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Annual Meeting

Tuesday, April 22, 2025, 5:30 pm
Rozsa Center for the Performing Arts
Michigan Technological University
1400 Townsend Drive
Houghton, MI 49931

ANDREWS HOOPER PAVLIK PLC
5300 GRATIOT ROAD | SAGINAW, MI 48638

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, 2024 and 2023, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements. 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, 2024 and 2023, 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 the preparation of regulatory financial statements in accordance with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (Call Report Instructions), as of December 31, 2024 and 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, 2024 and 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.

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

An entity'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 controls over preparation of schedules equivalent to basic financial statements in accordance with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (Call Report Instructions). An entity'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 entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity 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 25, 2025

Consolidated Balance Sheets

		December 31		
		2024		2023
Assets				
Cash and cash equivalents				
Cash and due from banks	$	32,736,235	$	24,562,381
Federal funds sold		704,322		670,784
Total cash and cash equivalents		**33,440,557**		**25,233,165**
Interest-bearing time deposits in other financial institutions		2,500,000		2,600,037
Debt securities available for sale, net of allowance for credit losses of $0 as of December 31, 2024 and December 31, 2023 (amortized cost of $289,628,042 as of December 31, 2024 and $319,432,022 as of December 31, 2023)		249,151,077		279,288,051
Federal Reserve Bank and Federal Home Loan Bank stock		3,462,150		2,676,350
Loans held for sale		2,568,117		1,905,045
Loans, net of allowance for credit losses of $8,851,186 as of December 31, 2024 and $9,577,368 as of December 31, 2023		653,529,908		659,412,911
Bank premises and equipment, net		12,830,948		11,374,080
Accrued interest receivable		3,696,435		3,848,505
Goodwill		19,615,774		19,615,774
Other assets		15,810,260		16,519,149
Total assets	**$**	**996,605,226**	**$**	**1,022,473,067**
Liabilities and stockholders' equity				
Liabilities				
Deposits				
Demand	$	225,668,663	$	237,335,662
NOW		120,785,942		115,398,576
Money market		34,175,297		31,785,726
Savings		215,621,152		219,989,735
Time		246,150,879		260,979,375
Total deposits		**842,401,933**		**865,489,074**
Borrowed funds		44,298,112		50,159,614
Subordinated debentures		15,000,000		15,000,000
Allowance for credit losses on unfunded loan commitments		615,621		-
Accrued interest payable and other liabilities		10,316,484		12,302,243
Total liabilities		**912,632,150**		**942,950,931**
Stockholders' equity				
Preferred stock: no par value, 50,000 shares authorized; none issued or outstanding in 2024 and 2023		-		-
Common stock: no par value; 2,000,000 shares authorized in 2024 and 2023; 1,157,467 and 1,161,058 shares issued and outstanding in 2024 and 2023, respectively		515,549		515,549
Retained earnings		115,434,329		110,720,324
Accumulated other comprehensive loss		(31,976,802)		(31,713,737)
Total stockholders' equity		**83,973,076**		**79,522,136**
Total liabilities and stockholders' equity	**$**	**996,605,226**	**$**	**1,022,473,067**

See accompanying notes.

Consolidated Statements of Income

	Year Ended December 31 2024	2023
Interest income		
Loans, including fees	$ 42,664,588	$ 39,078,939
Securities		
U.S. Treasury securities	288,656	369,835
U.S. Government agencies	2,534,733	2,659,769
Obligations of states and political subdivisions	1,672,710	1,731,186
Other securities	558,627	664,659
Other interest income	1,482,521	1,314,314
	49,201,835	**45,818,702**
Interest expense		
Deposits	14,636,092	10,819,621
Borrowed funds and subordinated debentures	3,603,653	3,100,110
	18,239,745	13,919,731
Net interest income	**30,962,090**	**31,898,971**
Provision (recovery) for credit losses	(109,200)	23,186
Net interest income after provision (recovery) for loan losses	**31,071,290**	**31,875,785**
Noninterest income		
Trust fees	2,256,354	1,950,612
Service charges on deposit accounts	1,182,063	1,091,225
Other service charges and fees	1,483,204	1,425,029
Net gain on sale of loans	4,026,928	3,409,658
Other	(6,102)	440,624
	8,942,447	**8,317,148**
Noninterest expenses		
Salaries and wages	15,292,831	15,820,357
Pensions and other employee benefits	3,860,699	4,282,335
Occupancy, net	6,724,066	6,921,499
Postage and supplies	171,802	180,803
FDIC and general insurance	640,419	622,920
Legal and professional	1,948,101	1,265,910
Loan-related	884,797	865,759
Marketing	206,385	342,383
Net cost of operations of other real estate – including write downs and gains/losses on sales	36,738	112,994
Other operating	2,186,535	1,948,160
	31,952,373	32,363,120
Income before income tax expense	**8,061,364**	**7,829,813**
Income tax expense	1,093,000	1,401,000
Net income	**$ 6,968,364**	**$ 6,428,813**
Net income per share of common stock	**$ 6.00**	**$ 5.54**

See accompanying notes.

Consolidated Statements of Comprehensive Income

	Year ended December 31 2024	2023
Net income	$ 6,968,364	$ 6,428,813
Other comprehensive income (loss), net of tax		
Unrealized holding gains (losses) arising during the period	(263,065)	6,967,469
Reclassification adjusment for net gains included in net income	-	-
Total other comprehensive income (loss), net of tax	(263,065)	6,967,469
Total comprehensive income	**$ 6,705,299**	**$ 13,396,282**

Consolidated Statements of Changes In Stockholders' Equity

Years Ended December 31, 2024 and 2023

	Common Stock				
	Number of Shares	Assigned Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at January 1, 2023	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**
Net income for 2024			6,968,364		6,968,364
Other comprehensive loss, net of tax				(263,065)	(263,065)
Repurchase of common stock	(3,822)		(261,918)		(261,918)
Shares issued for compensation obligations	231		4,160		4,160
Cash dividends paid ($1.72 per share)			(1,996,601)		(1,996,601)
Balance at December 31, 2024	**1,157,467**	**$ 515,549**	**$ 115,434,329**	**$ (31,976,802)**	**$ 83,973,076**

See accompanying notes.

Consolidated Statements of Cash Flows

	Year Ended December 31 2024	2023
Cash flows from operating activities		
Net income	$ 6,968,364	$ 6,428,813
Adjustments to reconcile net income from operating activities:		
Depreciation and amortization of right-of-use assets	1,203,740	1,297,486
Amortization of core deposit intangibles	156,143	156,143
Accretion of loans purchased	-	(89,041)
Net amortization of investment securities	552,023	570,116
Deferred taxes	141,000	34,000
Loss on sale of other repossessed asset	-	16,815
Net gain on sale of other real estate owned	(84,882)	-
Fair value increase at transfer of other real estate owned	(9,195)	-
Loss on disposal of premises and equipment	262,855	39,945
Repayment of lease liabilities	(328,254)	(436,966)
Gain on sale of loans	(4,026,928)	(3,409,658)
Proceeds from sale of mortgage loans held for sale	156,112,222	152,836,863
Origination of mortgage loans held for sale	(152,748,366)	(147,234,264)
Provision (recovery) for credit losses	(109,200)	23,186
Net change in:		
Accrued interest receivable and other assets	71,824	1,147,828
Accrued interest payable and other liabilities	(1,611,995)	2,724,741
Net cash from operating activities	6,549,351	14,106,007
Cash flows from investing activities		
Decrease in interest-bearing time deposits in other financial institutions	100,037	264
Activity in debt securities available for sale:		
Maturities, prepayments, calls, and sales	29,251,957	19,849,871
Transactions of Federal Reserve and Federal Home Loan Bank stock	(785,800)	-
Loan originations and payments, net	6,039,673	20,618,630
Proceeds from sale of fixed assets	-	3,000
Proceeds from sales of other real estate owned	753,414	-
Additions to bank premises and equipment, net	(2,498,238)	(2,755,067)
Net cash from investing activities	32,861,043	37,716,698
Cash flows from financing activities		
Net change in demand, NOW, money market, and savings deposits	(8,258,645)	(91,396,239)
Net change in time deposits	(14,828,496)	74,812,367
Proceeds from borrowings	105,141,000	105,786,000
Repayments on borrowings	(110,141,000)	(126,561,000)
Principal payments on notes payable	(861,502)	(1,851,091)
Stock issued for compensation obligations	4,160	211,085
Repurchase of common stock	(261,918)	-
Cash dividends	(1,996,601)	(1,833,373)
Net cash from financing activities	(31,203,002)	(40,832,251)
Net change in cash and cash equivalents	8,207,392	10,990,454
Cash and cash equivalents at beginning of year	25,233,165	14,242,711
Cash and cash equivalents at end of year	**$ 33,440,557**	**$ 25,233,165**

See accompanying notes.

Consolidated Statements of Cash Flows (continued)

	Year ended December 31	
	2024	2023
Supplemental cash flow information		
Loans transferred to other real estate owned	$ 568,151	$ 148,532
Lease liabilities arising from obtaining right-of-use assets	45,510	853,404
Income taxes paid	1,331,090	1,256,364
Interest paid	20,022,426	11,062,823

Notes To Consolidated Financial Statements • December 31, 2024

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 14% of the Bank's employees are subject to a collective bargaining agreement as of December 31, 2024 and 13% as of December 31, 2023. The agreement expires on September 26, 2028.

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 2025 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, 2024 and 2023, 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. Premiums that exceed the amount repayable by the issuer at the next call date are amortized to the next call date. 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 income for the years ended December 31, 2024 and 2023.

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.

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.

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

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 consolidated financial statements. Some commercial loan origination fees are deferred over the life of the loan if they exceed a value deemed material to the consolidated 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.

Purchased Credit Deteriorated Loans

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.

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

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.

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 replaced 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).

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. 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 at adoption.

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 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 construction, residential real estate, commercial real estate, commercial and industrial, commercial other, 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.

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

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

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

- Construction loans are secured by vacant land and/or property that are in the process of improvement, including land development preparatory to erecting vertical improvements or the on-site construction of industrial, commercial, residential or farm buildings. Repayment of these loans can be dependent on the sale of the property to third parties or the successful completion of the improvements by the builder for the end user. In the event a loan is made on property that is not yet improved for the planned development, a risk is imposed that necessary approvals will not be granted or will be delayed. Construction loans also run the risk that improvements will not be completed on time or in accordance with specifications and the projected costs.

- 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.

- 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, restaurants, and residential rental properties. 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.

- Commercial & industrial 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 other loans are primarily commercial & industrial or commercial real estate loans granted to local, state or government municipalities. These loans pose a lower risk than traditional commercial real estate or commercial & industrial as they are often secured with a government guarantee. Risk for municipalities can arise during political changes at a local or national level. They are also dependent on specific revenue streams such as taxes, fees, or grants. A decline in these revenues due to an economic downturn would affect their ability to repay debts.

- Consumer installment 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.

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

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

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:

- Construction loans considered collateral dependent are primarily secured by vacant land, where construction will take place, any improvements to the land and expected value of the completed project.

- 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.

- Commercial real estate loans considered collateral dependent are primarily secured by residential and commercial properties. Commercial properties include office and industrial buildings, warehouses, retail shopping facilities, and various special purpose properties, including hotels and restaurants.

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

- Commercial other loans considered collateral dependent are primarily secured by the full faith and backing of that government entity.

- 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 & industrial 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 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.

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

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

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 consolidated financial statements. Accrued interest on loans totaling $2,465,456 as of December 31, 2024, and $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 an allowance for credit losses on off-balance sheet credit exposures 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 allowance for unfunded loan commitments is established through provisions for credit losses charged against earnings. The allowance for credit losses on unfunded loan commitments is included as a liability on the accompanying consolidated balance sheet as of December 31, 2024. In 2023, the allowance for unfunded commitments was deemed immaterial and is therefore included in the allowance for credit losses on loans as of December 31, 2023.

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.

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.

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

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 $778,515 and $864,239 and includes accretion related to the recognition of a service provider credit for future expenses of $0 and $110,358 at December 31, 2024 and 2023, 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 2024 or 2023.

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 write-downs 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.

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

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 2024 and in 2023. These intangible assets are tested for impairment annually. There was no impairment recorded in 2024 or in 2023.

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.

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.

Notes to Consolidated Financial Statements • December 31, 2024

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

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 2024 and 2023. Since inception of the Plan, the Corporation has repurchased 20,565 shares of common stock. The Corporation repurchased 3,822 shares of common stock in 2024 and 0 shares of common stock in 2023. In January 2025, 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 1,160,600 shares as of December 31, 2024 and 1,160,530 shares as of December 31, 2023.

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.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (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 income (loss) also includes a reclassification adjustment for net gains included in net income.

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

Restrictions on Cash

Cash on hand or on deposit with the Federal Reserve Bank was not required at December 31, 2024 or 2023, 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 2023 consolidated financial statements to conform to the 2024 presentation.

Subsequent Events

Subsequent events were evaluated for potential recognition or disclosure through February 25, 2025 which was the date the consolidated 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:

2024	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and federal agencies	$ 120,909,410	$ -	$ (14,063,413)	$ 106,845,997
Corporate debt	26,571,504	-	(3,566,370)	23,005,134
Mortgage-backed securities	48,710,672	-	(10,430,520)	38,280,152
State and local governments	93,436,456	-	(12,416,662)	81,019,794
	$ 289,628,042	**$ -**	**$ (40,476,965)**	**$ 249,151,077**

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**

Amortized cost basis excludes accrued interest balances of $1,168,455 and $1,304,012 for total available-for-sale debt securities as of December 31, 2024 and 2023, respectively.

On January 1, 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, 2024 and 2023, no security payments were past due, no securities 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, 2024 and 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, 2024, 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	$ 19,595,215	$ 19,210,513
Due after one year through five years	87,230,547	81,124,401
Due after five years through ten years	101,153,718	85,469,313
Due after ten years	32,937,890	25,066,698
Mortgage-backed securities	48,710,672	38,280,152
	$ 289,628,042	**$ 249,151,077**

Debt securities with a book value of $87,507,424 at December 31, 2024, and debt securities with a book value of $173,650,798 at December 31, 2023, 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, 2024, 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
2024	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Government and federal agencies	$ -	$ -	$106,845,997	$ 14,063,413	$ 106,845,997	$ 14,063,413
Corporate debt	-	-	22,005,134	3,566,370	22,005,134	3,566,370
Mortgage-backed securities	-	-	38,280,152	10,430,520	38,280,152	10,430,520
State and local governments	874,904	30,096	77,406,346	12,386,566	78,281,250	12,416,662
	$ 874,904	**$ 30,096**	**$244,537,629**	**$ 40,446,869**	**$ 245,412,533**	**$ 40,476,965**

	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**

2. Debt Securities (continued)

As of December 31, 2024, 412 debt securities had unrealized losses with aggregate depreciation of approximately 14.0% from the Bank's amortized cost basis. 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 2024 were $0 and maturities, prepayments, and calls of debt securities available for sale were $29,251,957. Net gains on those sales and maturities totaled $0. Proceeds from sales of debt securities available for sale during 2023 were $0 and maturities, prepayments, and calls of debt securities available for sale were $19,849,871. Net gains on those sales and maturities totaled $0.

3. Loans and Allowance for Credit Losses

Loan segments at December 31 were as follows:

	2024	2023
Construction	$ 35,437,896	$ 31,402,100
Residential real estate	224,979,753	239,204,543
Commercial real estate	261,852,075	268,912,807
Commercial & industrial	74,220,048	66,329,115
Commercial other	14,641,081	9,439,306
Consumer installment	51,250,241	53,702,408
	662,381,094	668,990,279
Allowance for credit losses	(8,851,186)	(9,577,368)
Net loans	**$ 653,529,908**	**$ 659,412,911**

Deposit accounts in an overdraft position and reclassified as loans totaled $145,006 as of December 31, 2024 and $146,788 as of December 31, 2023.

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:

	Construction	Residential Real Estate	Commercial Real Estate	Commercial & Industrial	Commercial Other	Consumer Installment	Unallocated	Total
2024								
Balance at beginning of year	$ 537,278	$ 3,084,367	$ 4,693,520	$ 894,739	$ 17,965	$ 349,499	$ -	$ 9,577,368
Adjustments for off balance sheet unfunded commitments	(464,907)	(30,262)	(46,973)	(72,771)	(111)	(597)	-	(615,621)
Provision (recovery) charged to operations	436,013	269,470	(787,360)	(89,010)	3,445	58,242	-	(109,200)
Loans charged off	-	(80,832)	-	(11,214)	-	(91,829)	-	(183,875)
Recoveries	23,981	1,871	5,103	93,758	-	57,801	-	182,514
Balance at end of year	**$ 532,365**	**$ 3,244,614**	**$ 3,864,290**	**$ 815,502**	**$ 21,299**	**$ 373,116**		**$ 8,851,186**
2023								
Balance at beginning of year	$ 547,512	$ 3,045,862	$ 3,395,363	$ 900,173	$ 274,734	$ 581,143	$ 385,004	$ 9,129,791
Adjustments for PCD assets at adoption of ASC 326	-	6,846	808,943	68,270	-	-	-	884,059
Provision (recovery) charged to operations	(10,234)	81,328	487,456	221,605	(259,169)	(112,796)	(385,004)	23,186
Loans charged off	-	(63,043)	-	(316,561)	-	(176,870)	-	(556,474)
Recoveries	-	13,374	1,758	21,252	2,400	58,022	-	96,806
Balance at end of year	**$ 537,278**	**$ 3,084,367**	**$ 4,693,520**	**$ 894,739**	**$ 17,965**	**$ 349,499**	**$ -**	**$ 9,577,368**

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

	Construction	Residential Real Estate	Commercial Real Estate	Commercial & Industrial	Commercial Other	Consumer Installment	Total
2024							
Loans:							
Individually evaluated	$ -	$ 2,848,043	$ 12,311,277	$ 346,450	$ -	$ 450,470	$ 15,956,240
Collectively evaluated	35,437,896	222,131,710	249,540,798	73,873,598	14,641,081	50,799,771	646,424,854
Total Loans	**$ 35,437,896**	**$ 224,979,753**	**$ 261,852,075**	**$ 74,220,048**	**$ 14,641,081**	**$ 51,250,241**	**$ 662,381,094**
Related allowance for credit losses:							
Individually evaluated	$ -	$ 112,606	$ 1,203,719	$ 104,155	$ -	$ 33,724	$ 1,454,204
Collectively evaluated	532,365	3,132,008	2,660,571	711,347	21,299	339,392	7,396,982
Total allowance for credit losses on loans	**$ 532,365**	**$ 3,244,614**	**$ 3,864,290**	**$ 815,502**	**$ 21,299**	**$ 373,116**	**$ 8,851,186**
2023							
Loans:							
Individually evaluated	$ -	$ 2,930,182	$ 4,293,725	$ 2,496,356	$ -	$ 92,566	$ 9,812,829
Collectively evaluated	31,402,100	236,274,361	264,619,082	63,832,759	9,439,306	53,609,842	659,177,450
Total Loans	**$ 31,402,100**	**$ 239,204,543**	**$ 268,912,807**	**$ 66,329,115**	**$ 9,439,306**	**$ 53,702,408**	**$ 668,990,279**
Related allowance for credit losses:							
Individually evaluated	$ -	$ 274,227	$ 1,408,419	$ 271,748	$ -	$ 9,638	$ 1,964,032
Collectively evaluated	367,081	2,777,465	3,242,862	544,127	16,101	338,738	7,286,374
Unfunded commitments	170,197	32,675	42,239	78,864	1,864	1,123	326,962
Total allowance for credit losses on loans	**$ 537,278**	**$ 3,084,367**	**$ 4,693,520**	**$ 894,739**	**$ 17,965**	**$ 349,499**	**$ 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 are as follows:

	2024	2023
Consumer installment	$ 447	$ 677
	$ 447	**$ 677**

As of December 31, 2024, all loans that were individually evaluated were collateral dependent. Information regarding individually evaluated collateral-dependent loans as of December 31, 2023, are as follows:

	2023	
	Amortized Cost	Related Allowance
Residential real estate	$ 2,930,182	$ 274,227
Commercial real estate	4,293,725	1,408,419
Commercial & industrial	456,263	158,726
Consumer installment	92,566	9,638
	$ 7,772,736	**$ 1,851,010**

<u>Credit Quality Information</u>

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 construction, commercial real estate, commercial & industrial, and commercial other 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 or 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.

Notes to Consolidated Financial Statements • December 31, 2024

3. Loans and Allowance for Credit Losses (continued)

Credit Quality Information (continued)

Based on the most recent analysis performed, the risk grading of commercial loans by class of loans is as follows as of December 31, 2024:

	Term Loans Amortized Cost Basis by Origination Year							
	2024	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Coverted to Term	Total
Commercial construction:								
Pass	$ 4,722,927	$ 11,023,314	$ 5,886,860	$ 449,396	$ 102,921	$ 781,905	$ -	$ 22,967,323
Other/Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
	$ 4,722,927	**$ 11,023,314**	**$ 5,886,860**	**$ 449,396**	**$ 102,921**	**$ 781,905**	**$ -**	**$ 22,967,323**
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate:								
Pass	$ 17,170,795	$ 26,140,998	$ 52,450,098	$ 50,133,478	$ 83,484,534	$ 14,303,094	$ 495,055	$ 244,178,052
Other/Special mention	-	2,369,990	160,457	1,018,805	1,813,494	-	-	5,362,746
Substandard	-	-	-	793,340	8,841,983	99,795	2,576,159	12,311,277
	$ 17,170,795	**$ 28,510,988**	**$ 52,610,555**	**$ 51,945,623**	**$ 94,140,011**	**$ 14,402,889**	**$ 3,071,214**	**$ 261,852,075**
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial & industrial:								
Pass	$ 18,932,602	$ 15,954,050	$ 6,873,241	$ 3,930,301	$ 5,632,576	$ 19,954,997	$ -	$ 71,277,767
Other/Special mention	282,199	121,276	123,692	-	16,753	2,051,911	-	2,595,831
Substandard	-	-	-	26,282	145,448	174,720	-	346,450
	$ 19,214,801	**$ 16,075,326**	**$ 6,996,933**	**$ 3,956,583**	**$ 5,794,777**	**$ 22,181,628**	**$ -**	**$ 74,220,048**
Current period gross charge offs	$ -	$ 11,214	$ -	$ -	$ -	$ -	$ -	$ 11,214
Commercial other:								
Pass	$ 8,510,976	$ 428,803	$ 451,289	$ 225,829	$ 430,680	$ 4,593,504	$ -	$ 14,641,081
Other/Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
	$ 8,510,976	**$ 428,803**	**$ 451,289**	**$ 225,829**	**$ 430,680**	**$ 4,593,504**	**$ -**	**$ 14,641,081**
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Notes to Consolidated Financial Statements • December 31, 2024

3. Loans and Allowance for Credit Losses (continued)

Credit Quality Information (continued)

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 construction:							
Pass	$ 6,314,243	$ 10,060,254	$ 2,635,835	$ 1,835,016	$ 600,000	$ -	$ 21,445,348
Other/Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
	$ 6,314,243	**$ 10,060,254**	**$ 2,635,835**	**$ 1,835,016**	**$ 600,000**	**$ -**	**$ 21,445,348**
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate:							
Pass	$ 25,350,759	$ 54,816,037	$ 54,111,046	$ 108,628,251	$ 20,895,110	$ -	$ 263,801,203
Other/Special mention	-	437,887	454,844	757,970	-	-	1,650,701
Substandard	149,459	-	694,943	2,444,763	171,738	-	3,460,903
	$ 25,500,218	**$ 55,253,924**	**$ 55,260,833**	**$ 111,830,984**	**$ 21,066,848**	**$ -**	**$ 268,912,807**
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commericial & industrial:							
Pass	$ 14,491,035	$ 9,610,290	$ 7,030,955	$ 8,156,837	$ 20,514,660	$ -	$ 59,803,777
Other/Special mention	254,424	1,204,489	1,092,333	354,708	1,123,028	-	4,028,982
Substandard	2,138,204	3,616	41,083	313,453	-	-	2,496,356
	$ 16,883,663	**$ 10,818,395**	**$ 8,164,371**	**$ 8,824,998**	**$ 21,637,688**	**$ -**	**$ 66,329,115**
Current period gross charge offs	$ -	$ -	$ 97,312	$ 219,249	$ -	$ -	$ 316,561
Commercial other:							
Pass	$ 1,131,748	$ 587,448	$ 320,448	$ 616,233	$ 6,783,429	$ -	$ 9,439,306
Other/Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
	$ 1,131,748	**$ 587,448**	**$ 320,448**	**$ 616,233**	**$ 6,783,429**	**$ -**	**$ 9,439,306**
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Internally prepared ratings for loans are updated at least annually.

Notes to Consolidated Financial Statements • December 31, 2024

3. Loans and Allowance for Credit Losses (continued)

Credit Quality Information (continued)

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, 2024:

	Term Loans Amortized Cost Basis by Origination Year							
	2024	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Coverted to Term	Total
Residential construction:								
Performing	$ 3,132,544	$ 4,684,428	$ 1,500,145	$ 1,135,407	$ 1,921,035	$ 97,014	$ -	$ 12,470,573
Nonperforming	-	-	-	-	-	-	-	-
	$ 3,132,544	**$ 4,684,428**	**$ 1,500,145**	**$ 1,135,407**	**$ 1,921,035**	**$ 97,014**	**$ -**	**$ 12,470,573**
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Residential real estate:								
Performing	$ 17,525,552	$ 17,317,214	$ 72,175,640	$ 37,209,483	$ 58,808,955	$ 17,435,487	$ 2,510,014	$ 222,982,345
Nonperforming	84,059	-	546,317	97,249	1,193,935	-	75,848	1,997,408
	$ 17,609,611	**$ 17,317,214**	**$ 72,721,957**	**$ 37,306,732**	**$ 60,002,890**	**$ 17,435,487**	**$ 2,585,862**	**$ 224,979,753**
Current period gross charge offs	$ -	$ -	$ 54,046	$ -	$ 26,786	$ -	$ -	$ 80,832
Consumer installment:								
Performing	$ 17,902,580	$ 12,571,095	$ 11,555,036	$ 4,765,072	$ 3,734,229	$ 191,344	$ -	$ 50,719,356
Nonperforming	51,358	90,972	305,446	79,918	1,424	1,767	-	530,885
	$ 17,953,938	**$ 12,662,067**	**$ 11,860,482**	**$ 4,844,990**	**$ 3,735,653**	**$ 193,111**	**$ -**	**$ 51,250,241**
Current period gross charge offs	$ 47,143	$ 656	$ 27,615	$ 4,624	$ 11,791	$ -	$ -	$ 91,829

3. Loans and Allowance for Credit Losses (continued)

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 construction:							
Performing	$ 5,803,980	$ 2,386,452	$ 27,146	$ 1,739,174	$ -	$ -	$ 9,956,752
Nonperforming	-	-	-	-	-	-	-
	$ 5,803,980	**$ 2,386,452**	**$ 27,146**	**$ 1,739,174**	**$ -**	**$ -**	**$ 9,956,752**
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Residential real estate:							
Performing	$ 22,766,070	$ 82,252,064	$ 41,780,919	$ 72,056,015	$ 17,512,422	$ 673,936	$ 237,041,426
Nonperforming	-	604,556	503,804	877,175	-	177,582	2,163,117
	$ 22,766,070	**$ 82,856,620**	**$ 42,284,723**	**$ 72,933,190**	**$ 17,512,422**	**$ 851,518**	**$ 239,204,543**
Current period gross charge offs	$ -	$ -	$ -	$ 63,043	$ -	$ -	$ 63,043
Consumer installment:							
Performing	$ 19,078,933	$ 18,136,195	$ 8,899,397	$ 7,306,867	$ 203,905	$ -	$ 53,625,297
Nonperforming	10,485	33,524	18,830	14,272	-	-	77,111
	$ 19,089,418	**$ 18,169,719**	**$ 8,918,227**	**$ 7,321,139**	**$ 203,905**	**$ -**	**$ 53,702,408**
Current period gross charge offs	$ 36,415	$ 24,643	$ 19,219	$ 96,593	$ -	$ -	$ 176,870

The following table represents the aging of all loans by segment as of December 31:

	Past Due 30-89 Days	Past Due 90 Days or More	Total Past Due	Current	Loan Total Balance
2024					
Construction	$ -	$ -	$ -	$ 35,437,896	$ 35,437,896
Residential real estate	1,441,650	555,758	1,997,408	222,982,345	224,979,753
Commercial real estate	5,791,967	1,626,272	7,418,239	254,433,836	261,852,075
Commercial & industrial	277,829	669,000	946,829	73,273,219	74,220,048
Commercial other	-	-	-	14,641,081	14,641,081
Consumer installment	294,871	236,014	530,885	50,719,356	51,250,241
	$ 7,806,317	**$ 3,087,044**	**$10,893,361**	**$ 651,487,733**	**$ 662,381,094**
2023					
Construction	$ -	$ -	$ -	$ 31,402,100	$ 31,402,100
Residential real estate	1,444,329	718,788	2,163,117	237,041,426	239,204,543
Commercial real estate	892,239	81,253	973,492	267,939,315	268,912,807
Commercial & industrial	27,491	-	27,491	66,301,624	66,329,115
Commercial other	-	-	-	9,439,306	9,439,306
Consumer installment	77,111	-	77,111	53,625,297	53,702,408
	$ 2,441,170	**$ 800,041**	**$ 3,241,211**	**$ 665,749,068**	**$ 668,990,279**

3. Loans and Allowance for Credit Losses (continued)

Information regarding nonaccrual loans during the year ended December 31, 2024 and 2023 are 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
2024					
Residential real estate	$ 1,259,412	$ 593,557	$ 1,852,969	$ 1,757,624	$ 27,859
Commercial real estate	763,883	1,333,257	2,097,140	1,243,148	32,865
Commercial & industrial	19,578	320,168	339,746	164,480	8,415
Consumer installment	123,254	210,202	333,456	61,499	1,760
	$ 2,166,127	**$ 2,457,184**	**$ 4,623,311**	**$ 3,226,751**	**$ 70,899**
2023					
Residential real estate	$ 506,974	$ 1,250,650	$ 1,757,624	$ 605,941	$ -
Commercial real estate	81,253	1,161,895	1,243,148	1,279,089	-
Commercial & industrial	-	164,480	164,480	692,776	80,948
Consumer installment	-	61,499	61,499	73,764	-
	$ 588,227	**$ 2,638,524**	**$ 3,226,751**	**$ 2,651,570**	**$ 80,948**

There was one commercial & industrial loan that was past due 90 days or more and still accruing interest at December 31, 2024. The balance of the loan was $494,280. There were no loans past due 90 days or more and still accruing interest at December 31, 2023.

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:

	Term Extension		Interest Rate Reduction		Combination Term Extension and Interest Rate Reduction	
	Amortized Cost Basis	**Percent of Loan Class**	**Amortized Cost Basis**	**Percent of Loan Class**	**Amortized Cost Basis**	**Percent of Loan Class**
2024						
Commercial real estate	$ 139,922	0.05%	$ 1,086,536	0.41%	$ -	0.00%
Consumer installment	5,545	0.01%	-	0.00%	-	0.00%
	$ 145,467	**0.02%**	**$ 1,086,536**	**0.16%**	**$ -**	**0.00%**
2023						
Residential real estate	$ 5,629	0.00%	$ -	0.00%	$ -	0.00%
Commercial real estate	374,304	0.14%	-	0.00%	-	0.00%
Commercial & industrial	121,482	0.18%	-	0.00%	2,032,850	3.06%
	$ 501,415	**0.07%**	**$ -**	**0.00%**	**$ 2,032,850**	**0.30%**

3. Loans and Allowance for Credit Losses (continued)

The following describes the financial effect of the modifications made to borrowers experiencing financial difficulty as of December 31, 2024:

Term Extension	
Loan Type	**Financial Effect**
Commercial real estate	Extended the maturity by 2.0 months for one loan and extended the maturity by 1.0 year for a second loan, both allowing the customer more time to repay.
Consumer installment	Increased the term of the loan to 3.5 years which reduced monthly payments for the borrower.
Interest Rate Reduction	
Loan Type	**Financial Effect**
Commercial real estate	Lowered the contractual interest rate from 11.25% to 10.75% to reduce monthly payments for the borrower.

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**
Residential real estate	Added 7.0 years to the term of the loan, which reduced monthly payment amounts for the borrower.
Commercial real estate	Added a weighted average of 5.0 years to the term of the loan, which did not have a material impact on cash flows.
Commercial & industrial	Added a weighted average of 4.7 years to the term of the loan, which reduced monthly payment amounts for the borrower.
Interest Rate Reduction	
Loan Type	**Financial Effect**
Commercial & industrial	Reduced the weighted-average contractual interest rate from 7.25% to 4.75%, which reduced monthly payment amounts for the borrower.

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, 2024 and 2023:

	Payment Status			
	Current	**Past Due 30-89 Days**	**Past Due 90+ Days**	**Totals**
2024				
Commercial real estate	$ 114,603	$ -	$ 1,111,855	$ 1,226,458
Consumer installment	5,545	-	-	5,545
	$ 120,148	**$ -**	**$ 1,111,855**	**$ 1,232,003**
2023				
Residential real estate	$ 5,629	$ -	$ -	$ 5,629
Commercial real estate	374,304	-	-	374,304
Commercial & industrial	2,154,332	-	-	2,154,332
	$ 2,534,265	**$ -**	**$ -**	**$ 2,534,265**

3. Loans and Allowance for Credit Losses (continued)

The Bank had two 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, 2024. These loans are the same loans that are shown as past due as of December 31, 2024 in the previous table. One loan had a term extension and the other an interest rate reduction. The bank had no loans that had a payment default during the year and were modified in the 12 months prior to the default to borrowers experiencing financial difficulty as of December 31, 2023.

As of December 31, 2024, and 2023, the Bank had no commitments to lend any additional funds on loans modified to borrowers experiencing financial difficulty.

4. Other Real Estate Owned

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

	2024	2023
Beginning balance	$ 148,532	$ -
Loans transferred to real estate owned	568,151	148,532
Fair value increases at transfer	9,195	-
Sales of real estate owned	(668,532)	-
Ending balance	**$ 57,346**	**$ 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 $57,346 at December 31, 2024, and $148,532 at December 31, 2023. 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 $33,000 at December 31, 2024, and $615,000 at December 31, 2023.

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

	2024	2023
Net gain on sales	$ (84,882)	$ -
Operating expenses, net of rental income	130,815	112,994
Fair value increases at transfer	(9,195)	-
	$ 36,738	**$ 112,994**

5. Bank Premises and Equipment

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

	2024	2023
Land and improvements	$ 3,325,914	$ 3,005,709
Buildings and improvements	13,092,384	12,350,094
Equipment (including software)	6,302,453	6,304,190
Leasehold improvements	485,221	485,221
	23,205,972	22,145,214
Accumulated depreciation/amortization	(10,375,024)	(10,771,134)
Bank premises and equipment, net	**$ 12,830,948**	**$ 11,374,080**

6. Time Deposits

The aggregate amount of time deposit accounts meeting or exceeding the FDIC insurance limit of $250,000 was $86,103,464 at December 31, 2024, and $114,422,293 at December 31, 2023.

The contractual annual maturities of time deposits at December 31, 2024, were as follows:

2025	$	219,844,314
2026		9,435,575
2027		14,799,736
2028		513,218
2029		1,558,036
	$	**246,150,879**

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 four borrowings maturing from May 2026 to May 2029 as of December 31, 2024. 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 $216,246,000 as of December 31, 2024, and $222,911,000 as of December 31, 2023.

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 $60,705,000 pledged as of December 31, 2024, and $51,684,000 pledged as of December 31, 2023.

The Federal Reserve Bank Term Funding Program was introduced in 2023. As of May 2024, this program is no longer available for future borrowings. Through this program, the Bank had the capacity to borrow for one-year terms without prepayment penalty, up to the par value of investment collateral pledged. As of December 31, 2024, all Bank Term Funding Program debt has been paid in full. Investment collateral of $87,386,500 was 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. There were no investments pledged for the BTFP program as of December 31, 2024 as the program is no longer in existence and all borrowings have been paid in full.

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. The term loan matures on January 31, 2025 and the line of credit matures on February 1, 2025. In the January 2025 meeting of the Board of Directors, both the line of credit and the secured note were approved for renewal.

7. Borrowings (continued)

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
2024						
Year end balance	$ -	$ 40,000,000	$ -	$ -	$ 4,298,112	$ 15,000,000
Interest incurred	24	1,347,100	1,469,531	-	186,998	600,000
Interest rate at year end	-	3.73-4.78%	-	-	3.80%	4.00%
Average balance at year end	396	29,426,230	31,584,702	-	4,694,423	15,000,000
Average interest rate during the year	6.15%	4.58%	4.65%	-	3.80%	4.00%
Maximum balance during the year	130,000	40,000,000	50,000,000	-	5,159,614	15,000,000
Maturity date	-	5/11/2026-5/7/2029	-	2/1/2025	1/31/2025	3/26/2031
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%	3.80%	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	5/6/2024-5/17/2024	2/1/2025	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.

8. Pension and Profit Sharing Plans (continued)

Pension Plan (continued)

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 $1,316,359 as of December 31, 2024, and $1,450,170 as of December 31, 2023, and total pension expense was $85,051 for the year ended December 31, 2024, and $82,838 for the year ended December 31, 2023. 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, 2024 and 2023, 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 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, 2024, 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 unit 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 $18,339 for 2024 and $17,594 for 2023. Contributions for non-bargaining employees totaled $394,678 for 2024 and $438,951 for 2023.

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 $324,737 for 2024 and $468,117 for 2023.

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 charged to expense was $563,132 for 2024 and $549,799 for 2023.

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, 2024 and 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, 2024 and 2023, 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.

Actual and required capital amounts (in thousands) and ratios as of December 31, 2024 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	$ 121,241	17.82%	$ 54,420	8.00%	$ 68,025	10.00%
Tier 1 (Core) Capital to risk-weighted assets	112,726	16.57%	40,815	6.00%	54,420	8.00%
Common Tier 1 (CET1) to risk-weighted assets	112,726	16.57%	30,611	4.50%	44,216	6.50%
Tier 1 (Core) Capital to average total assets	112,726	10.98%	41,073	4.00%	51,341	5.00%

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%

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 $3.9 million in 2024 and $4.3 million in 2023. Retained earnings of $11.9 million as of December 31, 2024 and $7.8 million as of December 31, 2023 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 $2,746,000 as of December 31, 2024 and $3,919,000 as of December 31, 2023, and committed, but not disbursed, loan proceeds, lines of credit and overdraft lines of approximately $113,960,000 as of December 31, 2024 and $92,868,000 as of December 31, 2023. The Bank does not anticipate losses in connection with the commitments; however, in accordance with accounting standards, a related allowance for credit losses on unfunded loan commitments was established, the value of which is $615,621 as of December 31, 2024. Variable interest rates were assigned to approximately $69,700,000 of outstanding commitments as of December 31, 2024 and $72,840,000 as of December 31, 2023. Fixed interest rates were assigned to approximately $44,260,000 of outstanding commitments as of December 31, 2024 and $20,028,000 as of December 31, 2023.

11. Income Taxes

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

		2024		2023
Current expense	$	952,000	$	1,367,000
Deferred expense		141,000		34,000
	$	**1,093,000**	**$**	**1,401,000**

As of December 31, 2024 and 2023, the net deferred tax asset recorded is included in other assets. The net deferred tax assets include the following amounts as of December 31:

		2024		2023
Deferred tax assets:				
Nonaccrual interest	$	12,000	$	77,000
Deferred compensation		663,000		606,000
Allowance for credit losses		1,988,000		2,011,000
Unrealized losses on debt securities		8,500,000		8,430,000
Pension withdrawal liability		276,000		305,000
Other assets		213,000		180,000
		11,652,000		11,609,000
Deferred tax liabilities:				
Depreciation		638,000		524,000
Purchase accounting adjustments, net		68,000		101,000
Discount accretion		141,000		111,000
Other deferred liabilities		39,000		36,000
		886,000		772,000
Net deferred tax assets	**$**	**10,766,000**	**$**	**10,837,000**

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:

		2024		2023
Tax expense at statutory rate	$	1,693,000	$	1,644,000
Tax-exempt interest		(243,000)		(343,000)
Other		(357,000)		100,000
Federal income tax expense	**$**	**1,093,000**	**$**	**1,401,000**

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 2021 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:

		2024		2023
Balances at January 1	$	1,804,112	$	2,377,347
New loans		1,952,834		327,400
Repayments		(936,867)		(900,635)
Balances at December 31	**$**	**2,820,079**	**$**	**1,804,112**

The amount of deposits of employees, officers, and directors approximated $6,233,000 as of December 31, 2024 and $7,839,000 as of December 31, 2023.

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 $400,000 of subordinated debentures with the Corporation in 2024 and $500,000 of subordinated debentures in 2023. They received interest payments of $16,000 for the year ended December 31, 2024 and $20,000 for the year ended December 31, 2023.

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 eight operating leases for retail and mortgage locations as of December 31, 2024. Bank leases have remaining terms ranging from 1.50 years to 3.58 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 sheets.

14. Leases (continued)

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases 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 3.84%.

Right-of-use assets totaled $1,491,061 as of December 31, 2024 and $1,872,132 as of December 31, 2023. Lease liabilities totaled $1,511,353 as of December 31, 2024 and $1,885,117 as of December 31, 2023. The right-of-use asset is recorded in other assets and the lease liability is recorded in accrued interest payable and other liabilities on the consolidated balance sheets. The components of total lease costs were as follows as of December 31:

	2024	2023
Operating lease cost	$ 554,021	$ 834,260
Short-term lease cost	64,339	32,616
Total lease cost, net	**$ 618,360**	**$ 866,876**

A lease maturity table with costs for the duration of the current lease terms by year is provided below:

	Lease Costs
2025	$ 551,225
2026	526,970
2027	282,532
2028	103,043

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:

	2024		2023	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets				
Cash and cash equivalents	$ 33,441,000	$ 33,441,000	$ 25,233,000	$ 25,233,000
Interest-bearing time deposits in other financial institutions	2,500,000	2,500,000	2,600,000	2,600,000
Debt securities available for sale	249,151,000	249,151,000	279,288,000	279,288,000
Federal Reserve Bank and Federal Home Loan Bank stock	3,462,000	3,462,000	2,676,000	2,676,000
Loans held for sale	2,568,000	2,568,000	1,905,000	1,905,000
Loans, less allowance for credit losses	653,530,000	636,737,000	659,413,000	634,152,000
Accrued interest receivable	3,696,000	3,696,000	3,849,000	3,849,000
Liabilities				
Deposits	842,402,000	780,941,000	865,489,000	811,810,000
Borrowed funds	44,298,000	44,637,000	50,160,000	49,629,000
Subordinated debentures	15,000,000	15,115,000	15,000,000	14,841,000
Accrued interest payable	1,668,000	1,668,000	3,451,000	3,451,000

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
2024			
Unrealized losses on securities:			
Unrealized holding losses arising during the period	$ (332,994)	$ 69,929	$ (263,065)
Total other comprehensive loss	**$ (332,994)**	**$ 69,929**	**$ (263,065)**
2023			
Unrealized gains on securities:			
Unrealized holding gains arising during the period	$ 8,819,581	$ (1,852,112)	$ 6,967,469
Total other comprehensive income	**$ 8,819,581**	**$ (1,852,112)**	**$ 6,967,469**

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

17. Fair Value (continued)

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, 2024	Unobservable Inputs	Range
Other real estate				
Discounted appraisal value	$	57,346	Real estate collateral appraisal marketability discount	60%
Loans				
Discounted appraisal value	$	1,405,625	Real estate collateral appraisal marketability discount	25-100%
Discounted appraisal value	$	1,507,183	Accounts receivable and inventory collateral marketability discount	20-50%

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%

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)
2024				
U.S. Government and federal agencies	$ 106,845,997	$ -	$ 106,845,997	$ -
Corporate debt	23,005,134	-	23,005,134	-
Mortgage-backed securities	38,280,152	-	38,280,152	-
State and local governments	81,019,794	-	81,019,794	-
Total securities	**$ 249,151,077**	**$ -**	**$ 249,151,077**	**$ -**
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**	**$ -**

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

	Total	Level 1	Level 2	Level 3
2024				
Other real estate	$ 57,346	$ -	$ -	$ 57,346
Loans	2,912,808	-	-	2,912,808
Total assets	**$ 2,970,154**	**$ -**	**$ -**	**$ 2,970,154**
2023				
Other real estate	$ 148,532	$ -	$ 118,237	$ 30,295
Loans	4,360,175	-	-	4,360,175
Total assets	**$ 4,508,707**	**$ -**	**$ 118,237**	**$ 4,390,470**

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:

		2024		2023
Noninterest income				
Trust fees	$	2,256,354	$	1,950,612
Service charges on deposit accounts		1,182,063		1,091,225
Other service charges and fees:				
Interchange fees		1,386,836		1,349,135
Other fees		96,368		75,894
Net gain on sale of loans*		4,026,928		3,409,658
Other income:				
Practical Security Solutions, LLC advisory fees		177,167		225,024
Other income*		(183,269)		215,600
	$	**8,942,447**	**$**	**8,317,148**

All of the Corporation's revenue from contracts with customers in the scope of ASC 606 is recognized within noninterest income. The table above presents the Corporation's sources of noninterest income for the years ended December 31, 2024 and 2023. Items outside of the scope of ASC 606 are noted as such (*). The other fees category includes approximately $150,000 and $133,000 of miscellaneous deposit fees which are within the scope of ASC 606 for 2024 and 2023, 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 approved to be issued under the Plan are 200,000. 231 shares issued in 2024 and 1,310 shares were issued in 2023.

No shares were granted under the Plan through restricted stock awards in 2024. 350 shares were granted under the Plan through restricted stock awards in 2023, of which 195 shares were immediately vested, 40 shares were vested after one year, and 115 shares will be fully vested by the fourth anniversary of the grant date. Since inception of the Plan, 2,444 shares have been granted.

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 $36,485 as of December 31, 2024, and $67,082 as of December 31, 2023.

The cost is expected to be recognized over a weighted-average period of .72 years. The total fair value of shares vested during the year was $29,389 for the year ended December 31, 2024, and $211,085 for the year ended December 31, 2023.

Keweenaw Financial Corporation

MANAGEMENT REPORT REGARDING STATEMENT OF MANAGEMENT'S RESPONSIBILITIES, COMPLIANCE WITH DESIGNATED LAWS AND REGULATIONS, AND MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Management Report

In this management report, the following subsidiary institution of Keweenaw Financial Corporation (the "Corporation") that is subject to Part 363 is included in the statement of management's responsibilities; the report on management's assessment of compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions; and the report on management's assessment of internal control over financial reporting: Superior National Bank.

Statement of Management's Responsibilities

The management of the Corporation is responsible for preparing the Corporation's annual consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; for designing, implementing, and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (Call Report Instructions); and for complying with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions.

Management's Assessment of Compliance With Designated Laws and Regulations

The management of the Corporation has assessed the Corporation's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2024. Based upon its assessment, management has concluded that the Corporation complied with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2024.

Management's Assessment of Internal Control Over Financial Reporting

The 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 reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting

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principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, i.e., Consolidated Reports of Condition and Income (Call Reports). The 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 financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Corporation's assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override.

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

Management assessed the effectiveness of the Corporation's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (Call Report Instructions), as of December 31, 2024, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the *Internal Control-Integrated Framework*. Based upon its assessment, management has concluded that, as of December 31, 2024, the Corporation's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (Call Report Instructions), is effective based on the criteria established in the *Internal Control-Integrated Framework*.

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The Corporation's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (Call Report Instructions), as of December 31, 2024, has been audited by Andrews Hooper Pavlik, PLC, an independent public accounting firm, as stated in their report dated February 25, 2025.

Keweenaw Financial Corporation

*Michael R. Hauswirth
President
February 25, 2025

*Sherry T. Hill
Treasurer
February 25, 2025

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