

The logo for Keweenaw Financial Corporation features a vertical gold bar on the left side of the text. The text is stacked in three lines: "Keweenaw", "Financial", and "Corporation".

Keweenaw
Financial
Corporation

2021 ANNUAL REPORT

“Our long-term plan remains focused on operational excellence, superior customer experiences, smart growth and attracting and retaining the best people. **We are laser-focused on building a franchise for the long-haul.**”

I am pleased to report record net income for Keweenaw Financial Corporation (KFC) in 2021. Thanks to our dedicated team, we achieved financial success while completing several major projects.

Record Earnings

With net income of \$13.1 million in 2021, KFC has achieved record earnings in consecutive years. Earnings for 2021 represent a 23% increase over 2020, while 2020 earnings represented a 70% increase over 2019. Superior National Bank (SNB) generated a Return on Assets of 1.39% in 2021, up from 1.04% in 2020. Earnings per share also saw an increase from \$9.19 to \$ 11.30 over the same period. From 2020 to 2021, Return on Equity for KFC also increased from 12.61% to 13.98%.

Our earnings were propelled to record levels due to a second straight year of exceptionally strong non-interest income from our residential mortgage business and commercial loan departments. Historically low interest rates over the last two years produced a mortgage refinance boom. In 2021, we produced \$437 million in mortgage volume compared to a record of \$537 million in 2020. Prior to 2020, our long-term annual average was approximately \$294 million in production through our mortgage business. From year-to-year this business line will fluctuate up and down with interest rate cycles and residential home sales. We anticipate 2022 mortgage volume to be closer to our long-term average as higher interest rates will slow refinance activity.

Commercial loan fee income was strong due largely to Small Business Administration (SBA) loan-related fees. Over a two-year span, we originated a total of approximately \$76.2 million in SBA Payment Protection Program (PPP) loans. This program has wound down and a vast majority of these loans have paid off; therefore, we will see a significant reduction in SBA related fee income in 2022.

Strong Balance Sheet

Our balance sheet remains solid. Due to another year of strong deposit growth, total assets grew by 9.8% from 2020 to 2021. Commercial and consumer loans increased by 13% and 7% respectively, while residential real estate loans held in our portfolio remained steady from 2020 to 2021. Asset quality remains strong with delinquent and problem loans at low levels. Excess liquidity, due primarily to government stimulus, has significantly increased deposits at Superior National Bank and throughout the banking industry. Our deposits out-paced loan growth by \$72 million in 2021, causing our investment portfolio to increase by \$100 million.

While retained earnings grew more quickly than anticipated, we experienced a sharper than forecasted increase in assets resulting from our strong deposit growth. In order to allow for future growth while maintaining our strong capital ratios, we issued \$15 million in subordinated debt in March 2021. We took advantage of the low-rate environment and priced the issuance at 4%; it was fully subscribed in two days. The proceeds were used to pay down other KFC debt and bolster capital levels at the Bank.

Accomplishments

In addition to strong financial performance, 2021 was a highly productive year for SNB. We made strides toward numerous strategic initiatives and successfully completed several major projects. Our largest project was officially merging Main Street Bank into Superior National Bank. The merger required extensive planning and precise execution by our team and ultimately impacted every department. The result brought two great banks together into ONE stronger Superior National Bank. We are larger, but remain agile, innovative, and community centered. We remain focused on smart, measured growth and positioned for continued success.

Over the last decade or so, customers have increasingly chosen to do more of their banking digitally versus visiting or calling a physical branch. Throughout the pandemic, this trend accelerated as the number of mobile and online banking customers increased while in-person branch visits dropped. As an organization, we must allocate our capital appropriately and anticipate and respond to changing customer needs and expectations. To that end, we made the difficult decision to close two under-performing Upper Peninsula branches in 2021. However, on a more upbeat note, to improve our branch network, we relocated our Ridgecrest branch in Houghton to the Sharon Centre (less than half a mile away). We are excited about this new location and are confident that it will improve customer experiences.

As a part of the bank integration project, our Superior National Bank logo was refreshed. Many employees reviewed and provided valuable input for our brand change, and we are excited by the positive feedback we are receiving from customers and staff.

A Great Team

With the pandemic still affecting everyone everywhere, the last two years have presented continuous challenges. I continue to be impressed by our team's hard work, dedication, and resilience. They have displayed teamwork and care for one another, working together through this difficult time. With the pandemic as a backdrop, we've successfully combined two banks AND produced record net income for two consecutive years. An impressive feat! I am grateful to work with such a great group.

Looking Ahead

As we focus on the upcoming year, we do so from a position of strength. With the economic uncertainty caused by the pandemic and government's monetary and fiscal policies, we have situated our balance sheet as neutrally as possible. It has become increasingly challenging to forecast, so it is important for us to be poised to move in any direction. Over the coming year, we anticipate a material reduction in our non-interest income due to considerably lower residential mortgage volume and PPP loan fees. In addition to reduced fee income, our industry will be further challenged by continued low interest margins as persistently low interest rates continue to strain yields on loans and investments. While we are still budgeting for 2022 to be a good year, we, as do many across our industry, anticipate earnings to retract from the record levels of the past few years.

Our long-term plan remains focused on operational excellence, superior customer experiences, smart growth and attracting and retaining the best people. We are laser-focused on building a franchise for the long-haul.

In summary, our financials are healthy, we have a great team, and we are poised for growth. I couldn't be more excited about our prospects for future success.

As always, thank you for supporting Keweenaw Financial Corporation.

Best,



J. David Vlahos
Chief Executive Officer



Consolidated Balance Sheet

Assets			
<i>Year Ended December 31</i>		2021	2020
Cash and cash equivalents			
Cash and due from banks	\$	39,875,076	\$ 33,395,513
Federal funds sold		49,533,545	69,332,131
Total cash and cash equivalents		89,408,621	102,727,644
Interest-bearing time deposits in other financial institutions		3,850,554	7,600,801
Investment securities available for sale		333,396,892	229,145,756
Federal Reserve and Federal Home Loan Bank stock		4,495,500	4,378,750
Loans held for sale		9,687,233	22,996,949
Loans, less allowance for loan losses of \$9,680,262 in 2021 and \$9,054,535 in 2020		592,109,022	570,955,380
Bank premises and equipment, net		6,971,744	7,287,158
Accrued interest receivable		3,263,813	3,530,873
Goodwill		19,615,774	19,615,774
Other assets		11,333,769	10,062,974
Total assets	\$	1,074,132,922	\$ 978,302,059

Liabilities and stockholders' equity			
<i>Year Ended December 31</i>		2021	2020
Liabilities			
Deposits			
Demand	\$	242,836,248	\$ 208,365,343
NOW		139,252,371	105,307,942
Money Market		56,739,563	57,415,213
Savings		319,563,273	264,584,235
Time		184,333,820	225,386,720
Total deposits		942,725,275	861,059,453
Borrowed funds		8,460,057	16,800,000
Subordinated debentures		15,000,000	-
Accrued interest payable and other liabilities		11,476,981	10,415,949
Total liabilities		977,662,313	888,275,402
Stockholders' equity			
Preferred stock no par value, 50,000 shares authorized; none issued or outstanding in 2021 and 2020		-	-
Common stock: no par value; 2,000,000 shares authorized in 2021 and 2020; 1,159,350 shares issued and outstanding in 2021 and 2020		515,549	515,549
Retained earnings		97,506,072	85,959,784
Accumulated other comprehensive income (loss)		(1,551,012)	3,551,324
Total stockholders' equity	\$	96,470,609	\$ 90,026,657
Total liabilities and stockholders' equity	\$	1,074,132,922	\$ 978,302,059

Consolidated Statement Of Income

Interest income:

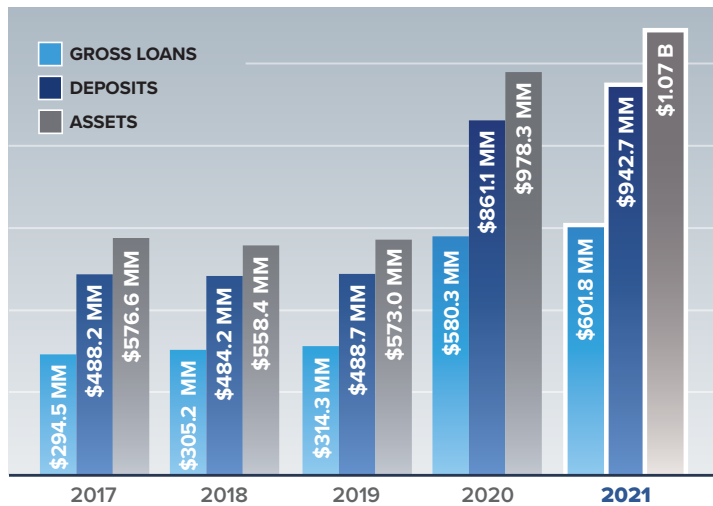
<i>Year Ended December 31</i>	2021	2020
Loans, including fees	\$ 33,235,150	\$ 33,200,595
Securities	71,845	45,318
U.S. Treasury securities	1,845,955	2,150,854
U.S. Government agencies	2,013,630	1,695,918
Obligations of states and political subdivisions	575,680	500,267
Other securities	441,894	553,504
Other interest income	38,184,154	38,146,456
Interest expense:		
Deposits	3,609,055	6,121,197
Borrowed funds and subordinated debentures	886,025	474,271
	4,495,080	6,595,468
Net interest income	33,689,074	31,550,988
Provision for loan losses	922,000	3,835,812
Net interest income after provision for loan losses	\$ 32,767,074	\$ 27,715,176

Noninterest income:

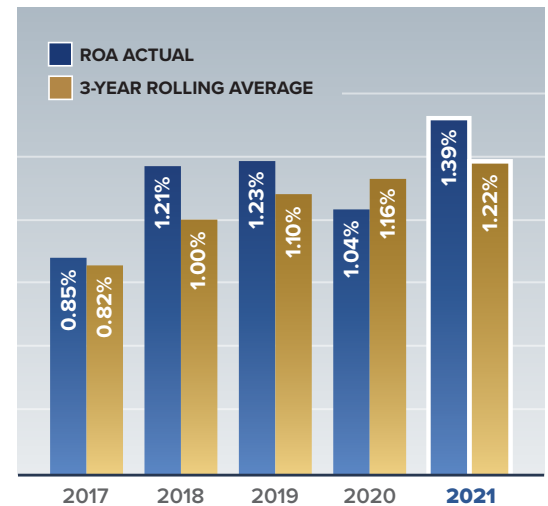
<i>Year Ended December 31</i>	2021	2020
Trust fees	\$ 1,935,214	\$ 1,763,693
Service charges on deposit accounts	818,677	901,731
Other service charges and fees	1,531,901	1,171,006
Net gain on sale of investment securities	1,699	26,823
Net gain on sale of loans	17,057,476	18,606,660
Other	1,654,241	2,336,714
	22,999,208	24,806,627
Noninterest expenses:		
Salaries and wages	21,676,965	20,973,830
Pensions and other employee benefits	4,640,227	4,344,515
Occupancy expenses, net	6,485,486	6,491,730
Postage and supplies	241,347	285,403
FDIC and general insurance	418,426	438,126
Legal and professional	1,050,588	1,336,405
Loan related expense	2,158,672	2,659,771
Marketing	402,147	173,768
Net cost of operations of other real estate – including write downs and gains/losses on sales	440,850	130,282
Other operating expenses	1,942,188	2,255,245
	39,456,896	39,089,075
Income before income tax expense	16,309,386	13,432,728
Income tax expense	3,209,568	2,783,083
Net income	\$ 13,099,818	\$ 10,649,645
Net income per share of common stock	\$ 11.30	\$ 9.19

Key Performance Indicators

Balance Sheet (SNB)



Return on Assets (SNB)



Financial Highlights

Keweenaw Financial Corporation and Subsidiary

For the Year

Year Ended December 31	2021	2020	% Change
Net Income	\$ 13,099,818	\$ 10,649,645	23.0%
Cash Dividends	1,553,530	1,507,156	3.1%
Return on Average Assets	1.27%	1.17%	8.3%
Return on Average Equity	13.98%	12.61%	10.8%

At Year End

Assets	\$ 1,074,132,922	\$ 978,302,059	9.8%
Deposits	942,725,275	861,059,453	9.5%
Loans, Net	592,109,022	570,955,380	3.7%
Stockholders' Equity	96,470,609	90,026,657	7.2%
Equity to Assets Ratio	8.98%	9.20%	-2.4%

Per Share Data*

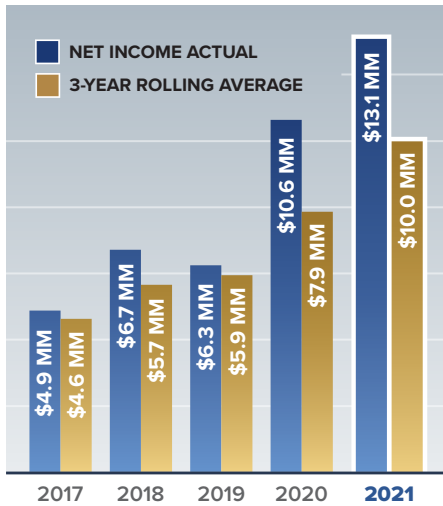
Net Income	\$ 11.30	\$ 9.19	23.0%
Cash Dividends	1.34	1.30	3.1%
Book Value	83.21	77.65	7.2%
Book Value – excluding FASB ASC 320	84.55	74.59	13.4%

2021 KFC Stock Information

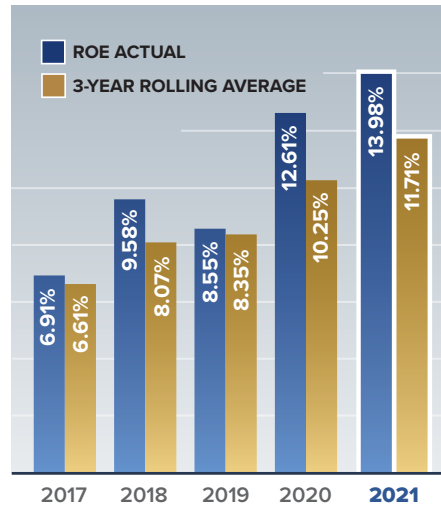
	Low	High	Average*
1st Quarter	\$ 110	\$ 115	\$ 112.66
2nd Quarter	115	120	116.58
3rd Quarter	120	135	128.51
4th Quarter	135	140	135.03

* Average price of trades in the quarter

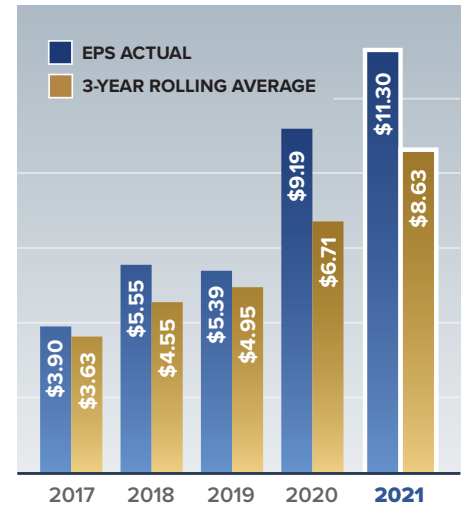
Net Income (KFC)



Return on Equity (KFC)



Earnings per Share (KFC)



Board of Directors

Keweenaw Financial Corporation and Subsidiary



Pictured (L to R):

J. David Vlahos, Michael Mikkola, James Fenton, Almor Penegor, Daniel Wisti, James Northey, Michael Hauswirth, Neil Ahola, Susan LaFerner

- Neil J. Ahola Owner & Manager, Memorial Chapel Funeral & Cremation Service
- James D. Fenton President & Chief Financial Officer, McGann Building Supply
- Michael R. Hauswirth President / Chief Operating Officer, Superior National Bank
- Susan J. LaFerner Vice President, Keweenaw Bay Indian Community Tribal Council; Comptroller, Keweenaw Bay Indian Community Accounting Department
- Michael S. Mikkola Co-Owner, Tervo Agency
- James E. Northey, Jr. Chief Technology Officer, CalcGuard Technologies, Inc; Owner, Fintech Consultancy, LLC; Partner, Northern Perspectives, LLC
- Almor D. Penegor President, John & Arthur Penegor, Inc.
- J. David Vlahos Chief Executive Officer, Superior National Bank
- Daniel J. Wisti Attorney of Counsel, Numinen, DeForge & Toutant, P.C.



snb-t.com/investor-relations/