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Annual Meeting

Tuesday, April 23, 2024 5:30 pm
Rozsa Center for the Performing Arts
Michigan Technological University
1400 Townsend Drive
Houghton, MI 49931

ANDREWS HOOPER PAVLIK PLC
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Report of Independent Auditors

Board of Directors and Stockholders
Keweenaw Financial Corporation
Hancock, Michigan

Report on the Consolidated Financial Statements and Internal Control

Opinions on the Consolidated Financial Statements and Internal Control over Financial Reporting

We have audited the consolidated financial statements of Keweenaw Financial Corporation and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements. In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of Keweenaw Financial Corporation and Subsidiary as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited Keweenaw Financial Corporation and Subsidiary's internal control over financial reporting, including controls over preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C), as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, Keweenaw Financial Corporation and Subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework*, issued by COSO.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Consolidated Financial Statements and Internal Control over Financial Reporting section of our report. We are required to be independent of Keweenaw Financial Corporation and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Responsibilities of Management for the Consolidated Financial Statements and Internal Control over Financial Reporting

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management Report Regarding Statement of Management's Responsibilities, Compliance with Designated Laws and Regulations, and Management's Assessment of Internal Control Over Financial Reporting.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Keweenaw Financial Corporation and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements and Internal Control over Financial Reporting

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of consolidated financial statements or an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit of the consolidated financial statements and an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the consolidated financial statement audit in order to design audit procedures that are appropriate in the circumstances.

- Obtain an understanding of internal control over financial reporting relevant to the audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Keweenaw Financial Corporation and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the consolidated financial statement audit.

Definition and Inherent Limitations of Internal Control over Financial Reporting

A corporation's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of Keweenaw Financial Corporation and Subsidiary's internal control over financial reporting included controls over the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C). A corporation'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 corporation; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with the accounting principles generally accepted in the United States of America, and that receipts and expenditures of the corporation are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use or disposition of the entity's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment 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.

Andrews Hooper Pavlik PLC

Saginaw, Michigan
February 26, 2024

Consolidated Balance Sheets

	December 31 2023		December 31 2022	
Assets				
Cash and cash equivalents				
Cash and due from banks	$	24,562,381	$	14,090,971
Federal funds sold		670,784		151,740
Total cash and cash equivalents		**25,233,165**		**14,242,711**
Interest-bearing time deposits in other financial institutions		2,600,037		2,600,301
Debt securities available for sale, net of allowance for credit losses of $0 as of December 31, 2023 and December 31, 2022 (amortized cost of $319,432,022 as of December 31, 2023 and $339,852,009 as of December 31, 2022)		279,288,051		290,888,457
Federal Reserve Bank and Federal Home Loan Bank stock		2,676,350		2,676,350
Loans held for sale		1,905,045		4,097,986
Loans, net of allowance for credit losses of $9,577,368 as of December 31, 2023 and $9,129,791 as of December 31, 2022		659,412,911		680,114,218
Bank premises and equipment, net		11,374,080		9,526,197
Accrued interest receivable		3,848,505		3,662,482
Goodwill		19,615,774		19,615,774
Other assets		16,519,149		19,343,381
Total assets	**$**	**1,022,473,067**	**$**	**1,046,767,857**
Liabilities and stockholders' equity				
Liabilities				
Deposits				
Demand	$	237,335,662	$	230,755,912
NOW		115,398,576		140,311,047
Money market		31,785,726		59,494,950
Savings		219,989,735		265,344,029
Time		260,979,375		186,167,008
Total deposits		**865,489,074**		**882,072,946**
Borrowed funds		50,159,614		72,785,705
Subordinated debentures		15,000,000		15,000,000
Accrued interest payable and other liabilities		12,302,243		9,161,064
Total liabilities		**942,950,931**		**979,019,715**
Stockholders' equity				
Preferred stock: no par value, 50,000 shares authorized; none issued or outstanding in 2023 and 2022		-		-
Common stock: no par value; 2,000,000 shares authorized in 2023 and 2022; 1,161,058 and 1,159,748 shares issued and outstanding in 2023 and 2022, respectively.		515,549		515,549
Retained earnings		110,720,324		105,913,799
Accumulated other comprehensive loss		(31,713,737)		(38,681,206)
Total stockholders' equity		**79,522,136**		**67,748,142**
Total liabilities and stockholders' equity	**$**	**1,022,473,067**	**$**	**1,046,767,857**

See accompanying notes.

Consolidated Statements of Income

	Year Ended December 31 2023	2022
Interest income		
Loans, including fees	$ 39,078,939	$ 32,645,493
Securities		
U.S. Treasury securities	369,835	377,911
U.S. Government agencies	2,659,769	2,613,923
Obligations of states and political subdivisions	1,731,186	1,887,257
Other securities	664,659	696,631
Other interest income	1,314,314	295,864
	45,818,702	**38,517,079**
Interest expense		
Deposits	10,819,621	3,191,395
Borrowed funds and subordinated debentures	3,100,110	1,334,894
	13,919,731	4,526,289
Net interest income	**31,898,971**	**33,990,790**
Provision (recovery) for credit losses	23,186	(42)
Net interest income after provision (recovery) for loan losses	**31,875,785**	**33,990,832**
Noninterest income		
Trust fees	1,950,612	2,007,020
Service charges on deposit accounts	1,091,225	924,719
Other service charges and fees	1,425,029	1,456,224
Net gain on sale of investment securities	-	49,471
Net gain on sale of loans	3,409,658	4,875,515
Other	440,624	1,242,322
	8,317,148	**10,555,271**
Noninterest expenses		
Salaries and wages	15,820,357	17,303,947
Pensions and other employee benefits	4,282,335	4,280,938
Occupancy expenses, net	6,921,499	6,332,133
Postage and supplies	180,803	192,281
FDIC and general insurance	622,920	402,952
Legal and professional	1,265,910	1,068,657
Loan-related expense	865,759	1,017,236
Marketing	342,383	241,527
Net cost of operations of other real estate – including write downs and gains/losses on sales	112,994	50,032
Other operating expenses	1,948,160	1,806,226
	32,363,120	**32,695,929**
Income before income tax expense	**7,829,813**	**11,850,174**
Income tax expense	1,401,000	1,850,027
Net income	**$ 6,428,813**	**$ 10,000,147**
Net income per share of common stock	**$ 5.54**	**$ 8.62**

See accompanying notes.

Consolidated Statements of Comprehensive Income (Loss)

	Year ended December 31 2023	2022
Net income	$ 6,428,813	$ 10,000,147
Other comprehensive income (loss), net of tax		
Unrealized holding gains (losses) arising during the period	6,967,469	(37,091,112)
Reclassification adjustment for net gains included in net income	-	(39,082)
Total other comprehensive income (loss), net of tax	**6,967,469**	**(37,130,194)**
Total comprehensive income (loss)	**$ 13,396,282**	**$ (27,130,047)**

Consolidated Statements of Changes In Stockholders' Equity

Years Ended December 31, 2023 and 2022

	Common Stock				
	Number of Shares	Assigned Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at January 1, 2022	1,159,350	$ 515,549	$ 97,506,072	$ (1,551,012)	$ 96,470,609
Net income for 2022			10,000,147		10,000,147
Other comprehensive loss, net of tax				(37,130,194)	(37,130,194)
Shares issued for compensation obligations	398		54,283		54,283
Cash dividends paid ($1.42 per share)			(1,646,703)		(1,646,703)
Balance at December 31, 2022	**1,159,748**	**515,549**	**105,913,799**	**(38,681,206)**	**67,748,142**
Net income for 2023			6,428,813		6,428,813
Other comprehensive income, net of tax				6,967,469	6,967,469
Shares issued for compensation obligations	1,310		211,085		211,085
Cash dividends paid ($ 1.58 per share)			(1,833,373)		(1,833,373)
Balance at December 31, 2023	**1,161,058**	**$ 515,549**	**$ 110,720,324**	**$ (31,713,737)**	**$ 79,522,136**

See accompanying notes.

Consolidated Statements of Cash Flows

	Year Ended December 31 2023	2022
Cash flows from operating activities:		
Net income	$ 6,428,813	$ 10,000,147
Adjustments to reconcile net income from operating activities:		
Depreciation and amortization of right-of-use assets	1,297,486	1,672,069
Amortization of core deposit intangibles	156,143	156,143
Accretion of loans purchased	(89,041)	(944,470)
Net amortization of investment securities	570,116	657,078
Deferred taxes	34,000	341,000
Loss on sale of other repossessed asset	16,815	-
Net gain on sale of other real estate owned	-	(14,156)
Loss on disposal of premises and equipment	39,945	-
Realized net debt security gains	-	(49,471)
Repayment of lease liabilities	(436,966)	(746,668)
Gain on sale of loans	(3,409,658)	(4,875,515)
Proceeds from sale of mortgage loans held for sale	152,836,863	178,868,116
Origination of mortgage loans held for sale	(147,234,264)	(168,403,354)
Provision (recovery) for credit losses	23,186	(42)
Net change in:		
Accrued interest receivable and other assets	1,147,828	179,309
Accrued interest payable and other liabilities	2,724,741	(1,616,560)
Net cash from operating activities	14,106,007	15,223,626
Cash flows from investing activities		
Decrease in interest-bearing time deposits in other financial institutions	264	1,250,253
Activity in debt securities available for sale:		
Purchases	-	(38,587,822)
Maturities, prepayments, calls, and sales	19,849,871	33,488,404
Transactions of Federal Reserve and Federal Home Loan Bank stock	-	1,819,150
Loan originations and payments, net	20,618,630	(87,028,328)
Proceeds from sale of fixed assets	3,000	-
Proceeds from sales of other real estate owned	-	8,400
Additions to bank premises and equipment, net	(2,755,067)	(3,472,913)
Net cash from investing activities	37,716,698	(92,522,856)
Cash flows from financing activities		
Net change in demand, NOW, money market, and savings deposits	(91,396,239)	(64,459,907)
Net change in time deposits	74,812,367	1,833,188
Proceeds from borrowings	105,786,000	221,645,000
Repayments on borrowings	(126,561,000)	(155,870,000)
Principal payments on notes payable	(1,851,091)	(1,449,352)
Stock issued for compensation obligations	211,085	54,283
Cash dividends	(1,833,373)	(1,646,703)
Net cash from financing activities	(40,832,251)	106,509
Net change in cash and cash equivalents	10,990,454	(77,192,721)
Cash and cash equivalents at beginning of year	14,242,711	91,435,432
Cash and cash equivalents at end of year	**$ 25,233,165**	**$ 14,242,711**

See accompanying notes.

Consolidated Statements of Cash Flows (continued)

	Year ended December 31	
	2023	2022
Supplemental cash flow information		
Loans transferred to other real estate owned	$ 148,532	$ -
Loans originated from sale of other real estate owned	-	32,536
Lease liabilities arising from obtaining right-of-use assets	853,404	47,311
Income taxes paid	1,256,364	1,854,056
Interest paid	11,062,823	4,124,882

Notes To Consolidated Financial Statements • December 31, 2023

1. Summary of Significant Accounting Policies and Nature of Operations

The accounting policies followed by Keweenaw Financial Corporation (Corporation) and its wholly owned subsidiary and the methods of applying these policies, which materially affect the determination of financial position, results of operations, and cash flows are summarized below.

Nature of Operations

The Corporation provides a variety of financial and trust services to individuals and corporate customers through Superior National Bank (Bank) and branches located in the Upper Peninsula and Southeast Michigan. The Bank provides a wide range of traditional banking products and services, including automated teller machines, online banking, telephone banking, and automated bill-paying services, to both individual and corporate customers, as well as, commercial, real estate, and consumer installment lending. The Bank's wholly owned subsidiary, Practical Security Solutions, LLC, provides cybersecurity consulting services.

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and to general practices within the banking and mortgage banking industries.

Principles of Consolidation

The consolidated financial statements include the accounts of Keweenaw Financial Corporation and its wholly owned subsidiary, Superior National Bank. All material intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. The significant estimates incorporated into the Corporation's consolidated financial statements, which are susceptible to change in the near term, include the adequacy of the allowance for credit losses, the fair value of financial instruments, collateral-dependent loans, investments, deferred tax assets, other real estate, and the fair value of acquired assets and liabilities. Accordingly, actual results could differ from those estimates.

Labor Subject to Collective Bargaining Agreements

Approximately 13% of the Bank's employees are subject to a collective bargaining agreement, which expires on September 25, 2024.

1. Summary of Significant Accounting Policies and Nature of Operations (continued)

Cash Flow Reporting

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents are defined to include cash on hand, demand deposits in other institutions, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest-bearing time deposits, and bank premises and equipment.

Cash and Cash Equivalents

The Corporation maintains deposit accounts with other financial institutions, which generally exceed federally insured limits or are uninsured.

Interest-Bearing Time Deposits in Other Financial Institutions

Interest-bearing time deposits in other financial institutions are certificates of deposit which mature in the years ending 2024 through 2032 and are carried at cost.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the Corporation uses various methods including market, income, and cost approaches. Based on these approaches, the Corporation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Corporation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

- Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In determining the appropriate levels, the Corporation performs a detailed analysis of the assets and liabilities. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. For the years ended December 31, 2023 and 2022, the application of valuation techniques applied to similar assets and liabilities has been consistent.

1. Summary of Significant Accounting Policies and Nature of Operations (continued)

Debt Securities

Management determines the appropriate classification of debt securities at the time of purchase. Debt securities classified as available for sale are reported at fair value, with unrealized gains and losses, net of related deferred income taxes, included in other comprehensive income (loss). Unrealized gains and losses for debt securities available for sale are based on the difference between book value and fair value of each security. Debt securities available for sale consist of those securities that management intends to use as part of its asset and liability management strategy which might be sold prior to maturity due to changes in interest rates, prepayment risks, and yields in addition to the availability of alternative investments, liquidity needs, or other factors.

Interest income on debt securities includes amortization of purchase premium or accretion of discount. The amortized cost amount is the acquisition cost adjusted for amortization of premiums and accretions of discounts. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Realized gains and losses on dispositions are recorded on the trade date and are based on the net proceeds and the adjusted book value of the securities sold, using the specific identification method.

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income. There was no accrued interest on debt securities reversed against interest for the year ended December 31, 2023.

Adoption of New Accounting Standard: Effective January 1, 2023, the Bank adopted ASU 2016-13 *Financial Instruments – Credit Losses – Topic 326: Measurement of Credit Losses on Financial Instruments,* as amended, which made changes to the accounting for available-for-sale debt securities. For available-for-sale debt securities in an unrealized loss position, the Corporation must first assess whether it intends to sell, or if it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available for sale that do not meet this criteria, the Corporation evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss). Changes in the allowance for credit losses are recorded as provision for credit losses (or recovery). Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Prior to January 1, 2023, declines in fair value of debt securities that were deemed to be other than temporary, if applicable, were reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considered the length of time and the extent to which fair value had been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

1. Summary of Significant Accounting Policies and Nature of Operations (continued)

Federal Reserve Bank Stock

The Bank is a member of its regional Federal Reserve Bank (FRB). FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Federal Home Loan Bank Stock

The Bank is a member of the Federal Home Loan Bank (FHLB) System and is required to invest in capital stock of the FHLB of Indianapolis. The amount of the required investment is determined and adjusted by the FHLB and is carried at cost.

Loans Held for Sale

Loans held for sale are reported at the lower of amortized cost or fair value in the aggregate, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Mortgage loans held for sale are generally sold without servicing rights being retained.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at amortized cost net of allowance for credit losses. Amortized cost is the outstanding unpaid principal balance net of purchase premiums or discounts, deferred loan fees and costs, and charge-offs. Interest on loans is accrued and credited to income based on the unpaid principal balance. Loan origination fees and direct origination costs are recognized as income or expense when received or incurred since capitalization of these fees and costs would not have a significant impact on the financial statements. Some commercial loan origination fees are deferred over the life of the loan if they exceed a value deemed material to the financial statements. An analysis to determine material value is performed annually for all loan types.

Interest income is reported on the simple interest method on the daily balance of the principal amount outstanding and includes amortization of net deferred loan fees and costs over the loan term. Accrual of interest is generally discontinued on (1) commercial loans 90 days past due as to either principal or interest, (2) real estate mortgage loans which are past due 90 days or more and on which collateral is inadequate to cover principal and interest, and (3) any loans, which management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection is doubtful. Past due status is based on the contractual terms of the loan.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income at the time the loan is assigned nonaccrual status. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. For loans not classified as nonaccrual, interest income continues to be accrued over the term of the loan based on the principal amount outstanding.

1. Summary of Significant Accounting Policies and Nature of Operations (continued)

Purchased Credit Deteriorated Loans

Adoption of New Accounting Standard: Effective January 1, 2023, the Bank adopted *ASU 2016-13 Financial Instruments – Credit Losses (Topic 326)*: *Measurement of Credit Losses on Financial Instruments*, as amended. Upon the 2023 adoption of ASC 326, the Corporation applied a prospective transition approach for financial assets purchased with credit deterioration (PCD), formerly classified as PCI loans and accounted for under ASC 310-30. In accordance with the standard, management did not reassess whether PCI assets met the criteria of PCD assets as of the adoption. Rather, the amortized cost basis of the PCD assets was adjusted to reflect the addition of approximately $884,000 of purchase discount to the allowance for credit losses.

Prior to the adoption of ASC 326, the Bank initially classified acquired loans as either purchased credit impaired (PCI) loans (i.e., loans that reflect credit deterioration since origination and for which it was probable at acquisition that the Bank would be unable to collect all contractually required payments) or purchased non-impaired loans (i.e., performing acquired loans). The Bank estimated the fair value of PCI loans based on the amount and timing of expected principal, interest, and other cash flows for each loan. The excess of the loan's contractual principal and interest payments over all cash flows expected to be collected at acquisition was considered an amount that should not be accreted. These credit discounts ("nonaccretable marks") were included in the determination of the initial fair value for acquired loans; therefore, no allowance for loan losses was recorded at the acquisition date. Differences between the estimated fair values and expected cash flows of acquired loans at the acquisition date that were not credit-based ("accretable marks") were subsequently accreted to interest income over the estimated life of the loans. Subsequent to the acquisition date for PCI loans, increases in cash flows over those expected at the acquisition date resulted in a move of the discount from nonaccretable to accretable, while decreases in expected cash flows after the acquisition date were recognized through the provision for credit losses.

Allowance for Credit Losses on Loans and Unfunded Loan Commitments

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. The allowance for credit losses is increased by the provision for credit losses, and decreased by charge-offs. Subsequent recoveries, if any, are credited to (increase) the allowance and do not exceed the aggregate of the amounts previously charged-off. The allowance for credit losses is evaluated on a quarterly basis by management. The allowance balance is estimated using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term. Qualitative factors are also considered including changes in environmental and geographic conditions, changes in seasonally adjusted federal and state unemployment rates, underlying property values, competition, or other relevant factors.

Adoption of New Accounting Standard: On January 1, 2023 the Bank adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments).

1. Summary of Significant Accounting Policies and Nature of Operations (continued)

Allowance for Credit Losses on Loans and Unfunded Loan Commitments (continued)

The standard significantly changes how financial assets measured at amortized cost are presented. Such assets, which include most loans and securities held to maturity, are presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses are based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. The Bank adopted ASU No. 2016-13, and its subsequent amendments, on January 1, 2023 using the modified retrospective method for loans and off-balance sheet credit exposures. The net impact to retained earnings would have been immaterial, thus no adjustment was made to retained earnings. Results for the year ended December 31, 2023, are presented under Accounting Standards Codification (ASC) 326 while prior period amounts continue to be reported in accordance with previously applicable accounting standards generally accepted in the United States.

Effective January 1, 2023, the Bank uses a CECL model to estimate the allowance for credit losses on loans. The CECL model considers historical loss rates and other qualitative adjustments, as well as a new forward-looking component that considers reasonable and supportable forecasts over the expected life of each loan. To develop the allowance for credit losses on loans estimate under the CECL model, the Bank segments the loan portfolio into loan pools based on loan type and similar credit risk elements; performs an individual evaluation of certain collateral-dependent and other credit-deteriorated loans; calculates the historical loss rates for the segmented loan pools; applies the loss rates over the calculated life of the collectively evaluated loan pools; adjusts for forecasted macro-level economic conditions and other anticipated changes in credit quality; and determines qualitative adjustments based on factors and conditions unique to the Bank's loan portfolio. Individual analysis is also performed for balances or collective balances that demand special attention from a risk perspective and do not share risk characteristics associated with other loans. Primary loan segments are identified as commercial, commercial real estate, residential real estate, and consumer installment. Loans held for sale are excluded from CECL methodology.

Regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans and other real estate. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is possible that the estimated losses on loans and other real estate may change in the near term. However, the amount of the change cannot be estimated.

Management considers the following when assessing risk in the Bank's loan portfolio segments:

- Commercial loans are primarily for working capital, physical asset expansion, asset acquisition loans, and other. These loans are made based primarily on historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to economic or individual performance factors. Financial information is obtained from the borrowers to evaluate the sufficiency of cash flows to service debt and are periodically updated during the life of the loan.

- Commercial real estate loans are dependent on the industries tied to these loans. Commercial real estate loans are primarily secured by office and industrial buildings, warehouses, small retail shopping facilities and various special purpose properties, including hotels and restaurants. Financial information is obtained from the borrowers and/or the individual project to evaluate the sufficiency of cash flows to service debt and is periodically updated during the life of the loan. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and/or property type.

1. Summary of Significant Accounting Policies and Nature of Operations (continued)

Allowance for Credit Losses on Loans and Unfunded Loan Commitments (continued)

- Residential real estate loans are affected by the local residential real estate market, the local economy, and, for variable rate mortgages, movement in indices tied to these loans. At the time of origination, the Bank evaluates the borrower's repayment ability through a review of debt to income and credit scores. Appraisals are obtained to support the loan amount. Financial information is obtained from the borrowers and/or the individual project to evaluate the sufficiency of cash flows to service debt at the time of origination.

- Consumer installment and other loans may take the form of installment loans, demand loans, or single payment loans and are extended to individuals for household, family, and other personal expenditures. At the time of origination, the Bank evaluates the borrower's repayment ability through a review of debt to income and credit scores.

Under the CECL model, loans that do not share similar risk characteristics with loans in their respective pools are individually evaluated for expected credit losses and are excluded from the collectively evaluated loan credit loss estimates. For loans individually evaluated, a specific reserve is estimated based on either the fair value of collateral or the discounted value of expected future cash flows.

A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. For collateral-dependent loans, expected credit losses are based on the fair value of the collateral as of the date of the consolidated balance sheet with consideration for estimated selling costs if satisfaction of the loan depends on the sale of the collateral.

The following describes the types of collateral that secure collateral-dependent loans:

- Commercial loans considered collateral dependent are primarily secured by accounts receivable, inventory, and equipment.

- Commercial real estate loans considered collateral dependent are primarily secured by residential and commercial properties, some of which may be under construction. Loans are primarily secured by office and industrial buildings, warehouses, retail shopping facilities, and various special purpose properties, including hotels and restaurants.

- Residential real estate loans considered collateral dependent are primarily secured by first liens on residential real estate. Junior mortgages are primarily secured by first and junior liens on residential real estate.

- Consumer installment loans considered collateral dependent are generally secured by vehicles or other personal property.

Management evaluates all collectively evaluated loans using the discounted cash flow methodology, except for the Bank's farmland/agriculture and other loan categories, which are included in the commercial loan segment and are evaluated using the weighted average remaining life ("remaining life") methodology. The discounted cash flow methodology uses loan level attributes (such as interest rates and maturity dates), as well as pool-level inputs (such as prepayment rates and probability of default and loss given default rates), to estimate credit losses over the contractual term of each collectively evaluated loan. Expected credit losses are determined by comparing the loan's amortized cost with the expected future principal and interest cash

1. Summary of Significant Accounting Policies and Nature of Operations (continued)

Allowance for Credit Losses on Loans and Unfunded Loan Commitments (continued)

flows. Individual loan-level results are aggregated for collectively evaluated loans and are then adjusted for qualitative factors deemed appropriate by management. The remaining life methodology applies calculated quarterly net loss rates to collectively evaluated loan pools on a periodic basis based on the estimated remaining life of each pool. The estimated losses under the remaining life methodology are then adjusted for qualitative factors deemed appropriate by management. The estimated remaining life of each pool is determined using quarterly, pool-based attrition measurements using the Bank's loan-level historical data. Under the discounted cash flow and remaining life methodologies, the Bank's historical call report data is utilized for historical loss rate calculations, and the lookback period for each collectively evaluated loan pool is determined by management based upon the estimated remaining life of the pool. Forecasted historical loss rates are calculated using the Bank's historical data based on the lookback, forecast, and reversion period inputs by management. Management elected to utilize a four-quarter forecast period, followed by four-quarter reversion to historical losses, for both the discounted cash flow and remaining life methodologies.

The quantitative analysis described above is supplemented with other qualitative factors based on the risks present for each collectively evaluated loan pool. These qualitative factors include: levels of and trends in delinquencies and nonperforming loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

The Bank excludes accrued interest receivable from the amortized cost basis of all loans when estimating credit losses and when presenting required disclosures in the financial statements. Accrued interest on loans totaling $2,502,426 as of December 31, 2023, was excluded from the amortized cost basis of loans. However, accrued interest receivable is not excluded from the amortized cost basis of loans that are individually evaluated for allowance for credit losses.

In addition to the allowance for credit losses on loans, the Bank maintains a reserve for unfunded loan commitments at a level that management believes is adequate to absorb estimated probable credit losses over the contractual terms of the Bank's noncancellable loan commitments. The reserve for unfunded commitments, which is included in allowance for credit loss on the accompanying consolidated balance sheet is established through provisions for credit losses charged against earnings.

Unfunded loan commitments are segmented into the same pools used for estimating the allowance for credit losses on loans. Estimated credit losses on unfunded loan commitments are based on the same methodology, inputs, and assumptions used to estimate credit losses on collectively evaluated loans, adjusted for estimated funding probabilities. The estimated funding probabilities represent management's estimate of the amount of the current unfunded loan commitment that will be funded over the remaining contractual life of the commitment and is based on historical data.

The Bank may modify loans to borrowers experiencing financial difficulty and grant certain concessions that include principal forgiveness, a term extension, an other-than-insignificant payment delay, an interest rate reduction, or a combination of these concessions. An assessment of whether the borrower is experiencing financial difficulty is made at the time of the loan modification.

1. Summary of Significant Accounting Policies and Nature of Operations (continued)

Allowance for Credit Losses on Loans and Unfunded Loan Commitments (continued)

Upon the Bank's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

Prior to January 1, 2023, the Bank used an incurred loss impairment model to estimate the allowance for credit losses on loans. This methodology assessed the overall appropriateness of the allowance for credit losses on loans and included allocations for specifically identified impaired loans and loss factors for all remaining loans, with a component primarily based on historical loss rates and another component primarily based on other qualitative factors.

Under the incurred loss impairment model, the specific component of the allowance related to loans that were individually classified as impaired. A loan was considered impaired when, based on current information and events, it was probable that the Bank would be unable to collect all amounts due according to the contractual terms of the loan agreement. Prior to the adoption of ASU No. 2022-02, a subsequent amendment to ASU 2016-13, loans for which the terms had been modified resulting in a concession, and for which the borrower was experiencing financial difficulties, were considered troubled debt restructurings (TDRs) and were classified as impaired.

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

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

Prior to the adoption of ASU No. 2022-02, TDRs were individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs were measured at the present value of estimated future cash flows using the loan's original effective rate. If a TDR was considered to be a collateral-dependent loan, the loan was measured at the fair value of the collateral less applicable estimated selling costs. For TDRs that subsequently defaulted, the Bank determined the amount of the allowance on that loan in accordance with the accounting policy for the allowance for credit losses on loans individually identified as impaired under the incurred loss impairment model.

Under the incurred loss impairment model, the general component of the allowance was based on historical loss experience adjusted for current qualitative factors. The historical loss experience was determined by portfolio segment or loan class and was based on the actual loss history experienced by the Bank. This actual loss experience was supplemented with other qualitative factors based on the risks present for each portfolio segment or loan class. These qualitative factors included: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and

1. Summary of Significant Accounting Policies and Nature of Operations (continued)

Allowance for Credit Losses on Loans and Unfunded Loan Commitments (continued)

practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Corporation, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. If the transfer does not meet the conditions for sale accounting, the transfer is accounted for as secured borrowings with a pledge of collateral.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Additions and major replacements or improvements that extend useful lives are capitalized. Maintenance, repairs, and minor improvements are charged to expense as incurred. Depreciation is computed using the straight-line method over estimated useful lives for book purposes and is charged to operations. Depreciation is generally computed for tax purposes using an accelerated method. Deferred income taxes are provided on such differences. Gains and losses on bank premises and equipment disposed of are included in other noninterest income. Depreciation expense totaled $864,239 and $918,460 and includes accretion related to the recognition of a service provider credit for future expenses of $110,358 and $147,142 at December 31, 2023 and 2022, respectively.

Goodwill

Goodwill is an intangible asset established only at the time of a business combination when the purchase price of an acquisition exceeds the fair value of the net underlying assets and liabilities. At the time of the North Star Financial Holdings, Inc. acquisition, the fair value of the underlying assets was equal to $269.5 million, and the fair value of the liabilities was valued at $247.3 million. The purchase price of the acquisition exceeded the net fair value of the assets and liabilities by $19.9 million, thereby establishing the goodwill value as of February 4, 2020. The goodwill value was subsequently decreased by $0.3 million due to a credit associated with a net operating loss carry back processed in December 2020. Goodwill acquired in a business combination is determined to have an indefinite useful life and is not amortized but tested for impairment at least annually. No impairment was recorded in 2023 or 2022.

1. Summary of Significant Accounting Policies and Nature of Operations (continued)

Other Real Estate Owned

Other real estate acquired through, or in lieu of, loan foreclosure is initially recorded at fair market value less estimated selling costs at the date of foreclosure establishing a new cost basis. At the date of acquisition or physical possession, and the following 90 days, losses are charged to the allowance for credit losses and increases in value are recorded as a recovery to the allowance for credit losses up to the extent of prior charge-offs and then to noninterest income. Costs of significant property improvements are capitalized, whereas costs relating to holding the property are expensed. After acquisition, valuations are periodically performed by management, and any subsequent writedowns are recorded as a charge to operations, if necessary, to reduce the carrying value of a property. Other real estate owned is included in other assets on the consolidated balance sheets.

Bank-Owned Life Insurance

The Corporation purchased life insurance policies on certain key executives. Bank-owned life insurance is recorded at its cash surrender value and is included in other assets on the consolidated balance sheets.

Intangible Assets, Net

Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Intangible assets of $500,000 were acquired with the 2019 purchase of Practical Security Solutions, LLC, and a core deposit intangible value of $1,093,000 was established with the 2020 acquisition of North Star Financial Holdings, Inc. and its subsidiary Main Street Bank. Intangible assets were recorded at fair value at the time of acquisition. The Practical Security Solutions intangible balance is amortized over a remaining useful life of fifteen years. The Main Street Bank core deposit intangible is amortized over a remaining useful life of seven years. Amortization expense was $189,476 in 2023 and in 2022. These intangible assets are tested for impairment annually. There was no impairment recorded in 2023 or in 2022.

Long-Term Assets

Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Pension and Profit Sharing Plans

Bank contributions to the plans are charged to current operations.

Stock-Based Incentive Compensation

Compensation cost for equity-based awards is measured on the grant date based on the fair value of the award at that time. Fair value of restricted stock awards is based upon the market price of common stock on the grant date.

Notes to Consolidated Financial Statements • December 31, 2023

1. Summary of Significant Accounting Policies and Nature of Operations (continued)

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the federal income tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities.

A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. The Corporation records interest and penalties related to tax positions as interest expense or other expense, respectively, in the consolidated statements of income.

Common Stock Repurchases

The Board approved the Keweenaw Financial Corporation Stock Repurchase Plan of 2016, which authorized the repurchase up to 37,000 of its outstanding shares of common stock upon privately negotiated terms, conditions, and prices. The Stock Repurchase Plan was extended for one-year periods in January 2023 and 2022. Since inception of the Plan, the Corporation has repurchased 16,743 shares of common stock. The Corporation repurchased no shares of common stock in 2023 and 2022. In January 2024, the Stock Repurchase Plan was approved by the Board for an additional year.

Earnings Per Common Share

Earnings per share are computed based on the weighted-average number of shares of common stock outstanding. The weighted-average number of shares of common stock outstanding was 1,160,530 shares as of December 31, 2023 and 1,159,682 shares as of December 31, 2022.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commitments under credit arrangements, and letters of credit. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded in the consolidated financial statements when they become payable.

Fair Values of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 15. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Advertising

The Bank expenses advertising costs as incurred.

1. Summary of Significant Accounting Policies and Nature of Operations (continued)

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive loss. Other comprehensive income (loss) includes the net change in unrealized gains and losses on debt securities available for sale, net of tax, which are also recognized as separate components of equity. Other comprehensive loss also includes a reclassification adjustment for net gains included in net income.

Restrictions on Cash

Cash on hand or on deposit with the Federal Reserve Bank was not required at December 31, 2023 or 2022, due to Federal Reserve changes effective March 26, 2020 when reserve requirements for all financial institutions were eliminated due to the COVID-19 pandemic and impact to the financial world. This change to the reserve requirement does not have a defined timeframe and may be revised by the Federal Reserve in the future.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Corporation or by the Corporation to shareholders.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable, and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the 2022 consolidated financial statements to conform to the 2023 presentation. In addition, the 2022 consolidated balance sheet has been restated to include a cash account that had previously been excluded during the consolidation in error.

Subsequent Events

Subsequent events were evaluated for potential recognition or disclosure through February 26, 2024 which was the date the financial statements were available to be issued. No events were identified as a result of our evaluation.

2. Debt Securities

The amortized cost and fair values of debt securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) at December 31, were as follows:

2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and federal agencies	$ 136,270,434	$ -	$ (15,336,819)	$ 120,933,615
Corporate debt	31,068,533	-	(3,900,877)	27,167,656
Mortgage-backed securities	53,897,442	-	(10,203,041)	43,694,401
State and local governments	98,195,613	1,225	(10,704,459)	87,492,379
	$ 319,432,022	**$ 1,225**	**$(40,145,196)**	**$ 279,288,051**

2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and federal agencies	$ 145,550,886	$ -	$ (19,926,486)	$ 125,624,400
Corporate debt	34,930,866	-	(5,038,304)	29,892,562
Mortgage-backed securities	59,509,530	-	(10,693,866)	48,815,664
State and local governments	99,860,727	838	(13,305,734)	86,555,831
	$ 339,852,009	**$ 838**	**$(48,964,390)**	**$ 290,888,457**

Amortized cost basis excludes accrued interest balances of $1,311,427 and $1,340,256 for total available-for-sale debt securities as of December 31, 2023 and 2022, respectively.

In January 2023, the Bank adopted ASC 326, which requires credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will not be required to sell. The Bank proactively evaluates the portfolio for potential losses resulting from credit losses or other factors. Management considers a variety of risk characteristics when evaluating securities and the portfolio, including changes to security ratings defined by rating agencies, past due or material payment shortfalls by issuers, external forces associated with economic and climate change, and portfolio concentrations.

As of December 31, 2023, no security payments were past due, no investments were placed in nonaccrual status, and no adverse payment or security rating trends were identified during the year. Additionally, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 5% of stockholders' equity. Allowance for credit losses for debt securities available for sale was $0 as of December 31, 2023, with $0 provision expense reported during the year.

2. Debt Securities (continued)

The amortized cost and fair values of debt securities available for sale by contractual maturity at December 31, 2023, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	Amortized Cost	Fair Value
Due in one year or less	$ 21,854,431	$ 21,417,018
Due after one year through five years	89,760,003	83,938,340
Due after five years through ten years	112,141,913	96,874,518
Due after ten years	41,778,233	33,363,774
Mortgage-backed securities	53,897,442	43,694,401
	$ 319,432,022	**$ 279,288,051**

Debt securities with a book value of $173,650,798 at December 31, 2023, and debt securities with a book value of $30,256,856 at December 31, 2022, were pledged as collateral to secure borrowings, public deposits, and for other purposes required by law.

Securities in an unrealized loss position for which an allowance for credit losses has not been recorded at December 31, 2023, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

	Less Than Twelve Months		Twelve Months or More		Total	Total
2023	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Government and federal agencies	$ -	$ -	$ 120,933,615	$ 15,336,819	$ 120,933,615	$ 15,336,819
Corporate debt	1,339,586	91,320	24,828,070	3,809,557	26,167,656	3,900,877
Mortgage-backed securities	-	-	43,694,401	10,203,041	43,694,401	10,203,041
State and local governments	614,908	2,301	83,281,077	10,702,158	83,895,985	10,704,459
	$ 1,954,494	**$ 93,621**	**$ 272,737,163**	**$40,051,575**	**$ 274,691,657**	**$40,145,196**

	Less Than Twelve Months		Twelve Months or More		Total	Total
2022	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Government and federal agencies	$ 28,021,923	$ 1,532,305	$ 97,602,477	$ 18,394,181	$ 125,624,400	$ 19,926,486
Corporate debt	7,761,111	208,346	20,631,451	4,829,958	28,392,562	5,038,304
Mortgage-backed securities	9,815,770	887,977	38,999,894	9,805,889	48,815,664	10,693,866
State and local governments	33,082,167	1,900,770	49,603,411	11,404,964	82,685,578	13,305,734
	$ 78,680,971	**$ 4,529,398**	**$ 206,837,233**	**$44,434,992**	**$ 285,518,204**	**$48,964,390**

2. Debt Securities (continued)

As of December 31, 2023, 437 debt securities had unrealized losses with aggregate depreciation of approximately 12.6% from the Bank's amortized cost basis. Unrealized losses on obligations of U.S. Government and federal agencies, corporate debt, state and local governments, and mortgage-backed securities were not recognized into income because the securities were not deemed to be of low investment grade, management has the intent and ability to hold for the foreseeable future, and the decline in fair value is due to general economic conditions.

Proceeds from sales of debt securities available for sale during 2023 were $0 and maturities of debt securities available for sale were $19,849,871. Net gains on those sales and maturities totaled $0. Proceeds from sales of debt securities available for sale during 2022 were $12,580,728 and maturities of debt securities available for sale were $20,907,676. Net gains on those sales and maturities totaled $49,471.

3. Loans and Allowance for Credit Losses

Loan segments at December 31 were as follows:

		2023		2022
Commercial	$	93,807,171	$	111,474,068
Commercial real estate		272,319,412		279,429,536
Residential real estate		249,161,294		241,785,961
Consumer installment		53,702,402		56,554,444
		668,990,279		689,244,009
Allowance for credit losses		(9,577,368)		(9,129,791)
Net loans	**$**	**659,412,911**	**$**	**680,114,218**

Deposit accounts in an overdraft position and reclassified as loans totaled $146,788 as of December 31, 2023 and $204,008 as of December 31, 2022.

The disclosures for the Bank's allowance for credit losses on loans for the year ended December 31, 2023, are presented under ASC 326. The disclosures for the Bank's allowance for credit losses on loans for the year ended December 31, 2022, are presented under the incurred loss impairment model. Refer to Note 1 for more information.

3. Loans and Allowance for Credit Losses (continued)

The following table presents activity in the allowance for credit losses on loans by portfolio segment as of December 31:

2023	Commercial	Commercial Real Estate	Residential Real Estate	Consumer Installment	Unallocated	Total
Balance at beginning of year	$ 1,207,318	$ 4,733,736	$ 2,222,590	$ 581,143	$ 385,004	$ 9,129,791
Adjustments for PCD assets at adoption of ASC 326	68,270	483,956	331,833	-	-	884,059
Provision (recovery) charged to operations	896,249	(1,666,594)	1,287,602	(109,067)	(385,004)	23,186
Loans charged off	(316,562)	-	(63,042)	(176,870)	-	(556,474)
Recoveries	24,721	9,150	4,913	58,022	-	96,806
Balance at end of year	$ 1,879,996	$ 3,560,248	$ 3,783,896	$ 353,228	$ -	$ 9,577,368

2022	Commercial	Commercial Real Estate	Residential Real Estate	Consumer Installment	Unallocated	Total
Balance at beginning of year	$ 1,456,128	$ 4,401,435	$ 2,019,597	$ 607,042	$ 1,196,060	$ 9,680,262
Provision (recovery) charged to operations	166,126	282,773	239,172	122,943	(811,056)	(42)
Loans charged off	(450,453)	-	(45,275)	(205,251)	-	(700,979)
Recoveries	35,517	49,528	9,096	56,409	-	150,550
Balance at end of year	$ 1,207,318	$ 4,733,736	$ 2,222,590	$ 581,143	$ 385,004	$ 9,129,791

Information about how loans were evaluated and the related allowance for credit losses on loans as of December 31, 2023 is as follows:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer Installment	Total
Loans:					
Individually evaluated	$ 4,842,888	$ 1,947,193	$ 2,930,182	$ 92,566	$ 9,812,829
Collectively evaluated	88,964,283	270,372,219	246,231,112	53,609,836	659,177,450
Total Loans	**$ 93,807,171**	**$ 272,319,412**	**$ 249,161,294**	**$ 53,702,402**	**$ 668,990,279**
Related allowance for credit losses:					
Individually evaluated	$ 1,219,133	$ 389,090	$ 346,171	$ 9,638	$ 1,964,032
Collectively evaluated	576,449	2,996,900	3,370,558	342,467	7,286,374
Unfunded commitments	84,414	174,258	67,167	1,123	326,962
Total allowance for credit losses on loans	**$ 1,879,996**	**$ 3,560,248**	**$ 3,783,896**	**$ 353,228**	**$ 9,577,368**

3. Loans and Allowance for Credit Losses (continued)

Information regarding accrued interest written off by reversing interest income as of December 31, 2023 is as follows:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer Installment	Total
Accrued interest written off	$ -	$ -	$ -	$ 677	$ 677

Information regarding collateral-dependent loans as of December 31, 2023 is as follows:

	Amortized Cost	Related Allowance
Commercial	$ 2,802,795	$ 1,106,111
Commercial real estate	1,947,193	389,090
Residential real estate	2,930,182	346,171
Consumer installment	92,566	9,638
Net loans	**$ 7,772,736**	**$ 1,851,010**

Information about how loans were evaluated and the related allowance for loan losses on loans as of December 31, 2022 is as follows:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer Installment	Unallocated	Total
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 35,127	$ 163,030	$ 254,231	$ -	$ -	$ 452,388
Collectively evaluated for impairment	1,090,910	4,258,990	1,955,099	581,143	-	7,886,142
Acquired with deteriorated credit quality	81,281	311,716	13,260	-	-	406,257
Unallocated to specific loan segments	-	-	-	-	385,004	385,004
Ending allowance balance	**$ 1,207,318**	**$ 4,733,736**	**$ 2,222,590**	**$ 581,143**	**$ 385,004**	**$ 9,129,791**
Loans:						
Individually evaluated for impairment	$ 788,874	$ 2,602,639	$ 3,706,860	$ 220,669	$ -	$ 7,319,042
Collectively evaluated for impairment	110,526,986	275,602,231	238,053,396	56,333,775	-	680,516,388
Acquired with deteriorated credit quality	158,208	1,224,666	25,705	-	-	1,408,579
Ending loan balance	**$ 111,474,068**	**$ 279,429,536**	**$ 241,785,961**	**$ 56,554,444**	**$ -**	**$ 689,244,009**

3. Loans and Allowance for Credit Losses (continued)

The following table presents impaired loans individually evaluated for impairment by loan segment at December 31, 2022. The table below does not include those impaired loans acquired with deteriorated credit quality:

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:					
Commercial	$ 685,392	$ 606,236	$ -	$ 766,190	$ 54,229
Commercial real estate	1,764,151	1,741,244	-	1,757,953	129,826
Residential real estate	2,008,729	1,933,121	-	2,021,771	109,593
Consumer installment	365,286	220,669	-	205,621	19,364
Total impaired loans without a valuation allowance	**$ 4,823,558**	**$ 4,501,270**	**$ -**	**$ 4,751,535**	**$ 313,012**
Impaired loans with a valuation allowance:					
Commercial	182,638	182,638	35,127	191,969	9,870
Commercial real estate	947,376	861,395	163,030	908,854	64,014
Residential real estate	1,783,703	1,773,739	254,231	1,807,915	94,102
Total impaired loans with a valuation allowance	**$ 2,913,717**	**$ 2,817,772**	**$ 452,388**	**$ 2,908,738**	**$ 167,986**
Total impaired loans	**$ 7,737,275**	**$ 7,319,042**	**$ 452,388**	**$ 7,660,273**	**$ 480,998**

No additional funds were committed to be advanced in connection with the impaired loans at December 31, 2022.

Credit Quality Information

The Bank regularly evaluates various attributes of loans to determine the appropriateness of the allowance for credit losses on loans. The credit quality indicators monitored differ depending on the class of loan.

The following eight-grade, risk-rating system is used for all commercial and commercial real estate loans:

- Grades 1 through 4B - Loans in these categories exhibit an acceptable level of credit risk, ranging from “Exceptional” to “Satisfactory.” These are pass-rated loans.

- Grade 5 - “Other/Special Mention.” Loans in this category have potential weaknesses that deserve Bank management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects or in the Bank’s credit position at some future date. Special mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

- Grade 6 - “Substandard.” Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

3. Loans and Allowance for Credit Losses (continued)

Credit Quality Information (continued)

- Grade 7 - "Doubtful." Doubtful loans have all the weaknesses inherent in "Substandard" loans with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable. The possibility of loss is high, but because of certain important pending events that may strengthen the loan, its classification as loss is deferred until its exact status is known.

- Grade 8 - "Loss." Loans in this category are considered uncollectible and of such little value, that their continuance as bankable assets is not warranted. This does not mean that the loan has absolutely no recovery or salvage value; rather, it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

At origination, grades are assigned to each commercial and commercial real estate loan by assessing information about the borrower's situation including cash flow analysis and estimated collateral values. The loan grade is reassessed at each renewal or refinance but any credit may receive a review based on lender identification of changes in the situation or behavior of the borrower. In addition to these methods of assigning loan grades, changes may occur through the loan review program or regulatory examination process.

Based on the most recent analysis performed, the risk grading of commercial loans by class of loans is as follows as of December 31, 2023:

	Term Loans Amortized Cost Basis by Origination Year						
	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Coverted to Term	Total
Commercial:							
Pass	$ 16,031,500	$ 12,268,598	$ 10,161,001	$ 18,412,819	$ 28,073,750	$ -	$ 84,947,668
Other/Special mention	254,424	1,204,489	1,079,965	354,709	1,123,028	-	4,016,615
Substandard	2,138,204	3,616	41,083	2,488,247	171,738	-	4,842,888
	$ 18,424,128	**$ 13,476,703**	**$ 11,282,049**	**$ 21,255,775**	**$ 29,368,516**	**$ -**	**$ 93,807,171**
Current period gross charge offs	-	-	97,313	219,249	-	-	316,562
Commercial real estate:							
Pass	$ 31,084,561	$ 62,682,968	$ 54,041,112	$ 103,281,595	$ 18,451,735	$ -	$ 269,541,971
Other/Special mention	-	437,888	467,211	757,970	-	-	1,663,069
Substandard	149,459	-	694,943	269,970	-	-	1,114,372
	$ 31,234,020	**$ 63,120,856**	**$ 55,203,266**	**$ 104,309,535**	**$ 18,451,735**	**$ -**	**$ 272,319,412**
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Internally prepared ratings for loans are updated at least annually.

3. Loans and Allowance for Credit Losses (continued)

Credit Quality Information (continued)

The following table represents the risk grading of commercial loans as of December 31, 2022:

	Commercial	Commercial Real Estate
Pass	$ 108,662,653	$ 274,915,771
Other/Special mention	1,987,550	2,261,442
Substandard	823,865	2,252,323
Total	**$ 111,474,068**	**$ 279,429,536**

Residential real estate and consumer installment loans are generally evaluated based on whether they are performing according to the contractual terms of the loans. The following table presents the balance of residential real estate and consumer installment loans based on payment activity as of December 31, 2023:

	Term Loans Amortized Cost Basis by Origination Year						
	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Coverted to Term	Total
Residential real estate:							
Performing	$ 28,379,738	$ 84,669,027	$ 42,002,672	$ 72,783,904	$ 17,590,422	$ 805,350	$ 246,231,113
Nonperforming	-	574,045	309,197	2,000,771	-	46,168	2,930,181
	$ 28,379,738	**$ 85,243,072**	**$ 42,311,869**	**$ 74,784,675**	**$ 17,590,422**	**$ 851,518**	**$ 249,161,294**
Current period gross charge offs	$ -	$ -	$ -	$ 63,042	$ -	$ -	$ 63,042
Consumer installment:							
Performing	$ 19,067,256	$ 18,137,972	$ 8,888,620	$ 7,312,082	$ 203,905	$ -	$ 53,609,835
Nonperforming	22,155	31,747	29,608	9,057	-	-	92,567
	$ 19,089,411	**$ 18,169,719**	**$ 8,918,228**	**$ 7,321,139**	**$ 203,905**	**$ -**	**$ 53,702,402**
Current period gross charge offs	$ 9,019	$ 24,642	$ 19,219	$ 123,990	$ -	$ -	$ 176,870

The following table represents the performance grading of residential real estate and consumer installment loans as of December 31, 2022:

	Residental Real Estate	Consumer Installment
Performing	$ 239,642,414	$ 56,392,031
Nonperforming	2,143,547	162,413
Total	**$ 241,785,961**	**$ 56,554,444**

3. Loans and Allowance for Credit Losses (continued)

The following table represents the aging of all loans by segment as of December 31, 2023 and December 31, 2022:

	Past Due 30-89 Days	Past Due 90 Days or More	Total Past Due	Current	Loan Total Balance
2023					
Commercial	$ 27,491	$ -	$ 27,491	$ 93,779,680	$ 93,807,171
Commercial real estate	867,588	-	867,588	271,451,824	272,319,412
Residential real estate	1,028,370	-	1,028,370	248,132,924	249,161,294
Consumer installment	74,776	-	74,776	53,627,626	53,702,402
	$ 1,998,225	**$ -**	**$ 1,998,225**	**$ 666,992,054**	**$ 668,990,279**
2022					
Commercial	$ 434,621	$ -	$ 434,621	$ 111,039,447	$ 111,474,068
Commercial real estate	651,796	-	651,796	278,777,740	279,429,536
Residential real estate	1,135,608	-	1,135,608	240,650,353	241,785,961
Consumer installment	113,552	-	113,552	56,440,892	56,554,444
	$ 2,335,577	**$ -**	**$ 2,335,577**	**$ 686,908,432**	**$ 689,244,009**

Information regarding nonaccrual loans during the year ended December 31, 2023 is as follows:

	Nonaccrual Loans With No Allowance for Credit Losses	Nonaccrual Loans With An Allowance for Credit Losses	Total Nonaccrual Loans	Total Nonaccrual Loans at Beginning of Year	Interest Income Recognized on Nonaccrual Loans
2023					
Commercial	$ -	$ 189,131	$ 189,131	$ 692,776	$ 80,948
Commercial real estate	81,253	1,105,286	1,186,539	1,246,538	-
Residential real estate	506,974	1,282,608	1,789,582	638,492	-
Consumer installment	-	61,499	61,499	73,764	-
	$ 588,227	**$ 2,638,524**	**$ 3,226,751**	**$ 2,651,570**	**$ 80,948**

There were no loans that were past due 90 days or more and still accruing interest at December 31, 2023 and December 31, 2022.

3. Loans and Allowance for Credit Losses (continued)

The following presents the amortized cost basis of loans modified to borrowers experiencing financial difficulty during the year disaggregated by loan class and by type of concession granted as of December 31, 2023.

	Term Extension		Combination Term Extension and Interest Rate Reduction	
	Amortized Cost Basis	Percent of Loan Class	Amortized Cost Basis	Percent of Loan Class
2023				
Commercial	$ 121,482	0.13%	$ 2,032,850	2.17%
Commercial real estate	374,304	0.14%	-	-
Residential real estate	5,629	0.00%	-	-
Total	**$ 501,415**	**0.07%**	**$ 2,032,850**	**0.30%**

The following describes the financial effect of the modifications made to borrowers experiencing financial difficulty as of December 31, 2023:

Term Extension

Loan type	Financial Effect
Commercial	Added a weighted average of 4.7 years to the life of the loans, which reduced monthly payment amounts for the borrowers.
Commercial real estate	Added a weighted average of 5.0 years to the life of the loans, which did not have a material impact on cash flows.
Residential real estate	Added 7.0 years to the life of the loan, which reduced monthly payment amounts for the borrower.

Interest Rate Reduction

Loan type	Financial Effect
Commercial	Reduced the weighted-average contractual interest rate from 7.25% to 4.75%.

The Bank closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following presents the performance of loans that have been modified to borrowers experiencing financial difficulty during the year ended December 31, 2023:

	Payment Status			
	Current	Past Due 30-89 Days	Past Due 90+ Days	Totals
Commercial	$ 2,154,332	$ -	$ -	$ 2,154,332
Commercial real estate	374,304	-	-	374,304
Residential real estate	5,629	-	-	5,629
	$ 2,534,265	**$ -**	**$ -**	**$ 2,534,265**

3. Loans and Allowance for Credit Losses (continued)

Prior to the adoption of ASU No. 2022-02, when, for economic or legal reasons related to the borrowers financial difficulties, the Bank granted a concession to a borrower that the Bank would not otherwise consider. The modified loan was classified as a troubled debt restructuring. Loan modifications may have consisted of a reduction in the stated interest rate of the loan; an extension of the maturity date; or some other modification deeming the loan a TDR.

The Bank had no loans that had a payment default during the year and were modified in the 12 months prior to default to borrowers experiencing financial difficulty as of December 31, 2023.

As of December 31, 2023, the Bank had no commitments to lend any additional funds on loans modified to borrowers experiencing financial difficulty.

The following table presents information regarding modifications of loans classified as troubled debt restructuring during the year ended December 31, 2022 by segment. All TDRs were considered impaired loans in the calculation of the allowance for credit losses; therefore, management performed a reserve analysis on all loans that had been determined to be TDRs. The Corporation had a total TDR portfolio of $4,070,700 with a total valuation allowance of $158,457 as of December 31, 2022.

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Valuation Allowance
Commercial	5	$ 272,789	$ 272,789	$ 64,436
Residential real estate	1	34,539	34,539	13,260
Consumer installment	1	8,251	8,251	-

Prior to the adoption of ASU No. 2022-02, the Bank considered a troubled debt restructuring in default if it became past due more than 29 days. The following table presents TDRs by loan segment that had a payment default in 2022 within 12 months following modification during the year ended December 31, 2022:

	Number of Loans	Amount in Default
Commercial	1	$ 170,543
Consumer installment	1	8,251

3. Loans and Allowance for Credit Losses (continued)

Purchased Credit Impaired Loans

Prior to the adoption of ASU No. 2016-13, the Bank acquired purchased credit impaired (PCI) loans, which are loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans was as follows for the year ended December 31, 2022:

		2022
Commercial	$	158,208
Commercial real estate		1,224,666
Consumer installment		25,705
Outstanding balance		1,408,579
Less allowance		406,257
Carrying amount, net of allowance	**$**	**1,002,322**
Accretable yield or income expected to be collected, is as follows:		
Balance at beginning of year	$	33,351
Accretion of income		(66,570)
Reclassifications from nonaccretable differences		128,741
Disposals		(1,154)
End of year	**$**	**94,368**

4. Other Real Estate Owned

Other real estate owned activity was as follows for the year ended December 31:

		2023		2022
Beginning balance	$	-	$	26,600
Loans transferred to real estate owned		148,532		-
Sales of real estate owned		-		(26,600)
Ending balance	**$**	**148,532**	**$**	**-**

The balance of other real estate owned, included in other assets on the consolidated balance sheets, includes foreclosed residential real estate properties of $148,532 at December 31, 2023, and $0 at December 31, 2022. These properties were recorded as a result of obtaining physical possession of the property. The amortized cost of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process is approximately $615,000 at December 31, 2023, and $30,000 at December 31, 2022.

Net expenses related to foreclosed assets for the year ended December 31 include:

		2023		2022
Net gain on sales	$	-	$	(14,156)
Operating expenses, net of rental income		112,994		64,188
	$	**112,994**	**$**	**50,032**

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5. Bank Premises and Equipment

The major classifications of Bank premises and equipment assets at December 31 are summarized as follows:

	2023	2022
Land and improvements	$ 3,005,709	$ 2,964,674
Buildings and improvements	12,350,094	9,987,697
Equipment (including software)	6,304,190	6,143,096
Leasehold improvements	485,221	572,344
	22,145,214	19,667,811
Accumulated depreciation/amortization	(10,771,134)	(10,141,614)
Bank premises and equipment, net	**$ 11,374,080**	**$ 9,526,197**

6. Time Deposits

The aggregate amount of time deposit accounts meeting or exceeding the FDIC insurance limit of $250,000 was $114,422,293 at December 31, 2023, and $107,732,801 at December 31, 2022.

The contractual annual maturities of time deposits at December 31, 2023, were as follows:

2024	$ 227,934,889
2025	16,262,444
2026	7,013,641
2027	9,089,582
2028	678,819
	$ 260,979,375

7. Borrowings

Borrowed Funds

Short-term borrowings are comprised of unsecured overnight borrowings of federal funds made available by two financial institutions. Under the terms of agreements, the Bank may borrow amounts at the financial institutions' federal funds interest rate at the time of the borrowings up to $20,000,000 and $10,000,000.

Federal Home Loan Bank advances are fixed-rate term borrowings payable at maturity. The borrowings include a prepayment penalty upon early payoff. The Bank has one borrowing maturing in May 2026 as of December 31, 2023, and four borrowings maturing from January 2023 to September 2023 as of December 31, 2022. Real estate mortgage loans are pledged as part of a blanket collateral agreement with the Federal Home Loan Bank to secure current borrowings and future advance potential. Pledged loans totaled $222,911,000 as of December 31, 2023, and $276,815,000 as of December 31, 2022.

The Federal Reserve offers two types of fixed-rate advances. The Federal Reserve Discount Window includes advances due upon maturity, with a prepayment penalty, and a limit based on market value of investment collateral pledged. The Bank has collateral of $51,684,000 pledged as of December 31, 2023, and $14,702,000 pledged as of December 31, 2022, for the Federal Reserve Discount Window.

7. Borrowings (continued)

Borrowed Funds (continued)

The Federal Reserve Bank Term Funding Program was introduced in 2023. Through this program, the Bank has the capacity to borrow for one-year terms without prepayment penalty, up to the par value of investment collateral pledged. The Bank has two advances maturing in May 2024 as of December 31, 2023. Investment collateral of $87,386,500 is pledged as of December 31, 2023, for the Federal Reserve Bank Term Funding Program (BTFP). Since the BTFP facility is based on investment par values, the collateral pledged is valued at $100,415,000 for borrowing purposes.

In addition, the Corporation established a $10,000,000 variable-rate line-of-credit with a non-affiliated bank in 2016. In 2020, the line-of-credit was amended to $3,000,000 and an additional secured $15,000,000 fixed rate, five-year term loan was also established.

Subordinated Debentures

In 2021, the Corporation offered $15,000,000 of fixed-rate subordinated debt through an established agent, to raise capital and support general corporate purposes. The debt meets Tier 2 regulatory capital requirements at the corporate level. The offering was completed through a private placement of fixed-to-floating rate subordinated notes. The facility has an initial fixed five-year term with interest paid semi-annually to individual noteholders. The notes are redeemable in the first five years, only for emergent needs. After five years, the Corporation may redeem the notes at its option, or continue up to another five-year term based on a floating rate.

Information regarding borrowing types is referenced below:

	Short Term Borrowings	FHLB Advances	FRB Advances	Corporate Line of Credit	Corporate Term Loan	Subordinated Debt
2023						
Year end balance	$ -	$ 10,000,000	$ 35,000,000	$ -	$ 5,159,614	$ 15,000,000
Interest incurred	15,810	1,103,654	1,144,981	16,522	219,143	600,000
Interest rate at year end	-	3.73%	4.7 - 4.85%	-	3.80%	4.00%
Average balance at year end	357,521	23,929,768	23,987,458	108,247	5,549,428	15,000,000
Average interest rate during the year	4.42%	4.61%	4.77%	5.47%	3.95%	4.00%
Maximum balance during the year	10,035,000	55,740,000	35,000,000	1,004,960	6,005,745	15,000,000
Maturity date	-	5/11/2026	5/6/24-5/17/24	1/31/2025	1/31/2025	3/26/2031
2022						
Year end balance	10,035,000	55,740,000	-	1,004,960	6,005,745	15,000,000
Interest incurred	43,075	384,502	1,726	40,808	254,840	609,943
Interest rate at year end	4.75%	4.55%	-	5.90%	3.80%	4.00%
Average balance at year end	1,049,683	9,955,891	98,630	1,366,117	6,454,726	15,000,000
Average interest rate during the year	4.10%	3.86%	1.75%	2.99%	3.95%	4.00%
Maximum balance during the year	15,090,000	55,740,000	9,000,000	1,498,671	6,961,386	15,000,000
Maturity date	1/3/2023	1/23/23-9/14/23	-	1/31/2023	1/31/2025	3/26/2031

8. Pension and Profit Sharing Plans

All eligible non-officer employees of Superior National Bank have the following employee benefit plans available to them:

Pension Plan

Through November 28, 2015, the Bank contributed to a multiemployer defined benefit pension plan (Plan) established and maintained pursuant to a collective bargaining agreement between the Bank and the United Food and Commercial Workers Union (Union) to cover its union-represented employees.

On November 28, 2015, the Bank and the collective bargaining unit agreed to terminate participation in and withdraw from the Plan. Upon termination of its Plan, the Bank was subject to a withdrawal liability of $12,672,705. However, under ERISA 4219(c)(1)(B), the amount was subject to the 20-year payment cap. Therefore, the Bank's liability was computed to be $4,377,252, payable in monthly installments of $18,239, including interest of 7.5%, for a period of 20 years. As a result, the Bank recorded a liability and pension expense of $2,583,128 at November 28, 2015. This amount represents the net present value of the payment stream discounted at 2.64%. As payments are made, the Bank will reduce the liability and record pension expense based on the effective interest method. The remaining liability was $1,450,170 as of December 31, 2023, and $1,586,195 as of December 31, 2022, and total pension expense was $82,838 for the year ended December 31, 2023, and $80,681 for the year ended December 31, 2022. The first scheduled payment on the liability was made February 26, 2016. The Bank made payments to the Plan totaling $218,863 for the years ended December 31, 2023 and 2022, all of which related to the withdrawal from the Plan. If the Bank is in default on the payment of the liability or if the Plan's Board of Trustees determines that the Bank will not be able to make the payments due to bankruptcy or other events involving the Bank's credit, the entire liability may become payable in full.

In accordance with laws governing the Bank's termination of participation in and withdrawal from the Plan, if the Plan cannot meet its future obligations, the Bank may be required to pay additional amounts. If the Bank is required to pay any additional amount, that amount would be material to the Bank. As of December 31, 2023, the Bank has not been required to pay an additional amount to the Plan.

401(k) Plan

For bargaining unit employees and certain non-bargaining employees, the Bank contributes to a 401(k) plan. Employees may voluntarily contribute to the 401(k) plan a portion of their salary up to the maximum allowed under the Internal Revenue Code. The Bank's contributions for bargaining unit employees totaled $17,594 for 2023 and $18,457 for 2022. Contributions for non-bargaining employees totaled $438,951 for 2023 and $485,316 for 2022.

8. Pension and Profit Sharing Plans (continued)

The following employee benefit plans are available to officers of Superior National Bank:

Profit Sharing Plan

Superior National Bank has a defined contribution profit sharing plan for the benefit of all salaried officers meeting the eligibility requirements as defined in the plan document. Employees may voluntarily contribute to the plan via salary deferrals, up to the maximum allowed under the Internal Revenue Code. The Bank's contributions are based on a percentage of the Bank's net income before federal and state income taxes and totaled $468,117 for 2023 and $523,965 for 2022.

Other

Superior National Bank has entered into deferred compensation agreements with certain officers. Some agreements call for payments to be made over a 10- to 15-year period. Employees become eligible for full benefits at the age of 62, or a reduced payment if the individual elects an earlier retirement date. This program is being funded by the purchase of life insurance policies. Some agreements allow for employees to voluntarily defer a portion of their salary and bonuses to an account where the Bank contributes the earnings on the account. The net amount of the premium the Bank contributions charged to expense was $549,799 for 2023 and $309,191 for 2022.

9. Regulatory Capital Matters

The Bank is subject to regulatory capital requirements administered by the federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. Management believes as of December 31, 2023, the Corporation and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. As of December 31, 2023, and 2022, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since those notifications that management believes have changed the Bank's category.

9. Regulatory Capital Matters (continued)

Actual and required capital amounts (in thousands) and ratios as of December 31, 2023 are presented in the following table:

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital to risk-weighted assets	$ 116,999	17.03%	$ 54,967	8.00%	$ 68,709	10.00%
Tier 1 (Core) Capital to risk-weighted assets	108,399	15.78%	41,225	6.00%	54,967	8.00%
Common Tier 1 (CET1) to risk-weighted assets	108,399	15.78%	30,919	4.50%	44,661	6.50%
Tier 1 (Core) Capital to average total assets	108,399	10.37%	41,829	4.00%	52,286	5.00%

Actual and required capital amounts (in thousands) and ratios as of December 31, 2022 are presented in the following table:

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital to risk-weighted assets	$ 113,166	16.89%	$ 53,616	8.00%	$ 67,020	10.00%
Tier 1 (Core) Capital to risk-weighted assets	104,779	15.63%	40,212	6.00%	53,616	8.00%
Common Tier 1 (CET1) to risk-weighted assets	104,779	15.63%	30,159	4.50%	43,563	6.50%
Tier 1 (Core) Capital to average total assets	104,779	9.95%	42,122	4.00%	52,653	5.00%

9. Regulatory Capital Matters (continued)

Consolidated capital amounts and ratios are not included in the above table as they are not considered significant due to the Bank's comprising approximately 99% of the consolidated assets of the Corporation.

Banks are restricted, under applicable laws, in the payment of cash dividends. Regulatory approval was not required for the Bank distribution of dividends to the Corporation approximating $4.3 million in 2023 and $2.4 million in 2022. The requirement to obtain regulatory approval of dividends was eliminated after the June 2022 dividend distribution, prior to which $1.9 million was distributed as dividends with approval of regulatory authorities. Retained earnings of $7.8 million as of December 31, 2023 and $4.5 million as of December 31, 2022 were unrestricted to pay dividends.

10. Commitments and Contingencies

In the ordinary course of business, the Bank makes commitments for possible future extensions of credit that are not reflected in the consolidated financial statements. The Bank was obligated on commercial standby letters of credit of approximately $3,919,000 as of December 31, 2023 and $1,365,000 as of December 31, 2022, and committed, but not disbursed, loan proceeds and lines of credit of approximately $92,868,000 as of December 31, 2023 and $82,550,000 as of December 31, 2022. The Bank does not anticipate losses in connection with the commitments. Variable interest rates were assigned to approximately $72,840,000 of outstanding commitments as of December 31, 2023 and $60,313,700 as of December 31, 2022. Fixed interest rates were assigned to approximately $20,028,000 of outstanding commitments as of December 31, 2023 and $22,237,000 as of December 31, 2022.

11. Income Taxes

The consolidated provision for federal income taxes for the year ended December 31 is comprised of the following components:

	2023	2022
Current expense	$ 1,367,000	$ 1,509,000
Deferred expense (benefit)	34,000	341,000
	$ 1,401,000	**$ 1,850,000**

11. Income Taxes (continued)

As of December 31, 2023, and 2022, the net deferred tax asset recorded is included in other assets. The net deferred tax assets include the following amounts as of December 31:

	2023	2022
Deferred tax assets:		
Nonaccrual interest	$ 77,000	$ 55,000
Deferred compensation	606,000	466,000
Allowance for credit losses	2,011,000	1,917,000
Unrealized losses on debt securities	8,430,000	10,282,000
Pension withdrawal liability	305,000	333,000
Purchase accounting adjustments, net	-	44,000
Other assets	180,000	332,000
	11,609,000	13,429,000
Deferred tax liabilities:		
Depreciation	524,000	588,000
Purchase accounting adjustments, net	101,000	-
Discount accretion	111,000	85,000
Other deferred liabilities	36,000	33,000
	772,000	706,000
Net deferred tax assets	**$ 10,837,000**	**$ 12,723,000**

A reconciliation of federal income tax expense to the amount of tax expense computed by applying the statutory federal income tax rate of 21% to income before income taxes for the year ended December 31 is as follows:

	2023	2022
Tax expense at statutory rate	$ 1,644,000	$ 2,489,000
Tax-exempt interest	(343,000)	(366,000)
Other	100,000	(273,000)
Federal income tax expense	**$ 1,401,000**	**$ 1,850,000**

Any potential liability for uncertain tax positions, including interest and penalties, has been recorded in deferred tax liabilities and has not been reclassified as a separate liability.

All tax years from 2020 and subsequent remain open to examination by the Internal Revenue Service. The Corporation does not believe that the results from any examination of these open years would have a material adverse effect on the Corporation.

12. Related Party Transactions

In the ordinary course of business, the Bank makes loans to its officers and directors and its affiliated businesses, and it expects to continue making such loans in the future. These loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than normal risk of collectability.

The activity in loans to officers and directors for the year ended December 31, was as follows:

		2023		2022
Balances at January 1	$	2,377,347	$	3,142,942
New loans		327,400		203,768
Repayments		(900,635)		(969,363)
Balances at December 31	**$**	**1,804,112**	**$**	**2,377,347**

The amount of deposits of employees, officers, and directors approximated $7,839,000 as of December 31, 2023 and $8,549,000 as of December 31, 2022.

Subordinated debentures of the Corporation, issued in 2021 for $15.0 million, require interest be paid to debt holders twice annually. Directors, and related interests of directors, invested in $500,000 of subordinated debentures with the Corporation in 2023 and $600,000 of subordinated debentures in 2022. They received interest payments of $20,000 for the year ended December 31, 2023 and $24,000 for the year ended December 31, 2022.

13. Concentration of Credit

The Bank's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market area primarily located in the Upper Peninsula and Southeast Michigan. Investments in state and municipal securities also involve governmental entities within the Bank's market area. The concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers.

14. Leases

The Bank enters into leases in the normal course of business, maintaining a total of nine operating leases for retail and mortgage locations as of December 31, 2023. Bank leases have remaining terms ranging from 2.20 years to 4.60 years, some of which include renewal or termination options to extend the lease for up to 20 years. The Bank's leases do not include residual value guarantees or covenants.

The Bank includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Bank will exercise the option. In addition, the Bank has elected to account for any non-lease components in its real estate leases as part of the associated lease component.

The Bank has elected not to recognize leases with original lease terms of 12 months or less or recognize annual lease amounts of $5,000 or less on the consolidated balance sheet.

14. Leases (continued)

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term lea ses is recognized on a straight-line basis over the lease term. Right-of-use assets represent the Bank's right to use an underlying asset for the lease term and lease liabilities represent the Bank's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term using a weighted average discount rate of 3.92%.

Right-of-use assets totaled $1,872,132 as of December 31, 2023 and $1,455,818 as of December 31, 2022. Lease liabilities totaled $1,885,117 as of December 31, 2023 and $1,468,679 as of December 31, 2022. The right-of-use asset is recorded in other assets and the lease liability is recorded in other liabilities on the consolidated balance sheets. The components of total lease costs were as follows as of December 31:

	2023	2022
Operating lease cost	$ 834,260	$ 811,433
Short-term lease cost	32,616	58,334
Total lease cost, net	**$ 866,876**	**$ 869,767**

A lease maturity table with costs for the next five years and thereafter is provided below:

	Lease Costs
2024	$ 517,592
2025	512,878
2026	473,544
2027	253,489
2028 and thereafter	97,099

15. Fair Values of Financial Instruments

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments:

<u>Cash and Other Items:</u> The carrying value of cash and cash equivalents, interest-bearing time deposits in other financial institutions, loans held for sale, accrued interest receivable, and accrued interest payable approximate fair value.

<u>Debt Securities:</u> Fair values for debt securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The carrying amount is the estimated fair value for the investment in Federal Reserve and Federal Home Loan Bank stock.

<u>Loans:</u> For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for certain mortgage loans (e.g., one-to-four family residential), consumer loans, and other loans (e.g., commercial real estate and rental property mortgage loans, commercial and industrial loans, and agricultural loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for loans individually evaluated for allowance for credit losses are estimated using discounted cash flow analysis or underlying collateral values.

15. Fair Values of Financial Instruments (continued)

Deposits: The fair values disclosed for demand deposits (e.g., interest-bearing and non-interest-bearing checking, savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Borrowed Funds: Fair values for borrowed funds, consisting of federal funds purchased from correspondent banks and FHLB and FRB advances, are based on current rates for like financing. Subordinated debentures are similarly assigned a fair value.

Other: The fair value for off-balance sheet commitments is rendered insignificant.

The approximate carrying amount and estimated fair values of the Bank's financial instruments at December 31 were as follows:

	2023		2022	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets				
Cash and cash equivalents	$ 25,233,000	$ 25,233,000	$ 14,243,000	$ 14,243,000
Interest-bearing time deposits in other financial institutions	2,600,000	2,600,000	2,600,000	2,600,000
Debt securities available for sale	279,288,000	279,288,000	290,888,000	290,888,000
Federal Reserve Bank and Federal Home Loan Bank stock	2,676,000	2,676,000	2,676,000	2,676,000
Loans held for sale	1,905,000	1,905,000	4,098,000	4,098,000
Loans, less allowance for credit losses	659,413,000	634,152,000	680,114,000	665,351,000
Accrued interest receivable	3,849,000	3,849,000	3,662,000	3,662,000
Liabilities				
Deposits	865,489,000	811,810,000	882,073,000	793,004,000
Borrowed funds	50,160,000	49,629,000	72,786,000	72,775,000
Subordinated debentures	15,000,000	14,841,000	15,000,000	14,998,000
Accrued interest payable	3,451,000	3,451,000	594,000	594,000

16. Comprehensive Income (Loss)

The Comprehensive Income topic of FASB ASC 220 requires the reporting of comprehensive income (loss) in addition to net income. Comprehensive income (loss) is a more inclusive financial reporting methodology that includes disclosure of certain financial information that, historically, has not been recognized in the calculation of net income.

The only item included in comprehensive income (loss) is the change in unrealized gains (losses) on debt securities classified as available for sale. The reclassification adjustment for gains (losses) is recorded as a separate line item on the consolidated statements of income. The before-tax and after-tax amounts for the year ended December 31 are summarized below:

	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
2023			
Unrealized gains on securities:			
Unrealized holding gains arising during the period	$ 8,819,581	$ (1,852,112)	$ 6,967,469
Reclassification adjustment for net gains realized in net income	-	-	-
Total other comprehensive income	**$ 8,819,581**	**$(1,852,112)**	**$ 6,967,469**
2022			
Unrealized losses on securities:			
Unrealized holding losses arising during the period	$ (46,950,775)	$ 9,859,663	$ (37,091,112)
Reclassification adjustment for net gains realized in net income	(49,471)	10,389	(39,082)
Total other comprehensive loss	**$ (47,000,246)**	**$ 9,870,052**	**$ (37,130,194)**

17. Fair Value

The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available for sale and certain liabilities are recorded at fair value on a recurring basis. Additionally, from time to time, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans individually evaluated for credit losses, foreclosed assets, mortgage servicing rights, and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting write downs of individual assets.

Following is a description of the valuation methodologies used for assets and liabilities recorded at fair value:

Debt Securities: Debt securities available for sale are recorded at fair value on a recurring basis. Level 1 fair value measurement is based upon quoted prices for identical instruments, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss and liquidity assumptions and are considered Level 2. The values for Level 1 and Level 2 debt securities are generally obtained from an independent third party without making any adjustments. The third party generally obtains direct market prices; however, there are several market prices that are determined on a basis other than a direct market price, such as benchmark

17. Fair Value (continued)

curves, sector groupings or matrix pricing. Because of these modeling techniques, the third party generally designates the debt securities as Level 2.

Other Real Estate Owned: Upon transfer from the loan portfolio, other real estate owned is adjusted to and subsequently carried at the fair market value less cost to sell at the date of foreclosure. Fair value is based upon independent market prices, appraised values of the collateral, or management's estimate of the collateral. Level 3 other real estate owned assets consist primarily of properties in which the Bank has foreclosed but has not yet obtained physical possession. Therefore, the Bank determines the fair value of the properties based on an internal evaluation. The internal evaluation takes into consideration a combination of one or more of the following inputs: observation of condition of the exterior of the property; initial appraisals of the property when the loan was initially granted; comparable sales data; and list prices of comparable properties. After the Bank obtains physical possession, which typically occurs when the redemption period has expired, the Bank will obtain a current appraisal to determine the fair market value and the asset will generally be considered Level 2.

Loans: The Corporation does not record loans at fair value on a recurring basis. However, from time to time, a loan is individually evaluated and a specific allowance for credit losses is established. The fair value of individually evaluated loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value, and discounted cash flows. Those individually evaluated loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the amortized cost in such loans.

The Corporation reviews the net realizable values of the underlying collateral for collateral-dependent loans on a quarterly basis for all loan types. To determine the collateral value, management utilizes independent appraisals or internal evaluations.

These valuations are reviewed to determine whether additional discount should be applied given the age of market information that may have been considered as well as other factors such as costs to carry and sell an asset if it is determined that the collateral will be liquidated in connection with the ultimate settlement of the loan. These valuations are used to determine if any charge-offs or specific reserves are necessary. The Corporation may obtain new valuations in certain circumstances, including when there has been significant deterioration in the condition of the collateral, if the foreclosure process has begun, or if the existing valuation is deemed to be outdated.

Loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the loan as nonrecurring Level 2. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the loan as nonrecurring Level 3.

17. Fair Value (continued)

The Corporation utilizes the following information when measuring Level 3 other real estate owned and loans:

Valuation Technique	Fair Value at December 31, 2023	Unobservable Inputs	Range
Other real estate			
Discounted appraisal value	$ 30,295	Real estate collateral appraisal marketability discount	40-60%
Loans			
Discounted appraisal value	$ 2,433,104	Real estate collateral appraisal marketability discount	30-100%
Discounted cash flow	$ 1,927,071	Duration of cash flows	48 months
		Reduction of interest rate from original loan terms	3%

Valuation Technique	Fair Value at December 31, 2022	Unobservable Inputs	Range
Loans			
Discounted appraisal value	$ 1,216,173	Real estate collateral appraisal marketability discount	10-50%

17. Fair Value (continued)

Fair values of assets and liabilities measured on a recurring basis at December 31 were as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2023				
U.S. Government and federal agencies	$ 120,933,615	$ -	$ 120,933,615	$ -
Corporate debt	27,167,656	-	27,167,656	-
Mortgage-backed securities	43,694,401	-	43,694,401	-
State and local governments	87,492,379	-	87,492,379	-
Total securities	**$ 279,288,051**	**$ -**	**$ 279,288,051**	**$ -**
2022				
U.S. Government and federal agencies	$ 125,624,400	$ -	$ 125,624,400	$ -
Corporate debt	29,892,562	-	29,892,562	-
Mortgage-backed securities	48,815,664	-	48,815,664	-
State and local governments	86,555,831	-	86,555,831	-
Total securities	**$ 290,888,457**	**$ -**	**$ 290,888,457**	**$ -**

Fair values of assets and liabilities measured on a nonrecurring basis at December 31 were as follows:

	Total	Level 1	Level 2	Level 3
2023				
Other real estate	$ 148,532	$ -	$ 118,236	$ 30,295
Loans	4,360,175	-	-	4,360,175
Total assets	**$ 4,508,707**	**$ -**	**$ 118,236**	**$ 4,390,470**
2022				
Loans	$ 1,216,173	-	-	$ 1,216,173
Total assets	**$ 1,216,173**	**$ -**	**$ -**	**$ 1,216,173**

18. Revenue From Contracts with Customers

The Corporation follows the revenue recognition principles of ASC 606 which provides a single framework for recognizing revenue from contracts with customers that fall within its scope. The majority of the Corporation's revenues come from interest income and other sources, including loans, leases, securities and derivatives, that are outside the scope of ASC 606. The Corporation's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Corporation satisfies its obligation to the customer. Services within the scope of ASC 606 include service charges on deposit accounts, interchange fees, trust fees, Practical Security Solutions, LLC advisory fees, and the sale of other real estate owned (OREO).

Revenue from contracts with customers was as follows for the year ended December 31:

	2023	2022
Noninterest income		
Trust fees	$ 1,950,612	$ 2,007,020
Service charges on deposit accounts	1,091,225	924,719
Other service charges and fees:		
Interchange fees	1,349,135	1,375,507
Other fees	75,894	80,717
Net gain on sale of investment securities*	-	49,471
Net gain on sale of loans*	3,409,658	4,875,515
Other income:		
Practical Security Solutions, LLC advisory fees	225,024	240,951
Other income*	215,600	1,001,371
	$ 8,317,148	**$ 10,555,271**

All of the Corporation's revenue from contracts with customers in the scope of ASC 606 is recognized within noninterest income, with the exception of gains on sales of OREO of $0 and $14,156 for 2023 and 2022, respectively, that are included in noninterest expense. The table above presents the Corporation's sources of noninterest income for the years ended December 31, 2023 and 2022. Items outside of the scope of ASC 606 are noted as such (*). The other fees category includes approximately $49,000 and $45,000 of miscellaneous deposit fees which are within the scope of ASC 606, for 2023 and 2022, respectively.

Trust Fees: The Corporation earns fee income through its agreements with trust customers, for the management of assets for investment and/or to transact on their accounts. These fees are primarily earned over time as the Corporation provides services which are generally assessed monthly based on a tiered scale of the market value of assets under management (AUM). Fees that are transaction based, including trade execution services, are recognized at the point in time the transaction is executed. Other related services provided include financial planning services, estate administrative services, and other services, which are defined by a fixed fee schedule. Such fees are recognized when services are rendered.

18. Revenue From Contracts with Customers (continued)

Service Charges on Deposit Accounts and Other Miscellaneous Deposit Fees: The Corporation earns fees, based on a fixed fee schedule, from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM usage fees, wire transfer fees, stop payment charges, statement rendering and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Corporation fulfills the customer's request. Account maintenance fees, which relate primarily to monthly general maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation. Overdraft service fees are recognized when the overdraft occurs. Deposit service charges are withdrawn from the customer's account balance. Safe deposit box rental fees are assessed and paid annually.

Interchange Fees: The Corporation earns interchange fees from cardholder transactions conducted through established payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Practical Security Solutions, LLC Advisory Fees: The Corporation earns advisory fees from businesses through contracted cybersecurity advisory services. Advisory services are customized to organizational needs and regulatory requirements based on the results of proprietary cybersecurity readiness assessments, and may include development of policies and strategic plans, security training, incident response plans, simulation testing, and more. Fees are recognized within noninterest income over time as customers are billed for services performed.

Gains/Losses on Sales of OREO: The Corporation records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time the deed is executed. When the Corporation finances the sale of OREO to the buyer, the Corporation first estimates the potential gain or loss on sale. The Corporation will then assess whether the buyer is committed to perform their obligations under the loan agreement and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of property control to the buyer. In determining the gain or loss on the sale, the Corporation adjusts the transaction price and related gain or loss on sale if a significant financing component is present.

19. Long-Term Incentive Stock Plan

A Long-Term Incentive Stock Plan provides for the issuance of stock-based awards to directors and officers. Total shares issuable under the plan were 200,000 at year-end 2023 and 2022, with 1,310 shares issued in 2023 and 398 shares issued in 2022.

350 shares were granted under the Plan through restricted stock awards in 2023, of which 195 shares were immediately vested, and 155 shares will be fully vested by the fourth anniversary of the grant date. 2,155 shares were granted under the Plan through restricted stock awards in 2022, of which 398 shares were immediately vested, 1,185 shares were vested after one year, and 572 shares will be fully vested by the fourth anniversary of the grant date.

Compensation expense for restricted stock awards is recognized over the vesting period of the awards based on the fair value of the stock at issue date. The fair value of the stock price is based on a 90-day rolling average of known stock trades as of the month-end prior to the grant date. Restricted stock award shares either vest upon issuance or on a pre-determined vesting schedule.

19. Long-Term Incentive Stock Plan (continued)

Total unrecognized compensation cost related to nonvested shares granted under the Plan was $67,082 as of December 31, 2023, and $239,637 as of December 31, 2022.

The cost is expected to be recognized over a weighted-average period of 1.22 years. The total fair value of shares vested during the year was $211,085 for the year ended December 31, 2023, and $54,283 for the year ended December 31, 2022.