, at a cost of $1,198,804 and $495,779 as of December 31, 2005 and 2004, respectively and is netted against common stock on the consolidated statement of financial condition.

## 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 does not have any stock based compensation plans, therefore basic and diluted earnings per share are presented as one number. The number of shares used in computing basic earnings per share is 120,387, 121,100 and 110,195 for the years ended December 31, 2005, 2004 and 2003, respectively.

## Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year.

## NOTE 2 – CASH RESTRICTIONS

DSB is required to maintain non-interest-bearing deposits on hand or with the Federal Reserve Bank. Required reserves of $1,133,000 and $1,040,000 as of December 31, 2005 and 2004, respectively, were satisfied by currency and coin holdings.

## NOTE 3 - INVESTMENT SECURITIES

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

| | December 31, 2005 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value |
| U.S. Government agencies | $1,700,000 | $0 | ($3,850) | $1,696,150 |
| Mortgage-backed securities | 4,880,182 | 3,993 | (111,969) | 4,772,206 |
| State and local governments | 4,572,398 | 296 | (24,386) | 4,548,308 |
| | $11,152,580 | $4,289 | ($140,205) | $11,016,664 |

| | December 31, 2004 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value |
| Mortgage-backed securities | $5,236,859 | $9,225 | ($118,627) | $5,127,457 |
| State and local governments | 3,880,000 | 0 | 0 | 3,880,000 |
| | $9,116,859 | $9,225 | ($118,627) | $9,007,457 |

The amortized cost and estimated fair value of securities held-to-maturity were as follows:

| | December 31, 2005 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value |
| State and local governments | $38,553,270 | $1,856,408 | ($689) | $40,408,989 |
| | $38,553,270 | $1,856,408 | ($689) | $40,408,989 |

| | December 31, 2004 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value |
| State and local governments | $39,997,765 | $2,702,939 | ($4,124) | $42,696,580 |
| | $39,997,765 | $2,702,939 | ($4,124) | $42,696,580 |

The amortized cost and estimated fair values of securities at December 31, 2005, by maturity were as follows:

| | Securities Available-for-Sale | | Securities Held-to-Maturity | |
|---|---|---|---|---|
| Amounts Maturing | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Within one year | $4,056,297 | $4,039,567 | $1,429,079 | $1,434,310 |
| From one through five years | 6,370,354 | 6,260,173 | 5,652,807 | 5,884,438 |
| From five through ten years | 725,929 | 716,924 | 11,658,805 | 12,325,861 |
| After ten years | 0 | 0 | 19,812,579 | 20,764,380 |
| | $11,152,580 | $11,016,664 | $38,553,270 | $40,408,989 |

Mortgage-backed securities are allocated according to their expected prepayments rather than their contractual maturities. Certain state and local governments securities are allocated according to their put date.

Fair values of 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.

No securities were sold during 2005, 2004 and 2003.

Information pertaining to securities with gross unrealized losses at December 31, 2005, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

| | Less Than Twelve Months | | Over Twelve Months | |
|---|---|---|---|---|
| Securities Available for Sale | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value |
| U.S. Government agencies | $3,850 | $696,150 | $0 | $0 |
| Mortgage-backed securities | 3,954 | 984,052 | 108,015 | 3,356,966 |
| State and local governments | 24,386 | 3,454,083 | 0 | 0 |
| Total securities available for sale | $32,190 | $5,134,285 | $108,015 | $3,356,966 |
| Securities Held to Maturity | | | | |
| State and local governments | $689 | $374,311 | $0 | $0 |
| Total securities held to maturity | $689 | $374,311 | $0 | $0 |

At December 31, 2005, ten debt securities have unrealized losses with aggregate depreciation of 2% from DSB's amortized cost basis. These unrealized losses relate principally to the increase in interest rates and are not due to changes in the financial condition of the issuer. In analyzing an issuer's financial condition, management considers whether the securities are issued by a government body or agency, whether a rating agency has downgraded the securities, and industry analysts' reports. Since management has the ability to hold debt securities for the foreseeable future, no declines are deemed to be other than temporary.

There were no significant concentrations of investments (greater than 10 percent of stockholders' equity) in any individual security issuer.

Investment securities with an amortized cost of $65,161 and $78,618 and estimated fair value of $65,373 and $79,809, at December 31, 2005 and 2004, 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, 2005 | December 31, 2004 |
|---|---|---|
| Real estate: | | |
| Residential | $110,666,301 | $108,829,736 |
| Commercial | 63,211,379 | 51,240,233 |
| Agricultural | 34,979,648 | 31,620,947 |
| Construction | 29,158,731 | 28,179,114 |
| | $238,016,059 | $219,870,030 |
| Commercial | $39,766,055 | $33,931,171 |
| Agricultural | 36,260,702 | 34,731,956 |
| Consumer installment | 10,022,202 | 10,300,960 |
| Unsecured loans | 1,006,354 | 1,003,346 |
| Total loans receivable | $325,071,372 | $299,837,463 |
| Allowance for credit losses | (6,400,480) | (5,820,150) |
| NET LOANS RECEIVABLE | $318,670,892 | $294,017,313 |

Nonaccrual loans totaled $7,587,804 and $5,900,375 at December 31, 2005 and 2004, respectively. There were no loans past-due ninety days or more and still accruing. The reduction in interest income associated with nonaccrual loans is as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| Income in accordance with original loan terms | $584,617 | $519,998 | $675,037 |
| Income recognized | (421,415) | (416,746) | (461,764) |
| REDUCTION IN INTEREST INCOME | $163,202 | $103,252 | $213,273 |

Information concerning the Company's investment in impaired loans is as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| Total investment in impaired loans | $3,785,842 | $2,987,197 | $2,774,224 |
| Loans requiring a related allowance | 3,785,842 | 2,987,197 | 2,774,224 |
| Related allowance | (684,110) | (576,713) | (375,367) |
| Average investment in impaired loans during the year | 4,578,580 | 3,694,020 | 3,671,014 |
| Interest income recognized on a cash basis | 205,417 | 209,181 | 229,254 |

Changes in the allowance for credit losses were as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| Balance - beginning of year | $5,820,150 | $5,528,917 | $5,417,920 |
| Charge-offs | (336,275) | (227,430) | (401,692) |
| Recoveries | 130,605 | 191,663 | 78,689 |
| Provision charged to operations | 786,000 | 327,000 | 434,000 |
| BALANCE - END OF YEAR | $6,400,480 | $5,820,150 | $5,528,917 |

## NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

| | December 31, | |
|---|---|---|
| | 2005 | 2004 |
| Land | $1,102,848 | $1,087,194 |
| Buildings and improvements | 9,791,822 | 7,842,802 |
| Furniture and fixtures | 4,683,783 | 4,434,363 |
| Construction in progress | 0 | 271,628 |
| | $15,578,453 | $13,635,987 |
| Less: Accumulated depreciation | (5,397,823) | (5,202,710) |
| NET | $10,180,630 | $8,433,277 |

## NOTE 6 - INTANGIBLE ASSETS

The gross carrying amount, accumulated amortization and net book value of intangible assets were as follows:

| | December 31, | |
|---|---|---|
| | 2005 | 2004 |
| Gross carrying amount | $3,297,784 | $3,287,713 |
| Less: Accumulated amortization | (1,914,774) | (1,701,893) |
| NET BOOK VALUE | $1,383,010 | $1,585,820 |

For the next five years intangible assets will be amortized $207,451 annually.

## NOTE 7 - INTEREST-BEARING DEPOSITS

Interest-bearing deposits consisted of the following:

| | December 31, | |
|---|---|---|
| | 2005 | 2004 |
| NOW accounts | $16,982,984 | $22,519,097 |
| Savings accounts | 19,792,315 | 19,906,657 |
| Money market accounts | 67,059,538 | 64,360,830 |
| Time deposit accounts | 154,873,431 | 146,958,746 |
| TOTAL | $258,708,268 | $253,745,330 |

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

| | December 31, | |
|---|---|---|
| *(In thousands)* | 2005 | 2004 |
| Within one year | $104,951 | $75,486 |
| One to two years | 26,338 | 51,940 |
| Two to three years | 7,213 | 4,777 |
| Three to four years | 9,937 | 4,956 |
| Over four years | 6,434 | 9,800 |
| TOTAL | $154,873 | $146,959 |

Time deposit accounts issued in amounts of $100,000 or more totaled $44,807,386 and $39,598,664 at December 31, 2005 and 2004, respectively.

## NOTE 8 – SHORT-TERM BORROWINGS

Short-term borrowings included notes payable of $28,230,373 and $21,718,325 at December 31, 2005 and 2004, respectively. Notes payable are secured by Denmark State Bank and Denmark Ag Credit Corporation stock and agricultural loans with a carrying value of $31,585,689 and $29,181,137 as of December 31, 2005 and 2004, respectively. The pledged notes also secure long-term debt. Notes payable have fixed and variable interest rates ranging from 3.37% to 6.26% at December 31, 2005. As of December 31, 2005, DBI had $39,891,627 of unused lines of credit with banks to be drawn upon as needed.

## NOTE 9 - LONG-TERM DEBT

Long-term debt consisted of the following:

| | For the Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| Federal Home Loan Bank: | Rates | Amount | Rates | Amount |
| Fixed rate advances | 3.59% - 4.52% | $20,000,000 | 3.59% - 3.86% | $17,000,000 |
| Callable fixed rate advances | 4.80% - 5.05% | 14,000,000 | 4.80% - 5.05% | 14,000,000 |
| Agribank, FCB: | | | | |
| Fixed rate advances | 2.94% - 4.57% | 955,000 | 2.50% - 3.78% | 2,705,000 |
| Other: | | | | |
| Fixed rate advance | 8% | 60,216 | 8% | 67,738 |
| TOTAL | | $35,015,216 | | $33,772,738 |

The following is a summary of scheduled maturities of borrowed funds as of December 31, 2005:

| | Weighted Average Rate | Amount |
|---|---|---|
| 2006 | 3.38% | $713,147 |
| 2007 | 3.73% | 10,008,823 |
| 2008 | 5.06% | 4,009,555 |
| 2009 | 3.80% | 7,010,348 |
| 2010 | 4.54% | 3,261,207 |
| Thereafter | 4.80% | 10,012,136 |
| TOTAL | | $35,015,216 |

The notes payable to Federal Home Loan Bank of Chicago are secured by residential mortgages with a carrying amount of $82,769,095 and $79,261,139 as of December 31, 2005 and 2004, respectively. AgriBank, FCB notes payable are secured by agricultural loans with a carrying value of $31,585,689 and $29,181,137 as of December 31, 2005 and 2004, respectively. The pledged notes also secure short-term borrowings.

## NOTE 10 - INCOME TAXES

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

| *(In thousands)* | | 2005 | 2004 | 2003 |
|---|---|---|---|---|
| Current: | Federal | $745 | $773 | $934 |
| | State | 106 | 301 | 307 |
| | | $851 | $1,074 | $1,241 |
| Deferred: | Federal | ($266) | $153 | $254 |
| | State | (5) | (37) | 30 |
| | | ($271) | $116 | $284 |
| TOTAL PROVISION FOR INCOME TAXES | | $580 | $1,190 | $1,525 |

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:

| | 2005 | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| *(In thousands)* | Amount | % | Amount | % | Amount | % |
| Tax at statutory federal income tax rate | $1,076 | 34% | $1,716 | 34% | $1,995 | 34% |
| Increase (decrease) in tax resulting from: | | | | | | |
| Tax-exempt income | (546) | (17) | (651) | (13) | (670) | (11) |
| State income tax, net of federal tax benefit | 67 | 2 | 174 | 4 | 222 | 4 |
| Bank owned life insurance | (72) | (2) | (75) | (2) | (44) | (1) |
| Other, net | 55 | 1 | 26 | 1 | 22 | 0 |
| APPLICABLE INCOME TAXES | $580 | 18% | $1,190 | 24% | $1,525 | 26% |

Other assets in the accompanying statements of financial condition include the following amounts of deferred tax assets and deferred tax liabilities:

| | 2005 | 2004 |
|---|---|---|
| *(In thousands)* | | |
| Deferred tax assets: | | |
| Allowance for credit losses | $2,286 | $2,052 |
| Unrealized losses on available-for-sale securities | 52 | 43 |
| State tax net operating loss carryforward | 231 | 205 |
| Interest receivable on nonaccrual loans | 104 | 63 |
| Other | 149 | 102 |
| Gross deferred tax assets | $2,822 | $2,465 |
| Valuation allowance | (231) | (205) |
| Total deferred tax assets | $2,591 | $2,260 |
| Deferred tax liabilities: | | |
| Accumulated depreciation on fixed assets | $274 | $319 |
| State income taxes | 121 | 120 |
| Stock dividends received | 662 | 530 |
| Other | 10 | 47 |
| Total deferred tax liabilities | $1,067 | $1,016 |
| NET DEFERRED TAX ASSET | $1,524 | $1,244 |

DBI has state net operating loss carryforwards of approximately $2,923,000. Portions of DBI's net operating losses have been expiring since 2000. DBI has an AMT credit carryforward of approximately $89,000.

## NOTE 11 - EMPLOYEE BENEFIT PLAN

DBI has a 401(k) profit sharing and retirement savings plan. The plan essentially covers all employees who have been employed over one-half year, and are at least twenty and one-half years old. Provisions of the 401(k) profit sharing plan provide for the following:

- DBI will contribute 50% of each employee contribution up to a maximum DBI contribution of 2%. Employee contributions above 4% do not receive any matching contribution.
- DBI may elect to make contributions out of profits. These profit sharing contributions are allocated to the eligible participants based on their salary as a percentage of total participating salaries. The contribution percentage was 8% for 2005, 2004 and 2003.

DBI provides no post retirement benefits to employees except for the 401(k) profit sharing and retirement savings plan discussed above which are currently funded. DBI expensed contributions of $417,756, $418,054 and $373,939 for the years 2005, 2004 and 2003, respectively.

## NOTE 12 – 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 statement 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.

| *(In thousands)* | Contract or Notional Amount December 31, 2005 | Secured Portion |
|---|---|---|
| *Financial instruments whose contract amounts represent credit risk:* | | |
| Commitments to extend credit | $29,908 | $22,393 |
| Standby letters of credit and financial guarantees written | 5,451 | 5,451 |

The exposure of DBI and its subsidiaries to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of these instruments. DBI and its subsidiaries use the same credit policies in making commitments and conditional obligations as for on-balance sheet instruments. DBI and its subsidiaries require collateral or other security to support financial instruments with credit risk.

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, 2005, variable rate commitments totaled $9,534,702.

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 properties and residential properties. All letters of credit are fully collateralized.

DBI maintains deposits at other financial institutions. These deposits are insured by the Federal Deposit Insurance Corporation up to $100,000. The balance in excess of the insured amount as of December 31, 2005, was approximately $1,787,000. Federal funds sold to correspondent banks are not insured.

## NOTE 13 - RELATED PARTY TRANSACTIONS

At December 31, 2005 and 2004 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 in the amounts shown below. All such loans were made in the ordinary course of business and at rates and terms similar to those granted other borrowers. Other changes reflect a loan participated with another financial institution and a new loan guarantee.

| | 12/31/2004 | | | | 12/31/2005 |
|---|---|---|---|---|---|
| *(In thousands)* | Beginning Balance | New Loans | Payments | Other Changes | Ending Balance |
| Aggregate related party loans | $3,476 | $1,495 | ($426) | ($147) | $4,398 |

Deposit balances with DBI's executive officers, directors and affiliated companies in which they are principal owners were $2,066,790 and $1,742,453 at December 31, 2005 and 2004, respectively.

## NOTE 14 - PARENT COMPANY ONLY INFORMATION

Following, in a condensed form, are parent company only statements of financial condition, statements of income and cash flows of Denmark Bancshares, Inc. The financial information contained in this footnote is to be read in association with the preceding accompanying notes to the consolidated financial statements.

**DENMARK BANCSHARES, INC.**

Statements of Financial Condition

| | December 31, | |
|---|---|---|
| *(In thousands)* | 2005 | 2004 |
| ***Assets*** | | |
| Cash in banks | $1,451 | $1,500 |
| Investment | | |
| Banking subsidiary | 34,782 | 34,549 |
| Nonbanking subsidiaries | 7,448 | 7,805 |
| Fixed assets (net of depreciation of $2,684 and $2,491, respectively) | 8,825 | 7,547 |
| Other assets | 141 | 76 |
| TOTAL ASSETS | $52,647 | $51,477 |
| ***Liabilities*** | | |
| Accrued expenses | $132 | $95 |
| Dividends payable | 852 | 816 |
| Other liabilities | 110 | 183 |
| Note payable - unrelated bank | 1,000 | 0 |
| Total Liabilities | $2,094 | $1,094 |
| ***Stockholders' Equity*** | | |
| Common stock | $16,975 | $17,679 |
| Paid-in capital | 470 | 470 |
| Retained earnings | 33,192 | 32,300 |
| Accumulated other comprehensive income | | |
| Unrealized losses on securities | (84) | (66) |
| Total Stockholders' Equity | $50,553 | $50,383 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $52,647 | $51,477 |

**DENMARK BANCSHARES, INC.**

Statements of Income

| *(In thousands)* | For the Years Ended December 31, 2005 | 2004 | 2003 |
|---|---|---|---|
| ***Income*** | | | |
| Interest income from loans | $0 | $2 | $5 |
| Other interest income | 22 | 21 | 10 |
| Dividend income from banking subsidiary | 2,000 | 1,500 | 0 |
| Dividend income from nonbanking subsidiary | 1,001 | 0 | 0 |
| Rental income from banking subsidiary | 560 | 416 | 261 |
| Rental income from nonbanking subsidiary | 9 | 9 | 7 |
| Total Income | $3,592 | $1,948 | $283 |
| ***Expenses*** | | | |
| Management fees to banking subsidiary | $186 | $174 | $162 |
| Interest expense | 1 | 0 | 79 |
| Provision for credit losses | 0 | (3) | 0 |
| Depreciation | 289 | 249 | 156 |
| Other operating expenses | 563 | 359 | 244 |
| Total Expenses | $1,039 | $779 | $641 |
| Income before income taxes and undistributed income of subsidiaries | $2,553 | $1,169 | ($358) |
| Income tax benefit | (139) | (108) | (117) |
| Income before Undistributed Income of Subsidiaries | $2,692 | $1,277 | ($241) |
| ***Equity in Undistributed Income of Subsidiaries*** | | | |
| Banking subsidiary | 251 | 1,892 | 3,778 |
| Nonbank subsidiaries | (357) | 689 | 805 |
| NET INCOME | $2,586 | $3,858 | $4,342 |

**DENMARK BANCSHARES, INC.**

Statements of Cash Flows

| *(In thousands)* | For the Years Ended December 31, 2005 | 2004 | 2003 |
|---|---|---|---|
| ***Cash Flows from Operating Activities:*** | | | |
| Net Income | $2,586 | $3,858 | $4,342 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 289 | 249 | 156 |
| Equity (earnings) of banking subsidiary | (2,251) | (3,392) | (3,778) |
| Equity (earnings) of nonbanking subsidiaries | (644) | (689) | (805) |
| Dividend from banking subsidiary | 2,000 | 1,500 | 0 |
| Dividend from nonbanking subsidiary | 1,001 | 0 | 0 |
| Decrease (increase) in other assets | 145 | (18) | (4) |
| Increase (decrease) in other liabilities | 37 | 230 | (4) |
| Net Cash Provided (Used) by Operating Activities | $3,163 | $1,738 | ($93) |
| ***Cash Flows from Investing Activities:*** | | | |
| Capital expenditures | ($1,850) | ($3,051) | ($1,619) |
| Net decrease in real estate loans | 0 | 68 | 34 |
| Net Cash Used by Investing Activities | ($1,850) | ($2,983) | ($1,585) |
| ***Cash Flows from Financing Activities:*** | | | |
| Debt proceeds | $1,000 | $0 | $2,100 |
| Debt repayments | 0 | 0 | (4,700) |
| Sale of common stock | 0 | 0 | 7,838 |
| Treasury stock proceeds | 76 | 90 | 1,853 |
| Treasury stock purchases | (780) | (517) | (135) |
| Dividends paid | (1,658) | (1,547) | (1,272) |
| Net Cash (Used) Provided by Financing Activities | ($1,362) | ($1,974) | $5,684 |
| Net (Decrease) Increase in Cash | ($49) | ($3,219) | $4,006 |
| Cash, beginning | 1,500 | 4,719 | 713 |
| CASH, ENDING | $1,451 | $1,500 | $4,719 |
| ***Supplemental Disclosure:*** | | | |
| Income taxes received | ($59) | ($297) | ($115) |

## NOTE 15 - EMPLOYEE STOCK PURCHASE PLAN

In December of 1998, DBI adopted an Employee Stock Purchase Plan. All DBI employees, except executive officers and members of the board of directors, are afforded the right to purchase a maximum number of shares set from time to time by the board of directors. Rights granted must be exercised during a one-month purchase period prescribed by the board. Rights are exercised at fair market value. In 2005, 279 rights were granted and of those 87 shares were purchased. In 2004, 264 rights were granted and of those 106 shares were purchased.

## NOTE 16 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Federal Funds Sold - For cash and federal funds sold, the carrying amount is a reasonable estimate of fair value.

Investment Securities - For securities held for investment purposes and marketable equity securities held for investment purposes, fair values are based on quoted market prices or dealer quotes. For other securities held as investments, fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans Receivable - The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Loans Held For Sale - Fair value is based on commitments from investors or prevailing market prices.

Other Investments - For other investments, the carrying amount is a reasonable estimate of fair value.

Bank Owned Life Insurance – The carrying amount of bank owned life insurance approximates fair value.

Accrued Interest – The carrying amounts of accrued interest approximates fair value.

Deposit Liabilities - The fair value of demand deposits, savings accounts and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Borrowings - Rates currently available to DSB for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

Commitments to Extend Credit, Standby Letters of Credit and Financial Guarantees Written - The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of guarantees and letters of credit is not material.

The estimated fair values of the Company's financial instruments are as follows:

| | For the Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2005 | | 2004 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| *(In thousands)* | | | | |
| ***Financial Assets*** | | | | |
| Cash and federal funds sold | $15,635 | $15,635 | $25,393 | $25,393 |
| Investment securities | 49,570 | 51,426 | 49,005 | 51,704 |
| Loans | 325,071 | 322,688 | 299,837 | 299,070 |
| Loans held for sale | 1,440 | 1,440 | 1,026 | 1,026 |
| Less: Allowance for credit losses | (6,400) | - | (5,820) | - |
| Bank owned life insurance | 5,563 | 5,563 | 5,352 | 5,352 |
| Other investments, at cost | 7,743 | 7,743 | 7,242 | 7,242 |
| Accrued interest receivable | 2,032 | 2,032 | 1,714 | 1,714 |
| TOTAL | $400,654 | $406,527 | $383,749 | $391,501 |
| ***Financial Liabilities*** | | | | |
| Deposits | $298,254 | $297,794 | $288,758 | $289,120 |
| Borrowings | 63,246 | 62,074 | 55,491 | 55,795 |
| Accrued interest payable | 1,266 | 1,266 | 843 | 843 |
| TOTAL | $362,766 | $361,134 | $345,092 | $345,758 |

## NOTE 17 - REGULATORY MATTERS

DBI and DSB are 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 DBI's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, DBI must meet specific capital guidelines that involve quantitative measures of DBI's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. DBI'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 DBI and DSB to maintain minimum amounts and ratios (set forth in the table below) of Total Capital and Tier 1 Capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 Capital (as defined) to average assets (as defined). Management believes, as of December 31, 2005, that DBI and DSB meet all capital adequacy requirements to which they are subject.

As of December 31, 2005, 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 as well-capitalized DSB must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table.

The Company's actual capital amounts and ratios are also presented in the table below:

| | Amount | | For Capital Adequacy Purposes: | | To Be Well Capitalized Under Prompt Corrective Action Provision: | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of December 31, 2005: | | | | | | |
| Denmark Bancshares, Inc. | | | | | | |
| Total Capital (to Risk-Weighted Assets) | $53,420,978 | 16.1% | $26,491,540 | ≥8.0% | N/A | N/A |
| Tier 1 Capital (to Risk-Weighted Assets) | $49,253,759 | 14.9% | $13,245,770 | ≥4.0% | N/A | N/A |
| Tier 1 Capital (to Average Assets)* | $49,253,759 | 12.2% | $16,197,210 | ≥4.0% | N/A | N/A |
| Denmark State Bank | | | | | | |
| Total Capital (to Risk-Weighted Assets) | $37,213,195 | 13.0% | $22,959,113 | ≥8.0% | $28,698,891 | ≥10.0% |
| Tier 1 Capital (to Risk-Weighted Assets) | $33,599,567 | 11.7% | $11,479,557 | ≥4.0% | $17,219,335 | ≥ 6.0% |
| Tier 1 Capital (to Average Assets)* | $33,599,567 | 9.3% | $14,463,580 | ≥4.0% | $18,079,475 | ≥ 5.0% |
| As of December 31, 2004: | | | | | | |
| Denmark Bancshares, Inc. | | | | | | |
| Total Capital (to Risk-Weighted Assets) | $52,702,828 | 17.3% | $24,408,122 | ≥8.0% | N/A | N/A |
| Tier 1 Capital (to Risk-Weighted Assets) | $48,863,743 | 16.0% | $12,204,061 | ≥4.0% | N/A | N/A |
| Tier 1 Capital (to Average Assets)* | $48,863,743 | 12.7% | $15,430,833 | ≥4.0% | N/A | N/A |
| Denmark State Bank | | | | | | |
| Total Capital (to Risk-Weighted Assets) | $36,505,465 | 13.7% | $21,289,503 | ≥8.0% | $26,611,878 | ≥10.0% |
| Tier 1 Capital (to Risk-Weighted Assets) | $33,156,213 | 12.5% | $10,644,751 | ≥4.0% | $15,967,127 | ≥ 6.0% |
| Tier 1 Capital (to Average Assets)* | $33,156,213 | 9.6% | $13,889,276 | ≥4.0% | $17,361,595 | ≥ 5.0% |

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

DSB is restricted by banking regulations from making dividend distributions to DBI that exceed the retained net income for the most current year plus retained net income for the preceding two years. Under this formula, dividends of approximately $5,921,000 may be paid without prior regulatory approval as of December 31, 2005.

Management's discussion and analysis of financial condition and results of operations of Denmark Bancshares, Inc. and its subsidiaries ("DBI"), is intended as a review of significant factors affecting DBI's consolidated results of operations during the three-year period ended December 31, 2005, and DBI's consolidated financial condition at the end of each year of the two-year period ended December 31, 2005. This discussion should be read in conjunction with the "CONSOLIDATED FINANCIAL STATEMENTS" including the accompanying notes, and the "SELECTED FINANCIAL DATA" presented elsewhere in this report. DBI's subsidiaries are the Denmark State Bank ("DSB"), Denmark Agricultural Credit Corporation ("DACC") and the McDonald-Zeamer Insurance Agency, Inc. ("McDonald").

This report may contain certain forward-looking statements, including without limitation, statements regarding results of operations, the adequacy of the allowance for loan and lease losses, the amounts of charge-offs and recoveries, capital to assets ratios, capacity for paying dividends and liquidity. These forward-looking statements are inherently uncertain and actual results may differ from Management's expectations. The following factors which, among others, could impact current and future performance include but are not limited to: (i) adverse changes in asset quality and resulting credit risk-related losses and expenses; (ii) adverse changes in the local economy; (iii) fluctuations in market rates and prices which can negatively affect net interest margin, asset valuations and expense expectations; and (iv) changes in regulatory requirements of federal and state agencies applicable to banks and bank holding companies, which could have materially adverse effects on DBI's future operating results. When relying on forward-looking statements to make decisions with respect to DBI, investors and others are cautioned to consider these and other risks and uncertainties. All forward-looking statements contained in this report are based upon information presently available and DBI assumes no obligation to update any forward-looking statements.

## Critical Accounting Policies

The accounting and reporting policies of DBI are in accordance with accounting principles generally accepted in the United States of America and conform to general practices in the banking industry. The preparation of financial statements in conformity with these principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on information available at the date of the financial statements. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported.

Management believes that DBI's critical accounting policies are those relating to the allowance for loan and lease losses and intangible assets.

### *Allowance for Loan and Lease Losses*

The allowance for loan and lease losses ("ALLL") is an estimate of the losses that may be sustained in the loan and lease portfolio. The allowance is based on two basic principles of accounting: (1) Statement of Financial Accounting Standards ("SFAS") No. 5, "Accounting for Contingencies", which requires that losses be accrued when they are probable of occurring and estimable, and (2) SFAS No. 114, "Accounting by Creditors for Impairment of a Loan", 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 or lease's contractual terms. Guidelines for determining allowances for loan losses are also provided in the SEC Staff Accounting Bulletin No. 102 **-** "Selected Loan Loss Allowance Methodology and Documentation Issues" and the Federal Financial Institutions Examination Council's interagency guidance, "Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions" (the "FFIEC Policy Statement").

DSB's and DACC's boards of directors have approved policies to provide management with a systematic methodology to determine an adequate allowance for loan and lease losses. This methodology includes a systematic 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 as an integral part of their examination process, consideration of current trends and volume of total nonperforming, past-due, nonaccrual and potential problem loans, and consideration of national and local economic trends and industry conditions.

In applying the methodology, nonaccrual loans, restructured loans and potential problem loans (other than loans secured by 1-to-4 family residential properties, loans secured by consumer personal property and unsecured loans), above a certain size, are reviewed to determine if they are impaired. Impaired loans are individually analyzed and an allowance amount is calculated for each one of these loans, based on the estimated fair value of collateral, in conjunction with FAS 114. Loans that are not impaired are segmented into groups by type of loan. The following loan types are utilized so that each segment of loans will have similar risk factors: 1) residential real estate, 2) agricultural real estate, 3) commercial real estate, 4) agricultural, 5) commercial, 6) consumer installment, and 7) other. In addition, based on internal reviews and external reviews performed by regulatory authorities, DSB and DACC further segregate loans that are not impaired by loan risk classification within each type of loan based on an assessment of risk for a particular loan. The applicable risk classifications are "special mention" and "substandard". A "substandard" loan is a loan that is inadequately protected by the current sound worth and paying capacity of the borrower or of any collateral. Loans classified "substandard" have well-defined weaknesses that jeopardize liquidation and are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected. Loans classified "special mention" are one step above substandard; these loans contain some weakness which if not corrected or improved upon could lead to further deterioration and a lower rating. Risk factor percentages are applied to the identified segments of each of the nonclassified and classified portions of the portfolios to calculate an allowance in conjunction with FAS 5. These risk factor percentages are based on historical loan loss experience adjusted for current economic conditions and trends and internal loan quality trends.

The foregoing calculations in accordance with FAS 114 and FAS 5 are used to confirm the adequacy and appropriateness of the ALLL as developed through provisions for credit losses charged to expense, recognizing that the ALLL represents an aggregation of judgments and estimates by management. Such calculations also influence the amount of future provisions for credit losses charged to expense, pending reapplication of the described systematic methodology.

Management evaluates the appropriateness of the ALLL on a quarterly basis and submits to the board of directors of DSB each quarter a recommendation of the amount of a monthly provision for loan losses. If the mix and amount of future charge-offs differ significantly from those assumptions used by management in making its determination, the ALLL and the provision for loan losses on the income statement could be materially affected. Management believes that the ALLL is adequate as of December 31, 2005.

### *Intangible Assets*

DBI has a core deposit intangible asset that was originated in connection with DSB's expansion through an acquisition of an established branch operation in 1997. The acquisition did not meet the definition of a business combination in accordance with Statement No. 141. As such, DBI continues to amortize the intangible asset related to the acquisition over a period of fifteen years. Annually DBI reviews the intangible assets for impairment and records an impairment charge, if any, to earnings.

Had management determined that this acquisition met the definition of a business combination, Statement No. 142 would have required the intangible asset not to be amortized and for DBI to evaluate the branch acquisition for impairment on an annual basis and record an impairment charge, if any, to earnings.

## OVERVIEW

DBI recorded disappointing earnings for the year ended December 31, 2005. Net income of $2.6 million represents a decline of 33% or $1.3 million lower than annual earnings for 2004.

Total noninterest expense for 2005 was $10,961,893, an increase of $912,468 or 9.1% higher than 2004. This increase substantially contributed to the decline in net income during 2005. The primary factors leading to the increase in noninterest expense were increases to salaries and benefits, which rose $463,944, higher occupancy expenses, which increased $162,501, losses on the sales of acquired properties which increased $137,634 (included in other operating expenses), and higher data processing expenses that increased $87,531. The increase in salary and benefits expense includes additional staff for the Wrightstown office that opened during August 2004. The higher occupancy expenses are primarily the result of the new Wrightstown and Maribel office buildings, which began operations in 2004 and 2005, respectively. The cost of the Maribel facility including land, building, furniture, fixtures and equipment was $2.6 million. The recent capital improvements have contributed to higher overhead costs and consequently a higher efficiency ratio. DBI measures how efficiently it is generating net income by comparing its spending on noninterest overhead expenses to its operating income (the resulting computation is called the efficiency ratio). A lower ratio indicates better efficiency. The efficiency ratio was 69% for 2005, compared to 61% and 55% for the years ended 2004 and 2003, respectively.

Another contributing cause to the decline in 2005 earnings is the increase to the provision for credit losses. The 2005 provision for credit losses totals $786,000, an increase of $459,000 or 140% higher than the 2004 provision for credit losses. While this represents a substantial increase over the prior year, the 2005 provision for credit losses is comparable to our peers. DBI’s provision expressed as a percent of average total loans is 0.25% compared to its peer group average of 0.23%. The peer group data was obtained from the Federal Reserve’s Bank Holding Company Performance Report as of September 30, 2005, and consists of 531 bank holding companies with total assets between $300 million and $500 million. Net charge-offs during 2005 were $169,903 higher than in 2004. The allocation in the allowance for credit losses for impaired loans increased by $107,397 at year-end. The remaining increase in the provision is primarily attributable to the overall increase in the total loans outstanding at year-end. Net charge-offs during 2005 totaled $205,670 or 0.07% of average total loans compared to DBI’s peer group average of 0.10%. DBI's ratio of loans more than 30 days past due (including nonaccrual loans) to total loans was 3.33% at December 31, 2005, compared to 3.40% and 3.67% at December 31, 2004 and 2003, respectively. The ratio of allowance for credit losses to total loans was 1.96% at December 31, 2005, compared to 1.93% at December 31, 2004.

Net interest income, DBI’s largest source of revenue, was $13,346,261 for 2005 compared to $13,690,187 and $13,340,268 during 2004 and 2003, respectively. DBI was unable to substantially increase net interest income during the last two years despite the growth in average loans totaling $30.5 million and $23.7 million during 2005 and 2004 respectively. A decline in the net interest spread from 3.93% during 2004 to 3.42% during 2005 was the primary reason for the reduction in net interest income for 2005.

The interest rate environment during the last two years has been a challenging one in DBI’s attempt to improve or even to maintain net interest spread. The Federal Open Market Committee has raised short-term rates fourteen times between June 30, 2004, and January 31, 2006, including eight times during 2005. The prime rate of interest has jumped from 4.0% to 7.5% over this time span. DBI has less than 4% of total loans or just under $12 million in variable rate loans tied to an index. DBI offers a market-indexed money market account to depositors in order to compete with money market mutual funds. During 2005, money market accounts averaged $65.2 million and the cost of funds for money market accounts was 2.43% compared to 0.94% during 2004. During the last two years the rates on long-term mortgages have risen approximately 75 basis points compared to the prime rate increase of 350 basis points. DBI has $110.7 million in loans secured by residential real estate at year-end compared to $108.8 million at December 31, 2004. Pricing the renewing one, three and five-year balloon residential loans substantially above prevailing long-term rates would likely lead to refinancing and a reduction in DBI’s loan portfolio.

Additionally, rising interest rates create another challenge. They increase the costs to our existing borrowers as over $230 million of DBI’s loans reprice within the next twelve months. In most cases, a higher principal and interest payment amount will be required to amortize the loan over an adequate time period. There is a risk that some borrowers will be unable to meet the higher payment requirements, thereby increasing DBI’s ratio of past due loans.

There were several items of expense during 2005 that management considers either unusual or infrequent. DSB sustained a loss of $183,542 on the sale of a commercial property acquired in 2003 through a foreclosure proceeding. During 2004, DSB decreased the carrying value of that property by $100,867 bringing the total loss over the last two years on that property to $284,409. DSB also incurred expenses on acquired properties for repairs, insurance and real estate taxes of $64,395 and $62,338 during the years ended December 31, 2005 and 2004, respectively. Another infrequent item was the payment of $153,863 in taxes, interest and penalties to the Internal Revenue Service to settle an audit of DBI’s income taxes for the 2002 and 2003 tax years. Lastly, DBI recorded a write-down of $75,453 on the demolition of the Maribel bank building following the move to the newly constructed building in May of 2005.

Management and the Board of Directors of DSB have set several priorities for 2006 in an effort to turn the negative earnings trend around. Increasing net interest income, primarily by improving the net interest spread but also through continued growth of earning assets is the main focus. The Board has revised the Asset Liability Funds Management Policy of DSB and restructured the Asset Liability Committee in an effort to achieve these results. The restructuring includes the addition of responsibilities and changes in procedures and personnel. DSB has also contracted with a third party to provide a more sophisticated asset/liability modeling system and assistance with interest rate pricing and strategy development. Implementing tighter control of discretionary noninterest expenses in order to slow the rate of growth of noninterest expense will also receive management’s attention. Improving the credit quality of the loan portfolio and reducing the level of nonperforming assets will be another goal. In order to achieve this goal the Board has approved a revised Loan Policy and reorganized the Loan Committee. The revisions include an expansion of the Loan Committee membership and more frequent meetings of the Loan Committee. Lastly, management will evaluate existing fee structures and seek ways to increase noninterest income.

## RESULTS OF OPERATIONS

The following table sets forth certain items of income and expense as well as period-to-period percentage increases (decreases) for DBI on a consolidated basis during the most recent three fiscal years:

| | | | | Percent Increase (Decrease) | |
|---|---|---|---|---|---|
| *(In thousands)* | 2005 | 2004 | 2003 | 2005/04 | 2004/03 |
| Interest income | $22,259 | $19,615 | $19,792 | 13.5% | (0.9)% |
| Interest expense | 8,913 | 5,925 | 6,452 | 50.4 | (8.2) |
| Net interest income | 13,346 | 13,690 | 13,340 | (2.5) | 2.6 |
| Provision for credit losses | 786 | 327 | 434 | 140.4 | (24.7) |
| Noninterest income | 1,567 | 1,734 | 2,027 | (9.6) | (14.5) |
| Noninterest expense | 10,962 | 10,049 | 9,066 | 9.1 | 10.8 |
| Net income | 2,586 | 3,858 | 4,342 | (33.0) | (11.1) |

### Earnings Performance Summary

DBI recorded net income of $2,585,874 in 2005. This represents a decrease of $1,272,046 or 33.0% compared to 2004 earnings. The decrease in net income is primarily attributable to increases in noninterest expenses and the provision for credit losses and decreases in net interest income and noninterest income. Noninterest expenses increased by $912,468 primarily as a result of increases in salaries and employee benefits which increased by $463,944 and occupancy expenses, which increased by $162,501. The provision for credit losses increased by $459,000 during 2005 compared to 2004. Net interest income decreased by $343,926 primarily as a result of a lower net interest rate spread. Noninterest income decreased by $166,814 primarily as a result of lower gains from the sales of loans, which fell by $122,880 in 2005. These items more than offset a decrease of $610,162 in the provision for income taxes.

Net income during 2004 decreased $484,188 or 11.1% compared to 2003 earnings. The decrease in net income in 2004 was primarily attributable to higher noninterest expenses and lower noninterest income. Noninterest expenses increased by $983,463 primarily as a result of increases in salaries and employee benefits which increased by $678,701 and occupancy expenses, which increased by $229,223. A decrease in the gains from the sale of loans primarily contributed to a decline in noninterest income, which fell by $292,757 in 2004. These items more than offset higher net interest income, which increased by $349,919, a decrease of $335,113 in the provision for income taxes and a decrease of $107,000 in the provision for loan losses.

On a per share basis, net income was $21.48 in 2005 compared with $31.86 in 2004 and $39.40 in 2003. The reduction in earnings per share in 2005 is attributable to the 33.0% decline in net income. The reduction in 2004 was caused in part by an 11.1% reduction in net income compared with 2003 and also by an increase in the weighted average shares in 2004 as a result of the sale of an additional 12,850 shares of stock in November 2003. The number of weighted average shares outstanding during 2004 was 121,100 compared to 110,195 during 2003. Return on average assets for DBI was 0.65% in 2005 compared to 1.05% in 2004 and 1.24% in 2003. Return on average equity in 2005 was 5.1% compared to 7.8% and 10.8% in 2004 and 2003, respectively.

DBI's consolidated average statements of financial condition, interest earned and interest paid, and the average interest rates earned and paid for each of the last three years are:

| *(In thousands)* | 2005 Average Daily Balance | 2005 Income and Expense | 2005 Average Yield or Rate | 2004 Average Daily Balance | 2004 Income and Expense | 2004 Average Yield or Rate | 2003 Average Daily Balance | 2003 Income and Expense | 2003 Average Yield or Rate |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | |
| **Interest-earning assets:** | | | | | | | | | |
| Loans (1) (2) | $312,532 | $19,421 | 6.21% | $282,000 | $16,935 | 6.01% | $258,276 | $16,903 | 6.54% |
| Investment securities: (3) | | | | | | | | | |
| Taxable securities | 9,280 | 286 | 3.08% | 10,038 | 188 | 1.87% | 14,971 | 234 | 1.56% |
| Nontaxable securities (2) | 39,769 | 3,109 | 7.82% | 38,432 | 3,069 | 7.99% | 36,690 | 2,965 | 8.08% |
| Federal funds sold | 2,478 | 70 | 2.82% | 5,803 | 81 | 1.40% | 15,419 | 166 | 1.08% |
| Other investments | 7,696 | 445 | 5.78% | 7,532 | 399 | 5.30% | 6,234 | 546 | 8.76% |
| Total Earning Assets | $371,755 | $23,331 | 6.28% | $343,805 | $20,672 | 6.01% | $331,590 | $20,814 | 6.28% |
| **Noninterest-earning assets:** | | | | | | | | | |
| Cash and due from banks | $8,246 | | | $9,444 | | | $9,837 | | |
| Allowance for credit losses | (6,075) | | | (5,652) | | | (5,639) | | |
| Premises and equipment | 9,834 | | | 7,341 | | | 5,173 | | |
| Other assets | 11,775 | | | 11,612 | | | 9,340 | | |
| TOTAL ASSETS | $395,535 | | | $366,550 | | | $350,301 | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | | | | | |
| **Interest-bearing liabilities:** | | | | | | | | | |
| NOW accounts | $17,268 | $98 | 0.57% | $18,106 | $87 | 0.48% | $15,452 | $81 | 0.52% |
| Savings accounts | 19,966 | 101 | 0.51% | 20,057 | 102 | 0.51% | 17,702 | 120 | 0.68% |
| Money market accounts | 65,230 | 1,584 | 2.43% | 66,123 | 624 | 0.94% | 64,282 | 602 | 0.94% |
| Time deposits | 150,428 | 4,877 | 3.24% | 131,497 | 3,530 | 2.68% | 131,368 | 4,051 | 3.08% |
| Short-term borrowing | 23,804 | 795 | 3.34% | 20,547 | 369 | 1.80% | 22,485 | 453 | 2.01% |
| Long-term debt | 34,458 | 1,458 | 4.23% | 28,341 | 1,213 | 4.28% | 26,155 | 1,146 | 4.38% |
| Total Interest-Bearing Liabilities | $311,154 | $8,913 | 2.86% | $284,671 | $5,925 | 2.08% | $277,444 | $6,453 | 2.33% |
| **Non-interest-bearing liabilities and stockholders' equity:** | | | | | | | | | |
| Demand deposits | $31,676 | | | $30,133 | | | $30,820 | | |
| Other liabilities | 2,149 | | | 2,070 | | | 1,834 | | |
| Stockholders' equity | 50,556 | | | 49,676 | | | 40,203 | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $395,535 | | | $366,550 | | | $350,301 | | |
| Net interest income and rate spread | | $14,418 | 3.42% | | $14,747 | 3.93% | | $14,361 | 3.95% |
| Net yield on interest earning assets | | | 3.88% | | | 4.29% | | | 4.33% |

(1) Nonaccrual loans are included in the average daily balance figure, but interest income associated with these loans is recognized under the cash basis method of accounting.
(2) The yield on tax-exempt loans and securities is computed on a tax-equivalent basis using a tax rate of 34%.
(3) Securities are shown at amortized cost.

## Net Interest Income

The following table sets forth a summary of the changes in interest earned and interest paid resulting from changes in volume and changes in rates. Changes that are not due solely to volume or rate have been allocated to rate.

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | | | 2004 | | |
| | Increase (Decrease) Due to Change In | | | Increase (Decrease) Due to Change In | | |
| *(In thousands)* | Average Balance | Average Rate | Total Change | Average Balance | Average Rate | Total Change |
| Interest income: | | | | | | |
| Loans (1) | $1,833 | $653 | $2,486 | $1,553 | ($1,522) | $31 |
| Taxable securities | 1 | 106 | 107 | (77) | 31 | (46) |
| Nontaxable securities (1) | 106 | (66) | 40 | 140 | (37) | 103 |
| Federal funds sold | (46) | 35 | (11) | (103) | 18 | (85) |
| Other investments | (30) | 68 | 38 | 114 | (261) | (147) |
| Total interest income | $1,864 | $796 | $2,660 | $1,627 | ($1,771) | ($144) |
| Interest expense: | | | | | | |
| NOW accounts | ($4) | $15 | $11 | $14 | ($8) | $6 |
| Savings accounts | 0 | (1) | (1) | 16 | (34) | (18) |
| Money market accounts | (8) | 968 | 960 | 17 | 5 | 22 |
| Certificates and other time deposits | 508 | 839 | 1,347 | 4 | (524) | (520) |
| Other borrowed funds | 303 | 368 | 671 | 8 | (25) | (17) |
| Total interest expense | $799 | $2,189 | $2,988 | $59 | ($586) | ($527) |
| Net interest income | $1,065 | ($1,393) | ($328) | $1,568 | ($1,185) | $383 |

(1) Shown on a fully taxable equivalent basis assuming a Federal income tax rate of 34%.

Net interest income is the largest component of DBI's operating income. Net interest income represents the difference between interest income on earning assets, such as loans and securities, and the interest expense on deposits and other borrowed funds. Net interest income is affected by fluctuations in interest rates and by changes in the volume of earning assets and interest-bearing liabilities outstanding. Net interest income in the following discussion has been adjusted to a taxable equivalent level (tax-exempt interest has been increased to a level that would yield the same after-tax income had that income been subject to tax at a 34% tax rate) and therefore differs from the amount reported in the Consolidated Statements of Income.

Net interest income on a taxable equivalent basis decreased 2.2% or $327,983 from 2004 to 2005. The decrease is the result of a lower net interest spread, which resulted in a decline in net interest income of $1,393,332. Net interest spread is the difference between the average yield earned on assets and the average rate incurred on liabilities. The decrease is mostly attributable to a higher overall cost of funds, which jumped seventy-eight basis points from 2.08% in 2004 to 2.86% in 2005. The average cost of funds for money market accounts increased 149 basis points from 0.94% during 2004 to 2.43% during 2005. During 2005, the average cost of funds for CDs and other borrowed funds increased by fifty-six and sixty-three basis points, respectively, compared to 2004. The average yield on earning assets increased by twenty-seven basis points from 6.01% in 2004 to 6.28% during 2005. The tax-equivalent net interest spread was 3.42% during 2005, compared to 3.93% and 3.95% during 2004 and 2003, respectively.

The decrease in net interest income as a result of the lower net interest rate spread more than offset the increase in net interest income from the change in the volume of earning assets and interest-bearing liabilities. Tax equivalent interest income increased $1,864,031 as a result of the increase in average earning assets during 2005 compared to 2004. Average loans outstanding increased by $30.5 million or 10.8% during 2005 compared to 2004 and accounted for most of the increase in interest income. Interest expense increased $798,682 as a result of increased volume of interest-bearing liabilities. On average, CDs increased $18.9 million during 2005 compared to 2004 and other borrowed funds increased by $9.4 million.

Taxable equivalent net interest income increased 2.6% or $382,819 from 2003 to 2004. The increase was partly attributable to a lower cost of funds and particularly a decrease of forty basis points, from 3.08% during 2003 to 2.68% during 2004, on certificates of deposit. The increase in net interest income was also helped by a change in the volume and mix of interest earning assets. Average loans increased by $23.7 million or 9.2% during 2004 compared to 2003 while average assets of lower yielding federal funds sold and taxable securities decreased by a combined $14.6 million. The increased interest income from the growth of average loans more than offset the lower yield earned on the loan portfolio during 2004. The loan portfolio yielded 6.01% during 2004 compared to 6.54% during 2003.

## Noninterest Income

The following table sets forth certain items of noninterest income:

| *(In thousands)* | | | | Percent Increase (Decrease) | |
|---|---|---|---|---|---|
| Noninterest income: | 2005 | 2004 | 2003 | 2005/04 | 2004/03 |
| Service fees and commissions | $940 | $945 | $850 | (0.5)% | 11.2% |
| Investment security gains | 0 | 0 | 0 | 0 | 0.0 |
| Loan sale gains | 134 | 257 | 685 | (47.9) | (62.5) |
| Bank owned life insurance | 211 | 222 | 130 | (5.0) | 70.8 |
| Other | 282 | 310 | 362 | (9.0) | (14.4) |
| Total noninterest income | $1,567 | $1,734 | $2,027 | (9.6)% | (14.5)% |

Noninterest income in 2005 totaled $1,567,447, a decrease of $166,814 or 9.6%. The decrease is primarily the result of lower gains from the sales of loans, which decreased by $122,880. DSB sold $11.3 million of residential real estate loans to the secondary mortgage market during 2005 compared to $21.6 million during the previous year. This decrease followed an even larger decrease of $427,771 in gains from the sales of loans during 2004 compared to 2003. Even though long-term mortgage rates were low during 2005 and 2004, many borrowers had already refinanced during 2002 and 2003. DSB sold $60.5 and $39.3 million of residential real estate loans to the secondary mortgage market during 2003 and 2002, respectively. Other noninterest income decreased during 2005 by $27,992. Appraisal fees decreased by $37,100 during 2005 compared to the previous year. The decline in appraisal fees is related to the decrease in mortgage refinancing activity. Service fees and commissions decreased by $4,942. The decrease was attributable to lower commissions from the sales of investment products, which fell $16,072. This decrease was partially offset by higher insurance commissions which rose by $4,186 and higher fees on bank products which rose $6,944.

Total noninterest income was $1,734,261, a decrease of $292,757 or 14.5% in 2004. The decrease was primarily the result of lower gains from the sales of loans as discussed in the preceding paragraph. Service fees and commissions increased by $95,758. The increase was attributable to higher commissions from the sales of investment products, which rose $44,360 and higher insurance commissions, which increased $42,018. Insurance revenues have been volatile in recent years because of the unpredictability of bonuses. The amount of the annual bonuses received is based on the volume of premiums sold and loss experience from prior years. DSB purchased $5 million of BOLI during the second quarter of 2003. The income from bank owned life insurance (BOLI) contracts increased by $92,500 during 2004. Other noninterest income decreased during 2004 by $53,242. Appraisal fees decreased by $16,600 during 2004 compared to the previous year as a result of a decrease in mortgage refinancing activity.

## Noninterest Expense

Salaries and employee benefits expense increased $463,944 or 7.5% in 2005. The increase is primarily attributable to higher salaries and wages, which increased by $264,367 or 6.1% as a result of both regular salary increases and the addition of staff. The average number of full-time equivalent employees was 100 and 96 for the years ended December 31, 2005 and 2004, respectively. Higher group health insurance expenses, which increased by $175,915 or 16.3%, also contributed to the increase in salaries and employee benefits.

Other operating expenses increased $224,570 or 25.4% in 2005. Losses on the sales of other real estate properties acquired through foreclosure totaled $225,863 during 2005. This represents an increase of $137,634 compared to 2004. DSB sustained a loss of $183,542 on the disposal of a commercial property that had been acquired in 2003. The total loss on this property, including a write-down of $100,867 expensed during 2004, totaled $284,409.

Occupancy expenses increased by $162,501 in 2005 primarily as a result of higher depreciation expense which rose $93,713. The higher depreciation expenses are primarily attributable to the building, furniture, fixtures and equipment of the Wrightstown office that was occupied during 2004. Depreciation for the Wrightstown office was $161,971 during 2005, which represents an increase of $81,972 compared to 2004. Other occupancy expenses also increased primarily as a result of the Wrightstown office. These expenses include utilities expenses, which increased by $32,813 during 2005 and real estate taxes and personal property taxes, which increased by $32,783.

Data processing expenses increased by $87,531 or 13.5% in 2005. The increase is primarily attributable to an increase of $70,317 in service fees paid to our major service provider as a result of additional services used and increased communication costs. Our contract with the service provider includes price adjustments for 2004 through 2006. The service provider does our core system processing as well as provides us with our network communications.

The following table sets forth certain items of noninterest expense:

| *(In thousands)* | | | | Percent Increase (Decrease) | |
|---|---|---|---|---|---|
| Noninterest Expense: | 2005 | 2004 | 2003 | 2005/04 | 2004/03 |
| Salaries and employee benefits | $6,615 | $6,152 | $5,473 | 7.5% | 12.4% |
| Occupancy expenses | 1,366 | 1,203 | 974 | 13.5 | 23.5 |
| Data processing expenses | 732 | 645 | 601 | 13.5 | 7.3 |
| Marketing expenses | 257 | 262 | 257 | (1.9) | 1.9 |
| Amortization of intangibles | 213 | 214 | 213 | (0.5) | 0.5 |
| Printing and supplies expenses | 213 | 221 | 191 | (3.6) | 15.7 |
| Directors and committee fees | 235 | 228 | 243 | 3.1 | (6.2) |
| Professional fees | 224 | 241 | 224 | (7.1 ) | 7.6 |
| Other operating expenses | 1,107 | 883 | 890 | 25.4 | (0.8) |
| Total noninterest expense | $10,962 | $10,049 | $9,066 | 9.1% | 10.8% |

Salaries and employee benefits expense increased $678,701 or 12.4% in 2004. The increase was primarily attributable to higher salaries and wages, which increased by $386,468 or 9.8% as a result of regular salary increases and the addition of staff for the Wrightstown banking offices. The average number of full-time equivalent employees was 96 and 91 for the years ended December 31, 2004 and 2003, respectively. Higher group health insurance expenses, which increased by $219,711 or 25.6%, also contributed to the increase in salaries and employee benefits.

During 2004, occupancy expenses increased by $229,223 primarily as a result of higher depreciation expense, which rose $136,163. The higher depreciation expenses are attributable to the building, furniture, fixtures and equipment of DBI's Financial Center and the Wrightstown offices. Real estate taxes and personal property taxes increased by $27,343. Rent expense increased by $12,880 primarily as a result of the lease of the Wrightstown branch office beginning in August 2003.

Data processing expenses increased by $43,415 or 7.2% in 2004. The increase was primarily attributable to an increase of $53,184 in service fees paid to our major service provider. The increase was primarily due to additional services used, an annual increase provided in the contract and additional network communication costs because of the additional Wrightstown locations.

Professional fess increased by $17,607 or 7.9% in 2004. Professional fees include expenditures for technology consulting, legal, audit, compliance, tax and appraisal services. DBI incurred $103,713 in audit and compliance fees related to documentation and testing of DBI's internal controls in order to comply with Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX").

## Income Taxes

For the years ended December 31, 2005, 2004 and 2003, DBI recorded combined federal and state income tax provisions of $579,941, $1,190,103 and $1,525,216. These provisions reflect effective income tax rates of 18%, 24% and 26%, in 2005, 2004 and 2003, respectively, which are less than DBI's combined statutory tax rate of 39%. The lower effective income tax rates are primarily attributable to certain non-taxable interest earned on state and local government investment securities.

The Internal Revenue Service completed an audit of DBI's 2002 and 2003 tax returns during the third quarter of 2005. As a result of the audit DBI paid $111,170 in additional income taxes for the years audited. The additional tax payment is reflected in the 2005 provision for income tax expense. The IRS has been auditing a number of Wisconsin banks primarily disputing the calculation of the amount of interest expense that is nondeductible based on holding tax-exempt securities in Nevada subsidiaries. DBI disagrees with the position of the IRS but has paid the tax and reserves the right to file a refund claim should a bank be successful on this issue in U.S. Tax Court. A Wisconsin bank filed a petition with the U.S. Tax Court in August of 2005 contesting a similar tax adjustment. It is possible that a court case will be heard on this issue during the fall of 2006.

## FINANCIAL CONDITION

The following table sets forth certain assets and liabilities of DBI on a consolidated basis as of the end of each of the three most recent fiscal years and period-to-period percentage increases (decreases):

| | | | | Percentage Increase (Decrease) | |
|---|---|---|---|---|---|
| *(In thousands)* | 2005 | 2004 | 2003 | 2005/04 | 2004/03 |
| Federal funds sold and interest-bearing deposits in other banks | $5,140 | $14,119 | $12,212 | (63.6)% | 15.6% |
| Investment securities | 49,570 | 49,005 | 49,909 | 1.2 | (1.8) |
| Loans (includes loans held for sale) | 326,512 | 300,864 | 266,503 | 8.5 | 12.9 |
| Allowance for credit losses | (6,400) | (5,820) | (5,529) | 10.0 | 5.3 |
| Total assets | 414,521 | 396,685 | 358,878 | 4.5 | 10.5 |
| Deposits | 298,254 | 288,758 | 263,731 | 3.3 | 9.5 |
| Other borrowed funds | 63,245 | 55,491 | 44,740 | 14.0 | 24.0 |
| Stockholders' equity | 50,553 | 50,383 | 48,569 | 0.3 | 3.7 |

Total assets at December 31, 2005, were $414.5 million. This represents an increase of $17.8 million, or 4.5% higher than year-end 2004. Total loans increased $25.6 million or 8.5% higher than year-end 2004. During 2005, DSB sold $11.3 million of fixed rate residential loans to the secondary mortgage market. Management attributes the strong loan growth to the prevailing economic conditions during the last two years. In general the economic climate in DBI's primary lending area was strong during 2004 and 2005. Each of the four counties in the lending market of DBI have unemployment rates of less than 4.8% at year-end and are similar to the rates one year earlier. Also, the agricultural economy, especially the dairy sector, has experienced two solid years.

Total deposits at December 31, 2005, were $298.3 million, an increase of $9.5 million or 3.3% higher than at year-end 2004. The deposit growth was primarily attributable to growth in CDs which increased by $7.9 million or 5.4% of total CDs. The deposit growth was used to fund loan growth. The remaining loan growth was funded by a decrease of $9.0 million in federal funds sold and an increase in other borrowed funds totaling $7.8 million.

At December 31, 2004, total assets increased $37.8 million or 10.5% higher than at year-end 2003. Total loans increased $34.4 million or 12.9% higher than the previous year-end. Management attributed the strong loan growth to improved economic conditions during 2004 compared to 2003. The loan growth was funded in part by additional deposits, which grew $25.0 million, and by increases in other borrowed funds, which grew by $10.8 million during 2004 compared to 2003.

### Loans

Loans secured by residential mortgages totaling $110.7 million or 34.0% of total loans represent DBI's largest single category of loans. These loans are substantially all fixed rate loans with original terms of one, three and five years. At the end of the original term the notes are renewed, subject to updated credit and collateral valuation information but generally without fees or closing costs to the customer. Virtually all of these notes amortize principal indebtedness over a fifteen to thirty-year period, and are repriceable at fixed rates that generally follow prevailing longer-term rates. During 2005, DBI's in-house mortgage rates for the one, three and five year balloon options were often higher than the fifteen and thirty–year fixed rates available in the long-term mortgage market. Consequently, DBI experienced very limited growth in residential real estate loans during 2005. The portfolio grew $1.8 million or 1.7% higher than at year-end 2004.

DBI experienced strong loan growth in the business sector during 2005. Loans secured by commercial real estate increased by $12.0 million or 23.4% at the end of 2005 compared to year-end 2004. The commercial real estate loans financed in 2005 were secured by diversified business properties concentrated primarily in Brown County. The largest two loans to commercial real estate borrowers totaled $1.5 million and $1.2 million while the remaining new credits were all under $1 million.

Commercial loans secured by business assets increased by $5.8 million or 17.2% at December 31, 2005, compared to one year earlier. The commercial loans growth during 2005 is well diversified among small businesses in a variety of industries. The growth of commercial loans occurred primarily in Brown County. The largest new loan during 2005 to a single commercial borrower totaled $1.6 million while the remaining new credits were all under $1 million. This borrower had loans outstanding totaling $4.5 million.

At December 31, 2005, $71.2 million or 21.9% of DBI's outstanding loans were deemed "agriculture-related", constituting the highest industrial concentration in the portfolio. Of these loans, over 90% relate directly to the dairy farming industry. Most of these notes are written on a one-year basis, which allows DBI to review credit information and collateral values annually to ensure continued loan quality. Agricultural loans secured by real estate increased by $3.4 million or 10.6% higher than at year-end 2004. Of the new loans issued during 2005, the largest single extension of credit was $2.2 million as of December 31, 2005. The remaining new loans secured by agricultural real estate were spread out geographically in or near DBI's primary lending area. Other agricultural loans totaled $36.3 million at December 31, 2005, an increase of $1.5 million compared to the prior year-end.

The following table sets forth major types of loans (excluding loans held for sale) by primary collateral and the percentage of total loans for each type at the end of the last three years:

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | | 2004 | | 2003 | |
| *(In thousands)* | Amount | % | Amount | % | Amount | % |
| Real Estate: | | | | | | |
| Residential | $110,666 | 34.0% | $108,830 | 36.3% | $103,020 | 38.8% |
| Commercial | 63,211 | 19.4% | 51,240 | 17.1% | 40,334 | 15.2% |
| Agricultural | 34,980 | 10.8% | 31,621 | 10.5% | 32,040 | 12.1% |
| Construction | 29,159 | 9.0% | 28,179 | 9.4% | 16,819 | 6.3% |
| Subtotal Real Estate Loans | $238,016 | 73.2% | $219,870 | 73.3% | $192,213 | 72.3% |
| Commercial | $39,766 | 12.2% | $33,931 | 11.3% | $31,173 | 11.7% |
| Agricultural | 36,261 | 11.2% | 34,732 | 11.6% | 30,746 | 11.6% |
| Consumer and other | 11,028 | 3.4% | 11,304 | 3.8% | 11,543 | 4.3% |
| TOTAL | $325,071 | 100.0% | $299,837 | 100.0% | $265,675 | 100.0% |

DBI does not make unsecured loans other than credit card advances, which aggregated $585,140 or .18% of total loans outstanding, personal reserve overdraft protection accounts, which aggregated $374,886 or .12% of total loans outstanding and deposit account overdrafts totaling $46,328 at December 31, 2005.

The following table shows nonaccrual loans by primary collateral as of the end of each of the last three years:

| | December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| Secured By Real Estate: | | | |
| Residential | $4,131,372 | $3,119,151 | $3,146,994 |
| Agricultural | 252,000 | 255,000 | 385,860 |
| Commercial | 2,010,661 | 824,654 | 741,721 |
| Subtotal Real Estate Loans | $6,394,033 | $4,198,805 | $4,274,575 |
| Secured by commercial assets | 975,272 | 1,488,508 | 995,433 |
| Secured by agricultural assets | 138,503 | 161,460 | 828,505 |
| Secured by other assets | 79,996 | 51,602 | 182,959 |
| TOTAL | $7,587,804 | $5,900,375 | $6,281,472 |

Approximately 84% or $6.4 million, of the total nonaccrual loans at December 31, 2005 are secured by real estate. Management considers these loans either adequately secured or has allocated an appropriate amount in the allowance for loan losses to cover a collateral shortfall. The nonaccrual residential loans at December 31, 2005, include $795,000 of 1-4 family construction loans to builders or developers. The increase in nonaccrual commercial real estate at the end of 2005 is primarily the result of the nonperformance of one commercial borrower owing $873,000 at year-end. Business assets secure approximately 13% or $1.0 million, of the total nonaccrual loans at year-end. These loans are marginally secured and management expects some charge-offs to occur in 2006. DSB has initiated legal proceedings against several of the borrowers whose loans are nonperforming as of year-end.

DBI has no accruing loans that are past due 90 days or more. DSB's policy is to place in nonaccrual status all loans which are contractually past due 90 days or more as to any payment of principal or interest and all other loans as to which reasonable doubt exists as to the full, timely collection of interest or principal based on management's view of the financial condition of the borrower. Previously accrued but uncollected interest on loans placed on nonaccrual status is charged against the current earnings, and interest income thereafter is recorded only when received.

Restructured loans at December 31, 2005, were $1,414,391 compared to $1,209,137 and $1,141,041 as of year-end 2004 and 2003, respectively. Restructured loans involve the granting of some concession to the borrower involving the modification of terms of the loan, such as changes in payment schedule or interest rate. The restructured loans at year-end involved the lengthening of the amortization period.

Potential problem loans totaled $11,083,654 as of December 31, 2005. Potential problem loans are accruing loans in which there exists doubt as to the ability of the borrower to comply with present loan repayment terms. Management's decision to place loans in this category does not necessarily mean that DBI expects losses to occur on these loans, but that management recognizes that a higher degree of risk is associated with these accruing loans and they deserve closer scrutiny. The potential problem loans are not concentrated in a particular industry or type.

The following table sets forth certain data concerning nonaccrual loans, restructured loans and other real estate owned (property acquired through foreclosure or in satisfaction of loans):

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| *(In thousands)* | | | | | |
| Nonaccrual Loans (1) | $7,588 | $5,900 | $6,281 | $6,090 | $6,983 |
| Other Real Estate Owned | 343 | 1,158 | 1,148 | 781 | 1,130 |
| Total Nonperforming Assets | $7,931 | $7,058 | $7,429 | $6,871 | $8,113 |
| (1) Restructured Loans Included Above | $1,414 | $1,209 | $1,141 | $1,028 | $867 |
| Nonperforming Loans to Total Loans | 2.33% | 1.97% | 2.36% | 2.33% | 2.63% |
| Nonperforming Assets to Total Assets | 1.91% | 1.78% | 2.07% | 1.98% | 2.34% |

Other real estate owned, which is included in other assets, totaled $342,845, $1,157,508, and $1,148,490 at December 31, 2005, 2004 and 2003, respectively. The other real estate acquired in satisfaction of loans at December 31, 2005, consists of two residential properties totaling $140,425 and two commercial properties valued at $202,420. DBI acquired four properties during 2005 and sold eleven properties incurring a loss of $225,863. During 2005, DBI also incurred $64,395 of expenses associated with other real estate. These expenses consisted primarily of repairs, insurance and real estate taxes.

See Note 13 – Related Party Transactions in the Notes To Consolidated Financial Statements for information concerning aggregate loans to related parties.

The following table sets forth the maturities of various categories of loans (excluding loans held for sale) by primary collateral as of December 31, 2005:

| *(In thousands)* | Due in One Year or Less | Due from One to Five Years | Due after Five Years | Total |
|---|---|---|---|---|
| Real Estate: | | | | |
| Residential | $73,010 | $37,308 | $348 | $110,666 |
| Commercial | 40,803 | 22,408 | 0 | 63,211 |
| Agricultural | 27,077 | 6,883 | 1,020 | 34,980 |
| Construction | 20,405 | 8,754 | 0 | 29,159 |
| Subtotal Real Estate Loans | $161,295 | $75,353 | $1,368 | $238,016 |
| Commercial | $27,310 | $10,842 | $1,614 | $39,766 |
| Agricultural | 32,064 | 4,171 | 26 | 36,261 |
| Consumer and other | 6,519 | 4,212 | 297 | 11,028 |
| TOTAL | $227,188 | $94,578 | $3,305 | $325,071 |

Loans maturing in more than one year at December 31, 2005, by fixed or variable rate are as follows:

| *(In thousands)* | Fixed Rate | Variable Rate | Total |
|---|---|---|---|
| Commercial and agricultural | $45,112 | $1,852 | $46,964 |
| Other | 50,784 | 135 | 50,919 |
| TOTAL | $95,896 | $1,987 | $97,883 |

## Allowance For Credit Losses

The allowance for credit losses is established through a provision for credit losses charged to expense. Loans are charged against the allowance for credit losses when management believes that the collection of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb losses inherent in existing loans and commitments to extend credit. The evaluations take into consideration a number of factors, including DSB's and DACC's loss experience in relation to outstanding loans and the existing level of the allowance for credit losses, changes in the nature and volume of the portfolio, overall portfolio quality, loan concentrations, specific problem loans, regular examinations and appraisals of loan portfolios conducted by state and federal supervisory agencies, and current and anticipated economic conditions. DBI applies risk factor percentages to certain categories of loans to estimate an adequate allowance for loan and lease losses. Impaired loans are evaluated individually to determine an allowance related to those loans. The allowance for credit losses represents management's best judgment as to a prudent aggregate allowance in connection with the total loan portfolio.

At December 31, 2005, DBI's investment in impaired loans totaled $3,785,842 compared to $2,987,197 one year earlier. The impaired loans required a related allowance for credit losses of $684,110 at December 31, 2005. Impaired loans are measured at the estimated fair value of the collateral.

In 2005 DBI's provision for credit losses was $786,000 compared to $327,000 and $434,000 during 2004 and 2003, respectively. Net charge-offs were $205,670 for the year ended December 31, 2005, compared to net charge-offs of $35,767 and $323,003 for the years ended 2004 and 2003, respectively. The ratio of allowance for credit losses to total loans was 1.96% at December 31, 2005, compared to 1.93% at December 31, 2004. The net increase to the allowance was $580,330 or 10.0% higher than year-end 2004. In determining the appropriateness of the allowance for credit losses at December 31, 2005, DBI utilized the same risk factor percentages for loans other than impaired loans that it used at December 31, 2004.

DBI's ratio of loans more than 30 days past due (including nonaccrual loans) to total loans was 3.33% at December 31, 2005, compared to 3.40% and 3.67% at December 31, 2004 and 2003, respectively.

DBI's portfolio is heavily concentrated in DSB's four-county primary service area and would be subject to fluctuations in local economic conditions. DBI does have a concentration of agricultural-related loans amounting to approximately 22% of total loans as of December 31, 2005. The factors that influence the agricultural economy are complex and difficult to predict. In general, the agricultural economy has been strong during the last two years. During the last two years milk prices have averaged $2 to $3 per hundredweight over the preceding five-year average. Rising real estate values and higher cattle prices have contributed to higher equity in farm financial statements. Ag economists predict that 2006 could present some challenges with milk prices expected to drop as the nation's dairy herd has expanded. Higher energy costs and rising interest rates will also likely reduce farm net income. Management's underwriting practices takes these cyclical price fluctuations into consideration. Agricultural loans more than 30 days past due (including nonaccrual loans) totaled $493,227 at December 31, 2005. This represents 0.15% of total loans outstanding and 4.5% of DBI's total past due loans. During 2005 there was $12,369 of net charge-offs on loans considered agricultural-related compared to $48,454 of net charge-offs during 2004. Management does not believe that these risks associated with DBI's loan portfolio have changed materially during the past three years.

Management believes its allowance for credit losses as of December 31, 2005, of $6,400,480 (equal to 1.96% of the total loans) is adequate to cover credit risks in the loan portfolio.

In 2005 DBI's ratio of charge-off loans to average loans outstanding was 0.11% compared to 0.08% and 0.16% during 2004 and 2003, respectively. During 2005, the largest charge-off was $103,167 on a property secured by land in northern Wisconsin. The largest single charge-off during 2004 was $31,823 to a commercial borrower in the excavating and trucking business. In 2003, a commercial borrower that was severely impacted by the economic climate in Manitowoc County during 2002 and 2003, resulted in a charge-off totaling $109,500.

Changes in the allowance for credit losses in each of the three most recent years were as follows:

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| Balance - beginning of year | $5,820,150 | $5,528,917 | $5,417,920 | $5,524,293 | $6,571,561 |
| Charge-offs: | | | | | |
| Residential real estate | $88,503 | $61,422 | $106,014 | $173,175 | $52,000 |
| Commercial real estate | 33,928 | 0 | 59,227 | 263,324 | 788,790 |
| Agricultural real estate | 12,369 | 0 | 52,604 | 25,000 | 0 |
| Construction and land development | 103,167 | 0 | 0 | 0 | 0 |
| Commercial loans | 83,964 | 61,608 | 109,500 | 597,416 | 2,323,130 |
| Agricultural loans | 0 | 48,454 | 53,939 | 130,000 | 0 |
| Credit cards and related plans | 9,938 | 11,689 | 5,331 | 26,869 | 13,997 |
| Other consumer | 4,406 | 44,257 | 15,077 | 82,341 | 49,603 |
| | $336,275 | $227,430 | $401,692 | $1,298,125 | $3,227,520 |
| Recoveries: | | | | | |
| Residential real estate | $50,154 | $39,291 | $22,590 | $24,824 | $25,469 |
| Commercial real estate | 47,470 | 98,705 | 20,134 | 151,773 | 0 |
| Agricultural real estate | 0 | 0 | 617 | 0 | 0 |
| Commercial loans | 18,362 | 11,850 | 15,717 | 38,154 | 9,302 |
| Agricultural loans | 0 | 0 | 2,070 | 5,255 | 5,590 |
| Credit cards and related plans | 5,704 | 1,081 | 1,264 | 1,620 | 1,168 |
| Other consumer | 8,915 | 40,736 | 16,297 | 26,126 | 6,223 |
| | $130,605 | $191,663 | $78,689 | $247,752 | $47,752 |
| Net charge-offs | $205,670 | $35,767 | $323,003 | $1,050,373 | $3,179,768 |
| Provision charged to operations | $786,000 | $327,000 | $434,000 | $944,000 | $2,132,500 |
| Balance - end of year | $6,400,480 | $5,820,150 | $5,528,917 | $5,417,920 | $5,524,293 |
| Ratio of net charge-offs during the year to average loans outstanding during the year | 0.07% | 0.01% | 0.13% | 0.39% | 1.15% |
| Ratio of allowance for credit losses to total loans at the end of year | 1.96% | 1.93% | 2.07% | 2.06% | 2.06% |

## Deposits

The following table sets forth the deposits as of the end of each of the three most recent fiscal years and period-to-period percentage increases (decreases):

| *(In thousands)* | 2005 | 2004 | 2003 | Percent Increase (Decrease) 2005/04 | 2004/03 |
|---|---|---|---|---|---|
| Non-interest bearing accounts | $39,546 | $35,012 | $32,642 | 12.9% | 7.3% |
| NOW accounts | 16,983 | 22,519 | 17,200 | (24.6) | 30.9 |
| Savings accounts | 19,792 | 19,907 | 18,806 | (0.6) | 5.9 |
| Money market accounts | 67,060 | 64,361 | 65,163 | 4.2 | (1.2) |
| Certificates of deposit | 154,873 | 146,959 | 129,920 | 5.4 | 13.1 |
| Total deposits | $298,254 | $288,758 | $263,731 | 3.3% | 9.5% |

At December 31, 2005, total deposits were $298,253,672, an increase of $9,496,057 or 3.3% compared to December 31, 2004. The large fluctuations in non-interest bearing and NOW checking accounts are a year-end phenomenon. Average non-interest bearing checking accounts were $31.7 during 2005 compared to $30.1 million during 2004. Average NOW checking accounts during 2005 totaled $17.3 million compared to $18.1 million during the previous year. Certificates of deposit increased by $7.9 million or 5.4% at December 31, 2005, compared to the previous year-end. Money market accounts increased by $2.7 million at year-end or 4.2% higher that at the end of 2004. DSB continues to face strong competition from other banks for core deposits in all of its market areas. Nonbank competitors such as insurance companies and brokerage firms also compete for deposits through alternative investments such as annuities, debt securities, mutual funds and other equity securities. DSB experienced some deposit growth at year-end at each of its branch offices compared to the previous year-end.

The following table shows, as of December 31, 2005, the maturities of time certificates of deposit in amounts of $100,000 or more:

| *(In thousands)* | Certificates of Deposit |
|---|---|
| Three months or less | $5,809 |
| Over three months through six months | 4,388 |
| Over six months through twelve months | 20,330 |
| Over twelve months | 14,280 |
| Total | $44,807 |

## Other Borrowed Funds and Contractual Obligations

DBI utilizes a variety of short-term and long-term borrowings as a source of funds for DBI's lending and investment activities and for general business purposes. DBI has in place asset/liability and interest rate risk guidelines that determine in part whether borrowings will be short-term or long-term in nature. Federal Home Loan Bank (FHLB) advances and notes payable to banks consist of secured borrowing under existing lines of credit. At December 31, 2005, DBI had $103.1 million of established lines of credit.

DACC's primary sources of funding are short-term and long-term notes payable to banks. As of December 31, 2005, DACC had established lines of credit of $35 million of which $27.2 million were drawn in the form of short-term notes payable and $1.0 million in long-term notes payable.

At December 31, 2005, total borrowings increased $7.8 million or 14.0% higher than the previous year-end. During 2005, DSB borrowed an additional $3.0 million from the FHLB in the form of a long-term note. The proceeds were used primarily to fund DSB's loan portfolio growth. DACC borrowed an additional $3.8 million in notes payable to banks and similarly used the proceeds to fund loan growth. Note 9 - Long-Term Debt of the Notes To Consolidated Financial Statements contains information concerning the significant terms of the long-term borrowings.

The following sets forth information concerning other borrowed funds for DBI during each of the last three years:

| | December 31, | | |
|---|---|---|---|
| *(In thousands)* | 2005 | 2004 | 2003 |
| Short-term borrowings: | | | |
| Notes payable to banks | $28,230 | $21,718 | $18,261 |
| Total short-term borrowings | $28,230 | $21,718 | $18,261 |
| Long-term debt: | | | |
| Federal Home Loan Bank advances | $34,000 | $31,000 | $24,000 |
| Other long-term debt | 1,015 | 2,773 | 2,480 |
| Total long-term debt | $35,015 | $33,773 | $26,480 |
| Total other borrowed funds | $63,245 | $55,491 | $44,741 |
| Short-term borrowings: | | | |
| Average amounts outstanding during the year | $23,657 | $20,476 | $22,350 |
| Average interest rates on amounts outstanding during the year | 3.35% | 1.85% | 2.10% |
| Weighted average interest rate at year end | 4.43% | 2.43% | 1.66% |
| Maximum month-end amounts outstanding | $27,230 | $21,935 | $23,740 |

The following table provides information concerning DBI's known contractual obligations by payment date as of December 31, 2005:

| *(In thousands)* | Less Than One Year | 1 to 3 Years | 3 to 5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|
| Long-term debt obligations (1) (2) | $2,202 | $16,311 | $11,634 | $10,034 | $40,181 |
| Purchase obligations (3) | 540 | 47 | 0 | 0 | 587 |
| Operating lease | 17 | 0 | 0 | 0 | 17 |
| | $2,759 | $16,358 | $11,634 | $10,034 | $40,785 |

(1) Includes interest expense based on outstanding interest rate.
(2) $14 million of callable FHLB notes are shown at final maturity. See Note 9 - Long-term Debt in the Notes to Consolidated Financial Statements for additional details.
(3) Includes all identified purchase commitments greater than $25,000.

## Capital Resources

Pursuant to regulations promulgated by the Federal Reserve Board, bank holding companies are required to maintain minimum levels of core capital as a percentage of total assets (leverage ratio) and total capital as a percentage of risk-based assets. Under these regulations, the most highly rated banks must meet a minimum leverage ratio of at least 3%, while lower rated banks must maintain a ratio of at least 4%. The regulations assign risk weightings to assets and off-balance sheet items and require a minimum risk-based capital ratio of 8%. At least half of the required 8% must consist of core capital. Core capital consists principally of shareholders' equity less intangibles, while qualifying total capital consists of core capital, certain debt instruments and a portion of the allowance for credit losses. The table set forth below describes the ratios of DBI as of the end of the three most recent years, and the applicable regulatory requirements.

| | Ratios as of December 31, | | | Regulatory |
|---|---|---|---|---|
| | 2005 | 2004 | 2003 | Requirements |
| Equity as a % of assets | 12.2% | 12.7% | 13.5% | N/A |
| Core capital as a % of average assets | 12.2% | 12.7% | 13.3% | 4.0% |
| Core capital as a % of risk-based assets | 14.9% | 16.0% | 17.4% | 4.0% |
| Total capital as a % of risk-based assets | 16.1% | 17.3% | 18.6% | 8.0% |

DBI's core and risk-based capital ratios are well above the regulatory requirements.

Stockholders' equity at December 31, 2005, increased 0.3% to $50,552,652 or $421 per share, compared with $50,383,232 or $417 per share one year ago. Cash dividends declared in 2005 were $14.10 per share compared with $13.25 and $12.25 in 2004 and 2003, respectively. The dividend payout ratio (dividends declared as a percentage of net income) was 65.6%, 41.6% and 32.5% in 2005, 2004 and 2003, respectively.

The ability of DBI to pay dividends on the Common Stock is largely dependent upon the ability of DSB to pay dividends on the stock held by DBI. DSB's ability to pay dividends is restricted by both state and federal laws and regulations. DSB is subject to policies and regulations issued by the FDIC and the Division of Banking of the Wisconsin Department of Financial Institutions ("the Division"), which, in part, establish minimum acceptable capital requirements for banks, thereby limiting the ability to pay dividends. In addition, 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 Division. Note 17 - Regulatory Matters of the Notes To Consolidated Financial Statements contains information concerning capital ratios of DSB.

Management believes that 2006 earnings of DSB will be sufficient to pay dividends to DBI. DBI could also receive dividends from DACC, which has the earnings and capital strength to provide additional dividends to DBI. DACC had net income of $640,664, $678,020 and $804,144 for the years ended December 31, 2005, 2004 and 2003, respectively. The core capital as a percent of risk-based assets ratio of DACC as of December 31, 2005, was 20.0%.

DBI, as an accommodation to shareholders, announced a Stock Repurchase Policy on March 30, 1995. DBI limits purchases under the Policy in any six-month period to less than six percent of the common shares outstanding. The Policy has no fixed expiration date, although DBI may terminate the Policy at any time. DBI is not soliciting or encouraging shareholders to sell shares under the Policy. Stock repurchases totaled $780,014, $517,389 and $134,409 for the years ended December 31, 2005, 2004 and 2003, respectively.

## Liquidity and Off-balance Sheet Arrangements

Liquidity refers to the ability of DBI to generate adequate amounts of cash to meet DBI's needs for cash. Loan requests typically present the greatest need for cash but liquidity must also be maintained to accommodate possible outflows in deposits. During 2005, net cash provided by operating activities amounting to $3.2 million, the increase in deposits amounting to $9.5 million, the net decrease in federal funds sold of $9.0 million and the net increase in other borrowings totaling $7.8 million, as shown in the Consolidated Statements of Cash Flows, provided the major sources of funding. The $25.8 million increase in loans, capital expenditures of $2.6 million and the payment of $1.7 million in dividends were the major uses of cash during 2005.

During 2004, the major sources of funds were loan repayments, net cash provided by operating activities of $4.1 million, the increase in deposits amounting to $25.0 million and the net increase in other borrowings totaling $10.8 million. The $34.8 million increase in loans, the net increase in federal funds sold of $5.9 million, capital expenditures of $3.0 million and the payment of $1.5 million in dividends were the major uses of cash during 2004.

DSB maintains liquid assets to meet its liquidity needs. These include cash and due from banks, marketable investment securities designated as available-for-sale and federal funds sold. DSB also has the ability to borrow approximately $18 million by means of the purchase of short-term federal funds from its principal correspondent banks. Management strives to maintain enough liquidity to satisfy customer credit needs, meet deposit withdrawal requests and any other expected needs for cash. Excess liquid assets are reallocated to achieve higher yields. One ratio used to measure the liquidity of banking institutions is the net loan to deposit ratio. The net loan to deposit ratio of DSB was 95%, 91% and 87% at December 31, 2005, 2004 and 2003, respectively. A high net loan to deposit ratio creates a greater challenge in managing adverse fluctuations in deposit balances and consequently this can limit growth. The net loan to deposit ratio reflects only on-balance sheet items. Off-balance sheet items such as commitments to extend credit and established borrowing lines of credit also affect the liquidity position.

In order to increase available funding sources DSB is a member of the Federal Home Loan Bank (FHLB) of Chicago. As of December 31, 2005, the amount owed to the FHLB was $34.0 million. The borrowings are secured by residential mortgages. The amount of eligible borrowing from the FHLB of Chicago is determined by the amount of the residential loans held by DSB and by the amount of common stock of FHLB of Chicago purchased by DSB. The maximum amount of collateral that can be pledged to FHLB by DSB is limited by state law to four times capital. DSB could borrow an additional $28.1 million from the FHLB based on its $6.6 million investment in FHLB common stock and eligible collateral. DSB also sells loans to DACC and to the secondary mortgage market to improve its liquidity position. During 2005 DSB sold $11.3 million of residential loans to the secondary mortgage market. Other sources of liquidity for DBI consist of established lines of credit by DACC and by the parent DBI. As of December 31, 2005, DACC has unused lines of credit of $6.8 million and the parent company has an available line of credit of $5 million. See Note 12 – Commitments and Credit Risk in the Notes To Consolidated Financial Statements for a discussion of DBI's commitments to extend credit. As of December 31, 2005, DBI has no off-balance sheet arrangements other than the commitments to extend credit and the standby letters of credit disclosed in Note 12. Management believes DBI's liquidity position as of December 31, 2005, is adequate under current economic conditions.

## Investments

The investment portfolio is managed to provide liquidity and a stable source of income. Taxable securities are purchased and designated as available-for-sale to provide liquidity to meet loan growth or deposit withdrawals. Purchases of taxable securities are limited to maturities or average lives of five years or less. Non-taxable securities are purchased and designated as held-to maturity. Generally these purchases are securities issued by state and local municipalities with maturities of 15 to 19 years and some protection against early calls (usually around 10 years). These purchases are made to take advantage of upward sloping yield curves that reward long-term investors with higher interest rates and favorable interest rate spreads when compared to U.S. Treasury and U.S. Agency securities. No securities are purchased for trading purposes.

Investment balances in various categories at the end of each of the last three years were as follows:

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | | 2004 | | 2003 | |
| *(In thousands)* | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| U.S. Government agencies | $1,700 | $1,696 | $0 | $0 | $0 | $0 |
| Mortgage-backed securities | 4,880 | 4,772 | 5,237 | 5,127 | 6,550 | 6,460 |
| State and municipal securities | 43,126 | 44,958 | 43,878 | 46,577 | 43,448 | 46,459 |
| TOTAL | $49,706 | $51,426 | $49,115 | $51,704 | $49,998 | $52,919 |

Securities available-for-sale and securities held-to-maturity are combined in the table presented above.

At December 31, 2005, the amortized cost of investment securities totaled $49.7 million, an increase of $0.6 million, or 1.2% higher than year-end 2004. The carrying value at December 31, 2005, includes $135,916 of net unrealized losses on available-for-sale securities compared to $109,402 of net unrealized losses at year-end 2004. The net unrealized gains of the held-to-maturity securities amounted to $1,855,719 as of December 31, 2005, compared to $2,698,815 at year-end in 2004.

The following table shows the maturities of investment securities at December 31, 2005, and the weighted average yields of such securities:

| | U.S. Government Agency Securities | | Mortgage-Backed Securities | | State and Municipal Securities | | Total Securities | |
|---|---|---|---|---|---|---|---|---|
| *(In thousands)* | Amortized Cost | Yield | Amortized Cost | Yield | Amortized Cost | Yield | Amortized Cost | Yield |
| Due in one year or less | $0 | 0.00% | $988 | 4.88% | $4,498 | 5.01% | $5,486 | 4.99% |
| Due from one to five years | 1,700 | 4.45% | 3,166 | 2.19% | 7,157 | 7.56% | 12,023 | 5.71% |
| Due from six to ten years | 0 | 0.00% | 726 | 5.40% | 11,659 | 8.24% | 12,385 | 8.07% |
| Due after ten years | 0 | 0.00% | 0 | 0.00% | 19,812 | 7.77% | 19,812 | 7.77% |
| TOTAL | $1,700 | 4.45% | $4,880 | 3.21% | $43,126 | 7.57% | $49,706 | 7.04% |

Yields on tax-exempt securities have been computed on a fully taxable equivalent basis, assuming a Federal income tax rate of 34%. Mortgage-backed securities are allocated according to their expected prepayments rather than their contractual maturities. Securities available-for-sale and securities held-to-maturity are combined in the table presented above.

## Quantitative and Qualitative Disclosures About Market Risk

DBI's principal market risk exposure is interest rate risk. The objectives of DBI's interest rate risk management are to minimize the adverse effects of changing interest rates on the earnings of DBI while maintaining adequate liquidity and optimizing net interest margin. Interest rate risk is managed by maintaining an acceptable matching of DBI's asset and liability maturity and repricing periods, thus controlling and limiting the level of earnings volatility arising from rate movements. DBI does not hold any assets or liabilities for trading purposes.

DBI's interest rate risk is limited by the short-term nature of the loan portfolio and by the short maturity structure of time deposits. DBI's investment securities portfolio and long-term debt instruments contain more interest rate risk because of their long-term structure. During periods of an upward-sloping yield curve, management has purchased longer-term securities to take advantage of the higher yields. The held-to-maturity portion of the investment portfolio contains municipal securities with maturities as long as nineteen years and consequently is subject to greater market value volatility during periods of rising or falling interest rates. The excess of market value over cost mitigates the current risk of the held-to-maturity portfolio and the held-to-maturity portfolio represents only 9.3% of total assets at year-end.

DSB's Asset Liability Committee monitors rate sensitive assets and liabilities and develops appropriate strategies and pricing policies. The committee, which meets monthly, consists of at least three members of senior management. The committee operates under quantifiable financial guidelines measuring interest rate risk as approved by DSB's Board of Directors in the Asset Liability Funds Management Policy. The committee reports to the Board of Directors on a quarterly basis. The committee relies on, among other things, modeling simulations to project the potential effect of various rate scenarios on net interest income.

The tables shown below indicate the behavior of DBI's interest margin as rates move up and down using a technique known as rate shock. It simulates ramping rate changes over the next twelve months and the reinvestment of maturing cash flows and repricing of both earning assets and interest-bearing liabilities. In order to simulate activity, maturing balances are replaced with new balances at the new rate level and repricing balances are adjusted to the new rate shock level. The interest is recalculated for each level along with the new average yield. Net interest margin is then calculated and margin risk profile is developed.

The following table summarizes results of simulations as of the end of the two most recent years:

As of December 31, 2005

| Change in Interest Rates | Projected Net Interest Income | Increase (Decrease) | Percent Change |
|---|---|---|---|
| 100 basis point rise | $13,769,000 | ($17,000) | (0.1)% |
| No change | $13,786,000 | -- | -- |
| 100 basis point decline | $13,752,000 | ($34,000) | (0.2)% |

As of December 31, 2004

| Change in Interest Rates | Projected Net Interest Income | Increase (Decrease) | Percent Change |
|---|---|---|---|
| 100 basis point rise | $14,718,000 | $247,000 | 1.7% |
| No change | $14,471,000 | -- | -- |
| 100 basis point decline | $14,109,000 | ($362,000) | (2.5)% |

The computations of the forecasted effects of hypothetical interest rate changes on projected net interest income are based on numerous assumptions. The calculations assume a constant yield curve and do not take into account any loan prepayments in the event of a decline in interest rates. The computed forecasted effects should not be relied upon as indicative of actual future results. Further, the computations assume the Asset Liability Committee takes no action in response to changes in interest rates.

Management also measures DBI's exposure to interest rate risk by computing the estimated rate shocked economic value of equity. Under this technique the components of the balance sheet are marked-to-market to compute the market value of equity. It is similar to a liquidation value assuming all of the assets are sold at fair market value and all of the liabilities are paid off at fair market value. The market value volatility is a function of term. The longer the maturity term, the greater the volatility (risk). Balances with very short terms have little market value risk, while long-term balances, such as those contained in DSB's investment portfolio, have much greater market value risk.

Market value calculations are complex and require good cash flow information in order to be precise. The simulation model that DBI utilizes approximates the average life of earning assets and interest-bearing liabilities; therefore, the resulting market value computations are estimates. The average life calculations are then used as a proxy for duration. Duration is defined as the percent change in market value (price) of a financial instrument for every 100 basis point change in interest rates. Using this technique, the approximate market values for the major balance sheet categories are calculated for various rate changes. The market value of equity is equal to the market value of assets minus the market value of liabilities.

The following table presents DBI's projected change in the market value of equity for various levels of interest rates as of the end of the two most recent years:

As of December 31, 2005

| Change in Interest Rates | Estimated Market Value of Equity | Increase (Decrease) | Percent Change |
|---|---|---|---|
| 100 basis point rise | $50,387,000 | ($456,000) | (0.9)% |
| No change | $50,843,000 | -- | -- |
| 100 basis point decline | $51,353,000 | $510,000 | 1.0% |

As of December 31, 2004

| Change in Interest Rates | Estimated Market Value of Equity | Increase (Decrease) | Percent Change |
|---|---|---|---|
| 100 basis point rise | $47,446,000 | ($3,316,000) | (6.5)% |
| No change | $50,762,000 | -- | -- |
| 100 basis point decline | $53,988,000 | $3,226,000 | 6.4% |

This analysis assesses the risk of loss in market rate sensitive instruments in the event of sudden and sustained changes in prevailing market interest rates. As of December 31, 2005, DBI's estimated changes in the market value of equity are within a range management considers acceptable. Certain shortcomings are inherent in the method of analysis presented in the computation of market value of equity. Actual results may differ from those projections presented should market conditions vary from assumptions used in these calculations.

The following table shows the repricing period for interest-earning assets and interest-bearing liabilities and the related gap based on contractual maturities, at December 31, 2005:

| *(In thousands)* | 0 to 6 Months | 7 to 12 Months | 1 to 2 Years | Over 2 Years |
|---|---|---|---|---|
| Loans | $131,979 | $98,637 | $41,805 | $54,091 |
| Investment securities | 3,921 | 1,884 | 8,069 | 36,032 |
| Federal funds sold | 5,140 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 7,407 |
| Total earning assets | $141,040 | $100,521 | $49,874 | $97,530 |
| Interest-bearing deposits | $136,693 | $72,905 | $25,585 | $23,525 |
| Other borrowed funds | 19,235 | 9,709 | 10,009 | 24,293 |
| Total interest-bearing liabilities | $155,928 | $82,614 | $35,594 | $47,818 |
| Rate sensitivity gap | ($14,888) | $17,907 | $14,280 | $49,712 |
| Cumulative rate sensitivity gap | ($14,888) | $3,019 | $17,299 | $67,011 |
| Cumulative ratio of rate sensitive assets to rate sensitive liabilities | 90.45% | 101.27% | 106.31% | 120.81% |
| Ratio of cumulative gap to average earning assets | (4.00)% | 0.81% | 4.65% | 18.03% |

Mortgage backed securities are allocated according to their expected prepayments rather than their contractual maturities. For purposes of this analysis, NOW, savings and money market accounts are considered repriceable within six months.

The above gap analysis is used to identify mismatches in the repricing of assets and liabilities within specified periods of time or interest sensitivity gaps. The rate sensitivity or repricing gap is equal to total interest-earning assets less total interest-bearing liabilities available for repricing during a given time interval. A positive gap exists when total interest-earning repricing assets exceed total interest-bearing repricing liabilities and a negative gap exists when total interest-bearing repricing liabilities exceed total interest-earning repricing assets.

## DIRECTORS

**Terese M. Deprey**
Secretary
Denmark Bancshares, Inc.

**Thomas N. Hartman**
President
Hartman's Towne and Country Greenhouse, Inc.

**Michael L. Heim**
President
Heim Trucking Company

**Darrell R. Lemmens**
Chairman and President
Denmark Bancshares, Inc.

**Mark E. Looker**
Vice President
Denmark Bancshares, Inc.

**Edward Q. Opichka, D.D.S.**
Retired Owner
Edward Q. Opichka Dental Practice

**Allen M. Peters**
Retired Teacher and Athletic Director
Reedsville School District

**Thomas F. Wall**
Retired Sales Account Manager
Natural Beauty Growers

## EXECUTIVE OFFICERS

**Darrell R. Lemmens**
Chairman and President
Denmark Bancshares, Inc. and Denmark State Bank

**Terese M. Deprey**
Secretary of Denmark Bancshares, Inc.
Vice President of Denmark State Bank

**Dennis J. Heim**
Vice President of Denmark Bancshares, Inc.
Sr. Vice President of Denmark State Bank

**Evonne J. Kreft**
Vice President
Denmark State Bank

**Roger E. Lemmens**
Vice President and Branch Manager
Denmark State Bank

**Mark E. Looker**
Vice President of Denmark Bancshares, Inc.
Assistant Vice President of Denmark State Bank

**Lonnie A. Loritz**
Vice President
Denmark State Bank

**John P. Olsen**
President of Denmark Agricultural Credit Corporation
Sr. Vice President of Denmark State Bank

**David H. Radue**
Vice President and Branch Manager
Denmark State Bank

**Jeffrey J. Van Rens**
Vice President
Denmark State Bank

**Glenn J. Whipp**
Vice President and Branch Manager
Denmark State Bank

## QUARTERLY FINANCIAL INFORMATION

### MARKET INFORMATION

The following table shows market price information and cash dividends paid for DBI's common stock:

| 2004 | Book Value End of Quarter (Unaudited) | Market Value (1) High | Low | Dividends Paid (2) |
|---|---|---|---|---|
| 1st Quarter | $402 | $853 | $841 | $6.25 |
| 2nd Quarter | 410 | 854 | 849 | |
| 3rd Quarter | 410 | 871 | 862 | 6.50 |
| 4th Quarter | 417 | 873 | 863 | |
| **2005** | | | | |
| 1st Quarter | $415 | $885 | $876 | $6.75 |
| 2nd Quarter | 419 | 879 | 877 | |
| 3rd Quarter | 416 | 886 | 879 | 7.00 |
| 4th Quarter | 421 | 882 | 874 | |
| **2006** | | | | |
| Through March 1 | N/A | $884 | $884 | $7.10 |

1) In recent years the Common Stock has traded sparsely. To the knowledge of management the price of each share has ranged in value as shown in the table. There is no established market for the Common Stock of DBI and it is unlikely that such a market for the shares will develop in the foreseeable future. Most of the transactions at the prices reported in the table are purchases by DBI pursuant to a Stock Repurchase Policy. The Stock Repurchase Policy provides that shares offered to DBI may be purchased as an accommodation to shareholders at a specified percentage of book value computed as of the most recently publicly filed Form 10-Q or 10-K preceding the purchase. The applicable percentage was 210% of book value since March 28, 2001. The Board of Directors of DBI may consider changes in the applicable percentage at future meetings.

2) The ability of DBI to pay dividends is subject to certain limitations. See “Capital Resources” in Management's Discussion and Analysis.

As of March 1, 2006 DBI had 1,468 shareholders of record. Beneficial owners of DBI’s Common Stock whose shares are held in “nominee” or “street” name are not included in the number of shareholders of record.

### SELECTED FINANCIAL INFORMATION

The following table sets forth certain unaudited results of operations for the periods indicated:

*(In thousands except per share data)*

| | For the Quarter Ended | | | |
|---|---|---|---|---|
| **2004** | March 31 | June 30 | September 30 | December 31 |
| Interest income | $4,692 | $4,855 | $4,894 | $5,174 |
| Interest expense | 1,412 | 1,383 | 1,417 | 1,713 |
| Provision for credit losses | 115 | 12 | 15 | 185 |
| Net income | 965 | 1,088 | 950 | 855 |
| Net income per share | 7.96 | 8.97 | 7.86 | 7.07 |
| **2005** | | | | |
| Interest income | $5,287 | $5,407 | $5,704 | $5,861 |
| Interest expense | 1,882 | 2,062 | 2,345 | 2,624 |
| Provision for credit losses | 126 | 124 | 259 | 277 |
| Net income | 719 | 598 | 604 | 665 |
| Net income per share | 5.95 | 4.97 | 5.03 | 5.53 |

**DENMARK BANCSHARES, INC.**

**EXHIBIT (21.1)**

**List of Subsidiaries**

| Name | Jurisdiction of Incorporation |
|---|---|
| 1. Denmark State Bank | Wisconsin |
| 2. Denmark Agricultural Credit Corporation | Wisconsin |
| 3. McDonald-Zeamer Insurance Agency, Inc. | Wisconsin |
| 4. Denmark Investments, Inc. | Nevada |

All subsidiaries listed are 100% directly owned by Denmark Bancshares, Inc. except that Denmark Investments, Inc. is 100% owned by Denmark State Bank.

**DENMARK BANCSHARES, INC.**

**EXHIBIT (23.1)**

**Consent of Independent Registered Public Accounting Firm**

# WIPFLI LLP

## Consent of Independent Registered Public Accounting Firm

Stockholders' and Board of Directors
Denmark Bancshares, Inc.
Denmark, Wisconsin

We consent to the inclusion of our reports dated January 27, 2006, relating to the consolidated balance sheets of Denmark Bancshares, Inc. and Subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005, and management's assessment of the effectiveness of internal controls over financial reporting in the Form 10-K of Denmark Bancshares, Inc. as of December 31, 2005, and to the use of our name in such form. We also consent to the incorporation by reference in the Registration Statement (No. 333-69551) on Form S-8 of Denmark Bancshares, Inc. of our reports dated January 27, 2006, appearing in the Form 10-K of Denmark Bancshares, Inc.

Wipfli LLP

Wipfli LLP

March 1, 2006
Green Bay, Wisconsin

# DENMARK BANCSHARES, INC.
# EXHIBIT (31.1)
## CERTIFICATIONS

I, Darrell R. Lemmens, Chairman of the Board and President of Denmark Bancshares, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Denmark Bancshares, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Darrell R. Lemmens

Date: February 21, 2006

Darrell R. Lemmens,
Principal Executive Officer,
Chairman of the Board, and President

# DENMARK BANCSHARES, INC.
# EXHIBIT (31.2)
## CERTIFICATIONS

I, Dennis J. Heim, Vice President and Treasurer of Denmark Bancshares, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Denmark Bancshares, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Dennis J. Heim

Date: February 21, 2006

Dennis J. Heim
Vice President and Treasurer,
Principal Financial and
Accounting Officer

# DENMARK BANCSHARES, INC.

# EXHIBIT (32.1)

## CERTIFICATIONS

**Written Statement of the Chief Executive Officer and Chief Financial Officer**
**Pursuant to 18 U.S.C. '1350**

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned Chief Executive Officer and Chief Financial Officer of Denmark Bancshares, Inc. (“DBI”), hereby certify, based on their knowledge, that the Annual Report on Form 10-K of DBI for the year ended December 31, 2005, (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of DBI.

/s/ Darrell R. Lemmens
Darrell R. Lemmens,
Principal Executive Officer,
Chairman of the Board, and President

/s/ Dennis J. Heim
Dennis J. Heim
Vice President and Treasurer,
Principal Financial and
Accounting Officer

Date: February 21, 2006