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Annual Meeting

Tuesday, April 21, 2026, 5:30 pm
Rozsa Center for the Performing Arts
Michigan Technological University
1400 Townsend Drive
Houghton, MI 49931

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, 2025 and 2024, 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, 2025 and 2024, 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, 2025 and 2024, 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, 2025 and 2024, 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 consolidated 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 27, 2026

Consolidated Balance Sheets

	December 31	
	2025	2024
Assets		
Cash and cash equivalents		
Cash and due from banks	\$ 83,712,051	\$ 32,736,235
Federal funds sold	732,189	704,322
Total cash and cash equivalents	84,444,240	33,440,557
Interest-bearing time deposits in other financial institutions	2,000,000	2,500,000
Debt securities available for sale, net of allowance for credit losses of \$0 as of December 31, 2025 and December 31, 2024 (amortized cost of \$269,844,376 as of December 31, 2025 and \$289,628,042 as of December 31, 2024)	243,198,953	249,151,077
Federal Reserve Bank and Federal Home Loan Bank stock	5,361,850	3,462,150
Loans held for sale	4,040,337	2,568,117
Loans, net of allowance for credit losses of \$7,803,195 as of December 31, 2025 and \$8,851,186 as of December 31, 2024	646,773,507	653,432,844
Bank premises and equipment, net	12,877,873	12,830,948
Accrued interest receivable	3,322,929	3,696,435
Goodwill	19,615,774	19,615,774
Other assets	13,841,508	15,810,260
Total assets	\$ 1,035,476,971	\$ 996,508,162
Liabilities and stockholders' equity		
Liabilities		
Deposits		
Demand	\$ 234,658,069	\$ 234,323,887
NOW	139,168,545	120,785,942
Money market	34,060,849	34,175,297
Savings	236,280,929	215,621,152
Time	221,511,801	237,495,655
Total deposits	865,680,193	842,401,933
Borrowed funds	42,769,464	44,298,112
Subordinated debentures	15,000,000	15,000,000
Allowance for credit losses on unfunded loan commitments	428,816	615,621
Accrued interest payable and other liabilities	10,049,108	10,316,484
Total liabilities	933,927,581	912,632,150
Stockholders' equity		
Preferred stock: no par value, 50,000 shares authorized; none issued or outstanding in 2025 and 2024	-	-
Common stock: no par value; 2,000,000 shares authorized in 2025 and 2024; 1,148,647 and 1,157,467 shares issued and outstanding in 2025 and 2024, respectively	515,549	515,549
Retained earnings	122,083,725	115,337,265
Accumulated other comprehensive loss	(21,049,884)	(31,976,802)
Total stockholders' equity	101,549,390	83,876,012
Total liabilities and stockholders' equity	\$ 1,035,476,971	\$ 996,508,162

See accompanying notes.

Consolidated Statements of Income

	Year Ended December 31	
	2025	2024
Interest income		
Loans, including fees	\$ 43,603,775	\$ 42,664,588
Securities		
U.S. Treasury securities	178,919	288,656
U.S. Government agencies	2,429,977	2,534,733
Obligations of states and political subdivisions	1,659,364	1,672,710
Other securities	560,668	558,627
Other interest income	2,195,878	1,482,521
	50,628,581	49,201,835
Interest expense		
Deposits	13,657,548	14,636,092
Borrowed funds and subordinated debentures	2,638,718	3,603,653
	16,296,266	18,239,745
Net interest income	34,332,315	30,962,090
Recovery for credit losses	(114,740)	(109,200)
Net interest income after recovery for credit losses	34,447,055	31,071,290
Noninterest income		
Trust fees	2,119,974	2,256,354
Service charges on deposit accounts	1,269,578	1,182,063
Other service charges and fees	1,511,569	1,483,204
Net gain on sale of loans	5,209,973	4,026,928
Other	299,232	(6,102)
	10,410,326	8,942,447
Noninterest expenses		
Salaries and wages	16,009,354	15,292,831
Pensions and other employee benefits	4,113,046	3,860,699
Occupancy, net	6,949,036	6,724,066
Postage and supplies	198,059	171,802
FDIC and general insurance	670,243	640,419
Legal and professional	1,525,459	1,948,101
Loan-related	975,852	884,797
Marketing	411,563	332,114
Net cost of operations of other real estate and repossessed assets including write downs and gains/losses on sales	223,371	36,738
Other operating	2,266,378	2,060,806
	33,342,361	31,952,373
Income before income tax expense	11,515,020	8,061,364
Income tax expense	1,958,400	1,093,000
Net income	\$ 9,556,620	\$ 6,968,364
Net income per share of common stock	\$ 8.29	\$ 6.00

See accompanying notes.

Consolidated Statements of Comprehensive Income

	Year ended December 31	
	2025	2024
Net income	\$ 9,556,620	\$ 6,968,364
Other comprehensive income (loss), net of tax		
Unrealized holding gains (losses) arising during the period	10,926,918	(263,065)
Reclassification adjustment for net gains included in net income	-	-
Total other comprehensive income (loss), net of tax	10,926,918	(263,065)
Total comprehensive income	\$ 20,483,538	\$ 6,705,299

Consolidated Statements of Changes In Stockholders' Equity**Years Ended December 31, 2025 and 2024**

	<u>Common Stock</u>		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Number of Shares	Assigned Value			
Balance at January 1, 2024 as restated	1,161,058	\$ 515,549	\$ 110,623,260	\$ (31,713,737)	\$ 79,425,072
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	\$ 115,337,265	\$ (31,976,802)	\$ 83,876,012
Net income for 2025			9,556,620		9,556,620
Other comprehensive income, net of tax				10,926,918	10,926,918
Repurchase of common stock	(9,050)		(672,128)		(672,128)
Shares issued for compensation obligations	230		29,041		29,041
Cash dividends paid (\$1.88 per share)			(2,167,073)		(2,167,073)
Balance at December 31, 2025	1,148,647	\$ 515,549	\$ 122,083,725	\$ (21,049,884)	\$ 101,549,390

See accompanying notes.

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2025	2024
Cash flows from operating activities		
Net income	\$ 9,556,620	\$ 6,968,364
Adjustments to reconcile net income from operating activities:		
Depreciation and amortization of right-of-use assets	1,258,540	1,203,740
Amortization of core deposit intangibles	156,143	156,143
Net amortization of investment securities	441,000	552,023
Deferred taxes	222,000	141,000
Loss on sale of other repossessed asset	41,356	-
Net gain on sale of other real estate owned	(40,167)	(84,882)
Fair value increase at transfer of other real estate owned	(23,760)	(9,195)
Loss on disposal of premises and equipment	8,533	262,855
Repayment of lease liabilities	(445,851)	(328,254)
Gain on sale of loans	(5,209,973)	(4,026,928)
Proceeds from sale of mortgage loans held for sale	179,281,696	156,112,222
Origination of mortgage loans held for sale	(175,680,985)	(152,748,366)
Recovery for credit losses	(114,740)	(109,200)
Net change in:		
Accrued interest receivable and other assets	(465,868)	71,824
Accrued interest payable and other liabilities	178,475	(1,611,995)
Net cash from operating activities	9,163,019	6,549,351
Cash flows from investing activities		
Decrease in interest-bearing time deposits in other financial institutions	500,000	100,037
Activity in debt securities available for sale:		
Maturities, prepayments, and calls	29,856,176	29,251,957
Purchase of available for sale securities	(10,513,510)	-
Transactions of Federal Reserve and Federal Home Loan Bank stock	(1,899,700)	(785,800)
Loan originations and payments, net	4,996,766	6,039,673
Proceeds from sale of fixed assets	5,500	-
Proceeds from the sale of other repossessed assets	206,075	-
Proceeds from sales of other real estate owned	623,379	753,414
Additions to bank premises and equipment, net	(873,474)	(2,498,238)
Net cash from investing activities	22,901,212	32,861,043
Cash flows from financing activities		
Net change in demand, NOW, money market, and savings deposits	39,262,114	396,579
Net change in time deposits	(15,983,854)	(23,483,720)
Proceeds from borrowings	5,202,000	105,141,000
Repayments on borrowings	(5,202,000)	(110,141,000)
Principal payments on notes payable	(1,528,648)	(861,502)
Stock issued for compensation obligations	29,041	4,160
Repurchase of common stock	(672,128)	(261,918)
Cash dividends	(2,167,073)	(1,996,601)
Net cash from financing activities	18,939,452	(31,203,002)
Net change in cash and cash equivalents	51,003,683	8,207,392
Cash and cash equivalents at beginning of year	33,440,557	25,233,165
Cash and cash equivalents at end of year	\$ 84,444,240	\$ 33,440,557

See accompanying notes.

Consolidated Statements of Cash Flows (continued)

	Year ended December 31	
	2025	2024
Supplemental cash flow information		
Loans transferred to other real estate owned	\$ 1,590,506	\$ 568,151
Lease liabilities arising from obtaining right-of-use assets	677	45,510
Federal income taxes paid	1,828,000	1,331,090
Interest paid	16,543,160	20,022,426

Notes To Consolidated Financial Statements • December 31, 2025**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, provided cybersecurity consulting services through its dissolution in 2025.

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, lender risk account, and the fair value of acquired assets and liabilities. Accordingly, actual results could differ from those estimates.

Labor Subject to Collective Bargaining Agreements

Approximately 15% of the Bank's employees are subject to a collective bargaining agreement as of December 31, 2025 and 14% as of December 31, 2024. The agreement expires on September 26, 2028.

Notes to Consolidated Financial Statements • December 31, 2025**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 2026 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, 2025 and 2024, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Notes to Consolidated Financial Statements • December 31, 2025**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, 2025 and 2024.

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.

Notes to Consolidated Financial Statements • December 31, 2025**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.

Notes to Consolidated Financial Statements • December 31, 2025**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.

The Bank uses a current expected credit losses (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.

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.

Notes to Consolidated Financial Statements • December 31, 2025**1. Summary of Significant Accounting Policies and Nature of Operations (continued)**Allowance for Credit Losses on Loans and Unfunded Loan Commitments (continued)

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

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.

Notes to Consolidated Financial Statements • December 31, 2025**1. Summary of Significant Accounting Policies and Nature of Operations (continued)**Allowance for Credit Losses on Loans and Unfunded Loan Commitments (continued)

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 cash or 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.

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.

Notes to Consolidated Financial Statements • December 31, 2025**1. Summary of Significant Accounting Policies and Nature of Operations (continued)**Allowance for Credit Losses on Loans and Unfunded Loan Commitments (continued)

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 \$1,973,293 as of December 31, 2025, and \$2,465,456 as of December 31, 2024, 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, 2025 and 2024.

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.

Lender Risk Account

A lender risk account (LRA) has been established for loans sold by the Bank to the Federal Home Loan Bank of Indianapolis (FHLB). The LRA is funded through a reduction of the purchase price and maintained by the FHLB at the initial amount of 1.2% of the loan balance and is used to offset credit losses over the life of the loans sold by the Bank to the FHLB. If the LRA has not been depleted by losses, funds are returned to the Bank over time, beginning after 5 years and continuing through 25 years. The Bank had on deposit \$1,404,714 as of December 31, 2025 and \$822,385 as of December 31, 2024, in the LRA. Additionally, the Bank records the guaranty account, which measures the estimated resource liability on expected losses, in accrued interest payable and other liabilities in the consolidated balance sheets, to be \$140,288 as of December 31, 2025.

Notes to Consolidated Financial Statements • December 31, 2025**1. Summary of Significant Accounting Policies and Nature of Operations (continued)**Lender Risk Account (continued)

The Bank carries the LRA asset at fair value in the consolidated balance sheets in other assets. The fair value of the LRA was \$719,737 as of December 31, 2025. The fair value of the LRA asset and liability were deemed immaterial and were not recorded in the consolidated balance sheets as of December 31, 2024.

Net Gain on Sale of Loans

Net gain on sale of loans includes all components related to the origination and sale of mortgage loans, including net gain on sale of loans, which represents the premium received in excess of the loan principal amount and certain fees charged by investors upon sale of loans into the secondary market, and the change in fair value of LRA.

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 \$812,516 and \$778,515 on December 31, 2025 and 2024, 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 2025 or 2024.

Notes to Consolidated Financial Statements • December 31, 2025**1. Summary of Significant Accounting Policies and Nature of Operations (continued)**Other Real Estate Owned

Other real estate acquired through, or in lieu of, loan foreclosure is initially recorded at fair market value less estimated selling costs at the date of foreclosure establishing a new cost basis. At the date of acquisition or physical possession, and the following 90 days, losses are charged to the allowance for credit losses and increases in value are recorded as a recovery to the allowance for credit losses up to the extent of prior charge-offs and then to noninterest expense. 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.

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. Practical Security Solutions was dissolved as of December 31, 2025; therefore, the amortization of the remaining intangible was accelerated during 2025. The Main Street Bank core deposit intangible is amortized over a remaining useful life of seven years. Amortization expense was \$481,143 in 2025 and \$189,476 in 2024. These intangible assets are tested for impairment annually. No impairment was recorded in 2025 or 2024. Intangible assets are included in other assets on the consolidated balance sheets.

Long-Term Assets

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

Pension and Profit Sharing Plans

Bank contributions to the plans are charged to current operations.

Stock-Based Incentive Compensation

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

Notes to Consolidated Financial Statements • December 31, 2025**1. Summary of Significant Accounting Policies and Nature of Operations (continued)**Income Taxes

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

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

Common Stock Repurchases

The Board approved the Keweenaw Financial Corporation Stock Repurchase Plan of 2016, which authorized the repurchase up to 37,000 of its outstanding shares of common stock upon privately negotiated terms, conditions, and prices. The Stock Repurchase Plan was extended for one-year periods in January 2025 and 2024. Since inception of the Plan, the Corporation has repurchased 29,615 shares of common stock. The Corporation repurchased 9,050 shares of common stock in 2025 and 3,822 shares of common stock in 2024. In January 2026, 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 1,152,669 shares as of December 31, 2025 and 1,160,600 shares as of December 31, 2024.

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.

Notes to Consolidated Financial Statements • December 31, 2025**1. Summary of Significant Accounting Policies and Nature of Operations (continued)**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.

Restrictions on Cash

Cash on hand or on deposit with the Federal Reserve Bank was not required at December 31, 2025 or 2024, 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 2024 consolidated financial statements for consistency with the 2025 presentation. Beginning retained earnings and loan balances were adjusted immaterially related to the acquisition of Main Street Bank.

Subsequent Events

Subsequent events were evaluated for potential recognition or disclosure through February 27, 2026 which was the date the consolidated financial statements were available to be issued. No events were identified as a result of our evaluation.

Notes to Consolidated Financial Statements • December 31, 2025**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:

2025	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government and federal agencies	\$ 100,718,201	\$ 13,330	\$ (8,291,046)	\$ 92,440,485
Corporate debt	32,817,265	4,571	(2,219,140)	30,602,696
Mortgage-backed securities	45,843,145	-	(7,820,166)	38,022,979
State and local governments	90,465,765	1,472	(8,334,444)	82,132,793
	\$ 269,844,376	\$ 19,373	\$(26,664,796)	\$ 243,198,953

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

Amortized cost basis excludes accrued interest balances of \$1,226,590 and \$1,168,455 for total available-for-sale debt securities as of December 31, 2025 and 2024, respectively.

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, 2025 and 2024, 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, 2025 and 2024, with \$0 provision expense recorded during the year.

Notes to Consolidated Financial Statements • December 31, 2025**2. Debt Securities (continued)**

The amortized cost and fair values of debt securities available for sale by contractual maturity at December 31, 2025, 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	\$	20,773,641	\$	20,519,203
Due after one year through five years		100,144,241		93,969,652
Due after five years through ten years		77,308,535		69,877,296
Due after ten years		25,774,814		20,809,823
Mortgage-backed securities		45,843,145		38,022,979
	\$	269,844,376	\$	243,198,953

Debt securities with a book value of \$62,458,100 at December 31, 2025, and debt securities with a book value of \$87,507,424 at December 31, 2024, 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, 2025 and 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	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2025						
U.S. Government and federal agencies	\$ -	\$ -	\$ 90,971,725	\$ (8,291,046)	\$ 90,971,725	\$ (8,291,046)
Corporate debt	4,740,651	(92,815)	22,616,272	(2,126,325)	27,356,923	(2,219,140)
Mortgage-backed securities	1,949,745	(7,003)	36,073,234	(7,813,163)	38,022,979	(7,820,166)
State and local governments	4,921,337	(80,485)	73,011,065	(8,253,959)	77,932,402	(8,334,444)
	\$ 11,611,733	\$ (180,303)	\$ 222,672,296	\$ (26,484,493)	\$ 234,284,029	\$ (26,664,796)

	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2024						
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)

Notes to Consolidated Financial Statements • December 31, 2025**2. Debt Securities (continued)**

As of December 31, 2025, 392 debt securities had unrealized losses with aggregate depreciation of approximately 9.9% from the Bank's amortized cost basis. 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. 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 2025 were \$0 and maturities, prepayments, and calls of debt securities available for sale were \$29,856,176. Net gains on those sales and maturities totaled \$0. 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.

3. Loans and Allowance for Credit Losses

Loan segments at December 31 were as follows:

	2025	2024
Construction	\$ 48,389,709	\$ 35,437,896
Residential real estate	227,973,204	224,979,753
Commercial real estate	249,292,544	261,755,011
Commercial & industrial	69,719,858	74,220,048
Commercial other	12,978,581	14,641,081
Consumer installment	46,222,806	51,250,241
	<u>654,576,702</u>	<u>662,284,030</u>
Allowance for credit losses	(7,803,195)	(8,851,186)
Net loans	<u>\$ 646,773,507</u>	<u>\$ 653,432,844</u>

Deposit accounts in an overdraft position and reclassified as loans totaled \$240,911 as of December 31, 2025 and \$145,006 as of December 31, 2024.

Notes to Consolidated Financial Statements • December 31, 2025**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	Total
2025							
Balance at beginning of year	\$ 532,365	\$ 3,244,614	\$ 3,864,290	\$ 815,502	\$ 21,299	\$ 373,116	\$ 8,851,186
Provision (recovery) charged to operations	323,105	93,652	(549,825)	(166,450)	(9,797)	381,380	72,065
Loans charged off	-	(312,709)	(692,003)	(45,351)	-	(225,666)	(1,275,729)
Recoveries	-	4,058	52,498	45,988	-	53,129	155,673
Balance at end of year	\$ 855,470	\$ 3,029,615	\$ 2,674,960	\$ 649,689	\$ 11,502	\$ 581,959	\$ 7,803,195
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

The balance of unfunded commitments was moved from allowance from credit losses on loans to a liability on the accompanying consolidated balance sheet as of December 31, 2024.

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
2025							
Loans:							
Individually evaluated	\$ -	\$ 1,932,152	\$ 8,089,656	\$ 3,720,360	\$ -	\$ 567,379	\$ 14,309,547
Collectively evaluated	48,389,709	226,041,052	241,202,888	65,999,498	12,978,581	45,655,427	640,267,155
Total Loans	\$ 48,389,709	\$ 227,973,204	\$ 249,292,544	\$ 69,719,858	\$ 12,978,581	\$ 46,222,806	\$ 654,576,702
Related allowance for credit losses:							
Individually evaluated	\$ -	\$ 78,677	\$ 116,081	\$ 45,668	\$ -	\$ 242,583	\$ 483,009
Collectively evaluated	855,470	2,950,938	2,558,879	604,021	11,502	339,376	7,320,186
Total allowance for credit losses on loans	\$ 855,470	\$ 3,029,615	\$ 2,674,960	\$ 649,689	\$ 11,502	\$ 581,959	\$ 7,803,195
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	249,443,734	73,873,598	14,641,081	50,799,771	646,327,790
Total Loans	\$ 35,437,896	\$ 224,979,753	\$ 261,755,011	\$ 74,220,048	\$ 14,641,081	\$ 51,250,241	\$ 662,284,030
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

Notes to Consolidated Financial Statements • December 31, 2025**3. Loans and Allowance for Credit Losses (continued)**

As of December 31, 2025 and 2024, all loans that were individually evaluated were collateral dependent.

Information regarding accrued interest written off by reversing interest income as of December 31 are as follows:

	2025	2024
Consumer installment	\$ 5,640	\$ 447
	\$ 5,640	\$ 447

Credit Quality Information

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

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

- Grades 1 through 4B - Loans in these categories exhibit an acceptable level of credit risk, ranging from "Exceptional" to "Satisfactory." These are pass-rated loans.
- Grade 5 - "Other/Special Mention." Loans in this category have potential weaknesses that deserve Bank management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects or in the Bank's credit position at some future date. Special mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.
- Grade 6 - "Substandard." Substandard loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
- 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, 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, 2025

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, 2025:

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Covered to Term	Total
	2025	2024	2023	2022	2021	Prior			
Commercial construction:									
Pass	\$ 6,128,675	\$ 17,095,785	\$ 10,350,835	\$ 4,605,509	\$ 147,604	\$ 95,036	\$ 885,043	\$ -	\$ 39,308,487
Other/Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
	\$ 6,128,675	\$ 17,095,785	\$ 10,350,835	\$ 4,605,509	\$ 147,604	\$ 95,036	\$ 885,043	\$ -	\$ 39,308,487
Current period gross charge offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate:									
Pass	\$ 30,081,066	\$ 16,860,546	\$ 23,112,496	\$ 48,420,228	\$ 42,714,533	\$ 61,817,146	\$ 13,267,923	\$ 1,571,170	\$ 237,845,108
Other/Special mention	-	-	-	-	1,563,842	1,793,940	-	-	3,357,782
Substandard	-	-	-	-	537,817	7,016,297	294,574	240,966	8,089,654
	\$ 30,081,066	\$ 16,860,546	\$ 23,112,496	\$ 48,420,228	\$ 44,816,192	\$ 70,627,383	\$ 13,562,497	\$ 1,812,136	\$ 249,292,544
Current period gross charge offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 692,003	\$ -	\$ -	\$ 692,003
Commercial & industrial:									
Pass	\$ 13,081,525	\$ 15,002,764	\$ 10,355,894	\$ 4,672,739	\$ 2,180,277	\$ 3,336,658	\$ 14,849,524	\$ 1,985,437	\$ 65,464,818
Other/Special mention	-	25,165	97,735	81,244	-	-	117,223	117,716	439,083
Substandard	3,004,973	30,963	21,973	-	1,792	127,462	318,254	310,540	3,815,957
	\$ 16,086,498	\$ 15,058,892	\$ 10,475,602	\$ 4,753,983	\$ 2,182,069	\$ 3,464,120	\$ 15,285,001	\$ 2,413,693	\$ 69,719,858
Current period gross charge offs	\$ -	\$ -	\$ 20,380	\$ 13,393	\$ 11,578	\$ -	\$ -	\$ -	\$ 45,351
Commercial other:									
Pass	\$ 904,095	\$ 6,865,648	\$ 314,401	\$ 261,028	\$ 144,788	\$ 335,748	\$ 4,152,873	\$ -	\$ 12,978,581
Other/Special mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
	\$ 904,095	\$ 6,865,648	\$ 314,401	\$ 261,028	\$ 144,788	\$ 335,748	\$ 4,152,873	\$ -	\$ 12,978,581
Current period gross charge offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Notes to Consolidated Financial Statements • December 31, 2025

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, 2024:

	Term Loans Amortized Cost Basis by Origination Year					Revolving Loans Amortized Cost Basis	Revolving Loans Covered to Term	Total
	2024	2023	2022	2021	Prior			
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	\$ 17,170,778	\$ 26,140,970	\$ 52,450,047	\$ 50,133,428	\$ 83,387,633	\$ 14,303,077	\$ 495,055	\$ 244,080,988
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
	\$ 17,170,778	\$ 28,510,960	\$ 52,610,504	\$ 51,945,573	\$ 94,043,110	\$ 14,402,872	\$ 3,071,214	\$ 261,755,011
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, 2025**3. Loans and Allowance for Credit Losses (continued)**Credit Quality Information (continued)

Internally prepared ratings for loans are updated at least annually.

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, 2025:

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Covered to Term	Total
	2025	2024	2023	2022	2021	Prior			
Residential construction:									
Performing	\$ 4,116,443	\$ 1,621,957	\$ 112,930	\$ 803,104	\$ 892,019	\$ 1,514,976	\$ 19,793	\$ -	\$ 9,081,222
Nonperforming	-	-	-	-	-	-	-	-	-
	\$ 4,116,443	\$ 1,621,957	\$ 112,930	\$ 803,104	\$ 892,019	\$ 1,514,976	\$ 19,793	\$ -	\$ 9,081,222
Current period gross charge offs									
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential real estate:									
Performing	\$ 25,208,060	\$ 14,719,605	\$ 12,712,381	\$ 63,617,369	\$ 31,745,576	\$ 50,264,294	\$ 25,520,917	\$ 1,473,178	\$ 225,261,380
Nonperforming	-	-	696,411	185,381	147,625	1,237,226	17,800	427,381	2,711,824
	\$ 25,208,060	\$ 14,719,605	\$ 13,408,792	\$ 63,802,750	\$ 31,893,201	\$ 51,501,520	\$ 25,538,717	\$ 1,900,559	\$ 227,973,204
Current period gross charge offs									
	\$ -	\$ 3,349	\$ -	\$ -	\$ 10,924	\$ 298,436	\$ -	\$ -	\$ 312,709
Consumer installment:									
Performing	\$ 15,007,139	\$ 11,632,892	\$ 7,777,578	\$ 6,776,734	\$ 2,372,458	\$ 1,922,996	\$ 183,634	\$ 1,789	\$ 45,675,220
Nonperforming	60,020	83,061	191,650	183,095	29,760	-	-	-	547,586
	\$ 15,067,159	\$ 11,715,953	\$ 7,969,228	\$ 6,959,829	\$ 2,402,218	\$ 1,922,996	\$ 183,634	\$ 1,789	\$ 46,222,806
Current period gross charge offs									
	\$ 47,045	\$ 25,739	\$ 80,437	\$ 43,610	\$ 26,444	\$ 2,391	\$ -	\$ -	\$ 225,666

Notes to Consolidated Financial Statements • December 31, 2025**3. Loans and Allowance for Credit Losses (continued)**Credit Quality Information (continued)

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					Revolving Loans Amortized Cost Basis	Revolving Loans Coverted to Term	Total
	2024	2023	2022	2021	Prior			
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

Notes to Consolidated Financial Statements • December 31, 2025**3. Loans and Allowance for Credit Losses (continued)**

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
2025					
Construction	\$ -	\$ -	\$ -	\$ 48,389,709	\$ 48,389,709
Residential real estate	2,181,545	530,279	2,711,824	225,261,380	227,973,204
Commercial real estate	294,704	949,762	1,244,466	248,048,078	249,292,544
Commercial & industrial	47,922	12,076	59,998	69,659,860	69,719,858
Commercial other	-	-	-	12,978,581	12,978,581
Consumer installment	305,690	241,896	547,586	45,675,220	46,222,806
	\$ 2,829,861	\$ 1,734,013	\$ 4,563,874	\$ 650,012,828	\$ 654,576,702
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	254,336,772	261,755,011
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	\$ 651,390,669	\$ 662,284,030

Information regarding nonaccrual loans during the year ended December 31, 2025 and 2024 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
2025					
Residential real estate	\$ 916,647	\$ 646,871	\$ 1,563,518	\$ 1,852,969	\$ 29,909
Commercial real estate	1,172,910	20,127	1,193,037	2,097,140	34,487
Commercial & industrial	-	152,886	152,886	339,746	1,646
Consumer installment	-	296,171	296,171	333,456	3,126
	\$ 2,089,557	\$ 1,116,055	\$ 3,205,612	\$ 4,623,311	\$ 69,168
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

There were no loans past due 90 days or more and still accruing interest at December 31, 2025. 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.

Notes to Consolidated Financial Statements • December 31, 2025**3. Loans and Allowance for Credit Losses (continued)**

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

	Term Extension		Interest Rate Reduction		Combination Term Extension and Interest Rate Reduction		Other-than-insignificant Payment Delay	
	Amortized Cost Basis	Percent of Loan Class	Amortized Cost Basis	Percent of Loan Class	Amortized Cost Basis	Percent of Loan Class	Amortized Cost Basis	Percent of Loan Class
2025								
Residential real estate	\$ 274,240	0.12%	\$ -	0.00%	\$ -	0.00%	\$ 31,639	0.01%
Commercial real estate	527,656	0.21%	-	0.00%	-	0.00%	-	0.00%
Commercial & industrial	1,930,971	2.77%	-	0.00%	175,384	0.25%	-	0.00%
Consumer installment	-	0.00%	-	0.00%	-	0.00%	34,404	0.07%
	\$ 2,732,867	0.42%	\$ -	0.00%	\$ 175,384	0.03%	\$ 66,043	0.01%
2024								
Commercial real estate	\$ 139,922	0.05%	\$ 1,086,536	0.42%	\$ -	0.00%	\$ -	0.00%
Consumer installment	5,545	0.01%	-	0.00%	-	0.00%	-	0.00%
	\$ 145,467	0.02%	\$ 1,086,536	0.16%	\$ -	0.00%	\$ -	0.00%

The following describes the financial effect of the modifications made to borrowers experiencing financial difficulty as of December 31, 2025:

Term Extension	
Loan type	Financial Effect
Residential real estate	Granted two-month extensions for two loans to allow the customers additional time to bring the loan to current state. Granted a five-year renewal on another loan and a 61 month renewal on another.
Commercial real estate	Renewed one loan for an additional six years and a second loan for an additional two years to continue relationship. Extended the maturity of a third loan for 12 months with an additional 90 days to allow the customer additional time to make payments. Provided a one-month extension on one loan to allow the customer to pay off.
Commercial & industrial	Extended one loan for an additional 12 months, one loan for an additional 60 months, one loan for an additional six months, and one loan for an additional three months. Renewed four loans for an additional six months, and one loan for an additional 12 months.
Interest Rate Reduction	
Loan type	Financial Effect
Commercial real estate	Reduced interest rate of one loan from 8.00% to 7.25% and converted to a fixed rate loan to remove the risk of increase in floating rate. Reduced interest rate from 9.75% to 0.00% on one loan.
Other-than-insignificant Payment Delay	
Loan type	Financial Effect
Residential real estate	Granted payment deferral for two months on one loan to allow customer time to make payments.
Consumer installment	Granted payment deferral for two months on four loans to allow customer time to make payments.

Notes to Consolidated Financial Statements • December 31, 2025**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 two months for one loan and extended the maturity by one 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 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, 2025 and 2024:

	Payment Status			
	Current	Past Due 30-89 Days	Past Due 90+ Days	Totals
2025				
Residential real estate	\$ 305,879	\$ -	\$ -	\$ 305,879
Commercial real estate	304,507	223,149	-	527,656
Commercial & industrial	2,058,433	47,922	-	2,106,355
Consumer installment	34,404	-	-	34,404
	\$ 2,703,223	\$ 271,071	\$ -	\$ 2,974,294
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

The Bank had three commercial real estate loans that had term extensions, two residential real estate loans that had term extensions, and two commercial & industrial loans that had a combination of term extension and interest rate reduction that had payment default of over 30 days, but under 90 days within 12 months of being modified. The Bank also had two commercial real estate loans that had a payment default during 2025 of over 90 days within 12 months of being modified, one of these had a term extension and the other had an interest rate reduction. The December 31, 2025 balance of modified loans with a payment default within 12 months of being modified during 2025 was \$650,758. As of December 31, 2025, one commercial real estate loan and one consumer installment loan was past due over 30 days but under 90 days, one commercial real estate loan was foreclosed upon and moved to other real estate owned, and all others were current. 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. One of those loans was charged off during 2025 and the other remains over 90 days past due through 2025.

As of December 31, 2025, and 2024, the Bank had no commitments to lend any additional funds on loans modified to borrowers experiencing financial difficulty.

Notes to Consolidated Financial Statements • December 31, 2025**4. Other Real Estate Owned**

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

	2025	2024
Beginning balance	\$ 57,346	\$ 148,532
Loans transferred to real estate owned	1,590,506	568,151
Fair value increases at transfer	23,760	9,195
Sales of real estate owned	(583,212)	(668,532)
Ending balance	\$ 1,088,400	\$ 57,346

The balance of other real estate owned, included in other assets on the consolidated balance sheets, includes three foreclosed residential real estate properties totaling \$407,775 and one commercial real estate property valued at \$680,625 at December 31, 2025, and residential real estate properties of \$57,346 at December 31, 2024. 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 \$133,000 at December 31, 2025, and \$33,000 at December 31, 2024.

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

	2025	2024
Net gain on sales	\$ (40,167)	\$ (84,882)
Operating expenses, net of rental income	219,236	130,815
Fair value decreases (increases) of properties	159,007	(9,195)
	\$ 338,076	\$ 36,738

5. Bank Premises and Equipment

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

	2025	2024
Land and improvements	\$ 3,134,417	\$ 3,325,914
Buildings and improvements	13,753,106	13,092,384
Equipment (including software)	6,404,858	6,302,453
Leasehold improvements	485,221	485,221
	23,777,602	23,205,972
Accumulated depreciation/amortization	(10,899,729)	(10,375,024)
Bank premises and equipment, net	\$ 12,877,873	\$ 12,830,948

Notes to Consolidated Financial Statements • December 31, 2025**6. Time Deposits**

The aggregate amount of time deposit accounts meeting or exceeding the FDIC insurance limit of \$250,000 was \$78,900,786 at December 31, 2025, and \$86,103,464 at December 31, 2024.

The contractual annual maturities of time deposits at December 31, 2025, were as follows:

2026	\$ 190,530,809
2027	22,698,183
2028	5,816,040
2029	1,961,337
2030	505,432
	<u>\$ 221,511,801</u>

7. BorrowingsBorrowed 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, 2025. 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 \$211,037,000 as of December 31, 2025, and \$216,246,000 as of December 31, 2024.

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 \$42,862,000 pledged as of December 31, 2025, and \$60,705,000 pledged as of December 31, 2024.

The Federal Reserve Bank Term Funding Program was introduced in 2023. 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. The Federal Reserve Bank ended the program in 2024 and all borrowings were paid in full in 2024.

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. Both loans were renewed in 2025, subsequent to January 2025 Board of Director approval. The line of credit maturity was extended to February 1, 2027 and the term loan was extended to January 31, 2029.

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.

Notes to Consolidated Financial Statements • December 31, 2025**7. Borrowings (continued)**

Information regarding borrowing types is referenced below:

	Short Term Borrowings	FHLB Advances	FRB Advances	Corporate Line of Credit	Corporate Term Loan	Subordinated Debt
2025						
Year end balance	\$ -	\$ 40,000,000	\$ -	\$ -	\$ 2,769,464	\$ 15,000,000
Interest incurred	14	1,807,765	25,903	-	205,036	600,000
Interest rate at year end	-	3.73-4.78%	-	-	6.58%	4.00%
Average balance at year end	274	40,000,000	575,619	-	3,237,730	15,000,000
Average interest rate during the year	4.96%	4.52%	4.50%	-	6.33%	4.00%
Maximum balance during the year	100,000	40,000,000	5,000,000	-	4,298,112	15,000,000
Maturity date	-	5/11/2026- 5/7/2029	-	2/1/2027	1/31/2029	3/26/2031
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

8. Pension and Profit Sharing Plans

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

Pension Plan

Through November 28, 2015, the Bank contributed to a multiemployer defined benefit pension plan (Plan) established and maintained pursuant to a collective bargaining agreement between the Bank and the United Food and Commercial Workers Union (Union) to cover its union-represented employees. On November 28, 2015, the Bank and the collective bargaining unit agreed to terminate participation in and withdraw from the Plan. Upon termination of its Plan, the Bank was subject to a withdrawal liability of \$12,672,705. However, under ERISA 4219(c)(1)(B), the amount was subject to the 20-year payment cap. Therefore, the Bank's liability was computed to be \$4,377,252, payable in monthly installments of \$18,239, including interest of 7.5%, for a period of 20 years. As a result, the Bank recorded a liability and pension expense of \$2,583,128 at November 28, 2015. This amount represents the net present value of the payment stream discounted at 2.64%. As payments are made, the Bank reduces the liability and record pension expense based on the effective interest method. The remaining liability was \$1,184,820 as of December 31, 2025, and \$1,316,359 as of December 31, 2024, and total pension expense was \$87,324 for the year ended December 31, 2025, and \$85,051 for the year ended December 31, 2024. 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, 2025 and 2024, 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.

Notes to Consolidated Financial Statements • December 31, 2025**8. Pension and Profit Sharing Plans (continued)**Pension Plan (continued)

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 may be material to the Bank. As of December 31, 2025, 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 \$19,980 for 2025 and \$18,339 for 2024. Contributions for non-bargaining employees totaled \$425,283 for 2025 and \$394,678 for 2024.

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 \$392,330 for 2025 and \$324,737 for 2024.

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 \$548,846 for 2025 and \$563,132 for 2024.

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, 2025 and 2024, the Corporation and Bank meet all capital adequacy requirements to which they are subject.

Notes to Consolidated Financial Statements • December 31, 2025**9. Regulatory Capital Matters (continued)**

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, 2025 and 2024, 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, 2025 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	\$ 126,872	18.73%	\$ 54,177	8.00%	\$ 67,721	10.00%
Tier 1 (Core) Capital to risk-weighted assets	118,640	17.52%	40,633	6.00%	54,177	8.00%
Common Tier 1 (CET1) to risk-weighted assets	118,640	17.52%	30,474	4.50%	44,019	6.50%
Tier 1 (Core) Capital to average total assets	118,640	11.29%	42,050	4.00%	52,562	5.00%

Notes to Consolidated Financial Statements • December 31, 2025**9. Regulatory Capital Matters (continued)**

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	\$ 121,144	17.81%	\$ 54,419	8.00%	\$ 68,023
Tier 1 (Core) Capital to risk-weighted assets	112,629	16.57%	40,814	6.00%	54,419	8.00%
Common Tier 1 (CET1) to risk-weighted assets	112,629	16.56%	30,610	4.50%	44,215	6.50%
Tier 1 (Core) Capital to average total assets	112,629	10.97%	41,073	4.00%	51,341	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 \$5.1 million in 2025 and \$3.9 million in 2024. Retained earnings of \$17.5 million as of December 31, 2025 and \$11.9 million as of December 31, 2024 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 \$1,969,000 as of December 31, 2025 and \$2,746,000 as of December 31, 2024, and committed, but not disbursed, loan proceeds, lines of credit and overdraft lines of approximately \$105,757,000 as of December 31, 2025 and \$116,706,000 as of December 31, 2024. 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 \$428,816 as of December 25, 2025 and \$615,621 as of December 31, 2024. There was recovery for credit losses related to the allowance for credit losses on unfunded commitments of \$186,805 as of December 31, 2025 and a provision for credit losses of \$288,659 as of December 31, 2024 recorded in the consolidated statements of income. Variable interest rates were assigned to approximately \$73,580,000 of outstanding commitments as of December 31, 2025 and \$72,446,000 as of December 31, 2024. Fixed interest rates were assigned to approximately \$32,177,000 of outstanding commitments as of December 31, 2025 and \$44,260,000 as of December 31, 2024.

Notes to Consolidated Financial Statements • December 31, 2025**11. Income Taxes**

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

	2025		2024	
Current expense	\$	1,736,400	\$	952,000
Deferred expense		222,000		141,000
	\$	1,958,400	\$	1,093,000

As of December 31, 2025 and 2024, the net deferred tax asset recorded is included in other assets. The net deferred tax assets include the following amounts as of December 31:

	2025		2024	
Deferred tax assets:				
Nonaccrual interest	\$	17,000	\$	12,000
Deferred compensation		722,000		663,000
Allowance for credit losses		1,729,000		1,988,000
Unrealized losses on debt securities		5,596,000		8,500,000
Pension withdrawal liability		249,000		276,000
Other assets		199,000		213,000
		8,512,000		11,652,000
Deferred tax liabilities:				
Depreciation		676,000		638,000
Purchase accounting adjustments, net		36,000		68,000
Discount accretion		120,000		141,000
Other deferred liabilities		40,000		39,000
		872,000		886,000
Net deferred tax assets	\$	7,640,000	\$	10,766,000

A reconciliation of federal income tax expense at the effective tax rate 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:

	2025		2024	
	Amount	Percentage	Amount	Percentage
Tax expense at the statutory rate	\$ 2,418,000	21.0%	\$ 1,693,000	21.0%
Tax-exempt interest	(331,000)	(2.9)%	(243,000)	(3.0)%
Nondeductible interest	81,000	0.7%	90,335	1.1%
Other	(209,600)	(1.8)%	(447,335)	(5.5)%
Federal income tax expense at the effective rate	\$ 1,958,400	17.0%	\$ 1,093,000	13.6%

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.

The Bank does not pay nor accrue for any state or local taxes.

Notes to Consolidated Financial Statements • December 31, 2025**11. Income Taxes (continued)**

All tax years from 2022 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:

	2025	2024
Balances at January 1	\$ 2,820,079	\$ 1,804,112
New loans	100,000	1,952,834
Repayments	(459,840)	(936,867)
Balances at December 31	\$ 2,460,239	\$ 2,820,079

The amount of deposits of employees, officers, and directors approximated \$5,996,000 as of December 31, 2025 and \$6,233,000 as of December 31, 2024.

Subordinated debentures of the Corporation, issued in 2021 for \$15.0 million, require interest be paid to debt holders twice annually. A director invested \$400,000 of subordinated debentures with the Corporation in 2025 and 2024. The director received interest payments of \$16,000 for the years ended December 31, 2025 and 2024.

13. Concentration of Credit

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

14. Leases

The Bank enters into leases in the normal course of business, maintaining a total of nine operating leases for retail and mortgage locations as of December 31, 2025. Bank leases have remaining terms ranging from 0.50 years to 2.58 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.

Notes to Consolidated Financial Statements • December 31, 2025**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 3.81%.

Right-of-use assets totaled \$1,045,714 as of December 31, 2025 and \$1,491,061 as of December 31, 2024. Lease liabilities totaled \$1,065,502 as of December 31, 2025 and \$1,511,353 as of December 31, 2024. 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:

	2025		2024	
Operating lease cost	\$	438,316	\$	554,021
Short-term lease cost		181,950		64,339
Total lease cost, net	\$	620,266	\$	618,360

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

	Lease Costs	
2026	\$	545,480
2027		316,447
2028		120,236

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:

Cash and Other Items: 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.

Debt Securities: 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.

Loans: 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.

Notes to Consolidated Financial Statements • December 31, 2025**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:

	2025		2024	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	\$ 84,444,000	\$ 84,444,000	\$ 33,441,000	\$ 33,441,000
Interest-bearing time deposits in other financial institutions	2,000,000	2,000,000	2,500,000	2,500,000
Debt securities available for sale	243,199,000	243,199,000	249,151,000	249,151,000
Federal Reserve Bank and Federal Home Loan Bank stock	5,362,000	5,362,000	3,462,000	3,462,000
Loans held for sale	4,040,000	4,040,000	2,568,000	2,568,000
Loans, less allowance for credit losses	646,774,000	640,887,000	653,433,000	636,737,000
Accrued interest receivable	3,323,000	3,323,000	3,696,000	3,696,000
Liabilities				
Deposits	865,680,000	722,847,000	842,402,000	780,941,000
Borrowed funds	42,769,000	43,485,000	44,298,000	44,637,000
Subordinated debentures	15,000,000	15,251,000	15,000,000	15,115,000
Accrued interest payable	1,421,000	1,421,000	1,668,000	1,668,000

Notes to Consolidated Financial Statements • December 31, 2025**16. Comprehensive Income**

The Comprehensive Income topic of FASB ASC 220 requires the reporting of comprehensive income in addition to net income. Comprehensive income 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 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
2025			
Unrealized gains on securities:			
Unrealized holding gains arising during the period	\$ 13,831,542	\$ (2,904,624)	\$ 10,926,918
Total other comprehensive income	\$ 13,831,542	\$ (2,904,624)	\$ 10,926,918
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)

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.

Notes to Consolidated Financial Statements • December 31, 2025**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.

Lender Risk Account: The lender risk account is recorded at fair value on a nonrecurring basis. Fair value is determined using an income approach with various assumptions including expected cash flows, market discount rates, and other factors. As such, the lender risk account is considered Level 3.

Notes to Consolidated Financial Statements • December 31, 2025**17. Fair Value (continued)**Lender Risk Account (continued):

The following table presents a reconciliation of the Level 3 lender risk account measured on a nonrecurring basis for the year ended December 31, 2025.

	2025
Beginning of period	\$ -
Due to loan sales	582,695
Change in fair value recognized in gain on sale of loans	137,042
End of period	\$ 719,737

Information about Level 3 fair value measurements is as follows:

Valuation Technique	Fair Value at December 31, 2025	Unobservable Inputs	Range
Other real estate			
Discounted appraisal value	\$ 1,088,400	Real estate collateral appraisal marketability discount	10-30%
Loans			
Discounted appraisal value	\$ 594,877	Real estate collateral appraisal marketability discount	20-30%
Discounted appraisal value	\$ 73,193	Non-real estate collateral marketability discount	50-100%
Lender risk account			
Present value of cash flows	\$ 719,737	Discount rate	6.15%
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%

Notes to Consolidated Financial Statements • December 31, 2025**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)
2025				
U.S. Government and federal agencies	\$ 92,440,485	\$ -	\$ 92,440,485	\$ -
Corporate debt	30,602,696	-	30,602,696	-
Mortgage-backed securities	38,022,979	-	38,022,979	-
State and local governments	82,132,793	-	82,132,793	-
Total securities	\$ 243,198,953	\$ -	\$ 243,198,953	\$ -
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	\$ -

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

	Total	Level 1	Level 2	Level 3
2025				
Other real estate	\$ 1,088,400	\$ -	\$ 680,625	\$ 407,775
Loans	668,070	-	-	668,070
Lender risk account	719,737	-	-	719,737
Total assets	\$ 2,476,207	\$ -	\$ 680,625	\$ 1,795,582
2024				
Other real estate	\$ 57,346	\$ -	\$ -	\$ 57,346
Loans	2,912,808	-	-	2,912,808
Total assets	\$ 2,970,154	\$ -	\$ -	\$ 2,970,154

Notes to Consolidated Financial Statements • December 31, 2025**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:

	2025	2024
Noninterest income		
Trust fees	\$ 2,119,974	\$ 2,256,354
Service charges on deposit accounts	1,269,578	1,182,063
Other service charges and fees:		
Interchange fees	1,446,947	1,386,836
Other fees	64,622	96,368
Net gain on sale of loans*	5,209,973	4,026,928
Other income:		
Practical Security Solutions, LLC advisory fees	84,867	177,167
Other income*	214,365	(183,269)
	\$ 10,410,326	\$ 8,942,447

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, 2025 and 2024. Items outside of the scope of ASC 606 are noted as such (*). The other fees category includes approximately \$134,000 and \$150,000 of miscellaneous deposit fees which are within the scope of ASC 606 for 2025 and 2024, respectively. Gains on sales of OREO were \$40,167 for the year ended December 31, 2025 and \$84,882 for the year ended December 31, 2024 and are included in noninterest expense on the consolidated statements of income.

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.

Notes to Consolidated Financial Statements • December 31, 2025**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. Practice Security Solutions, LLC Advisory Fees was dissolved in July of 2025.

Gains on Sales of OREO: The Corporation records a gain 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. 230 shares were issued in 2025 and 231 shares were issued in 2024.

653 shares were granted under the Plan through restricted stock awards in 2025, of which 164 shares will be vested after one year, and 489 shares will be fully vested by the fourth anniversary of the grant date. No shares were granted under the Plan through restricted stock awards in 2024. Since inception of the Plan, 3,097 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.

Notes to Consolidated Financial Statements • December 31, 2025

19. Long-Term Incentive Stock Plan (continued)

Total unrecognized compensation cost related to nonvested shares granted under the Plan was \$47,569 as of December 31, 2025, and \$36,485 as of December 31, 2024.

The cost is expected to be recognized over a weighted-average period of 1.10 years. The total fair value of shares vested during the year was \$29,041 for the year ended December 31, 2025, and \$29,389 for the year ended December 31, 2024.

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, 2025. 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, 2025.

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

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, 2025, 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, 2025, 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*.

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, 2025, has been audited by Andrews Hooper Pavlik, PLC, an independent public accounting firm, as stated in their report dated February 27, 2026.

Keweenaw Financial Corporation



***Michael R. Hauswirth**

President

February 27, 2026



***Sherry T. Hill**

Treasurer

February 27, 2026