Ottawa Bancorp, Inc. & Subsidiary

Consolidated Financial Statements
December 31, 2023 and 2022

Ottawa Bancorp, Inc. & Subsidiary

Contents

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
Ottawa Bancorp, Inc., and Subsidiary

Opinion

We have audited the accompanying consolidated financial statements of Ottawa Bancorp, Inc. and Subsidiary which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ottawa Bancorp, Inc., and Subsidiary as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Ottawa Bancorp, Inc. 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 opinion.

Correction of Error

As discussed in Note 1 to the consolidated financial statements, certain errors resulting in misstatement of amounts previously reported for certain balance sheet, statement of operations, and stockholders' equity items as of December 31, 2022 were discovered by management during the current year. Accordingly, amounts previously reported have been restated in the 2022 consolidated financial statements now presented, and an adjustment has been made to retained earnings as of January 1, 2022 to correct the error. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 Ottawa Bancorp, Inc. 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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements
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 to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement 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 judgement made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- 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 audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Ottawa Bancorp, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Ottawa Bancorp, Inc. 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 control related matters that we identified during the audit.

Draft.

Cincinnati, Ohio
March 27, 2024

Ottawa Bancorp, Inc. & Subsidiary
Consolidated Balance Sheets
December 31, 2023 and 2022

	2023	2022 (as restated)
Assets		
Cash and due from banks	$ 3,511,709	$ 10,338,273
Interest bearing deposits	9,884,710	524,427
Total cash and cash equivalents	13,396,419	10,862,700
Time deposits	-	250,000
Federal funds sold	-	55,000
Securities available for sale, at fair value	18,781,463	20,898,175
Loans, net of allowance for credit losses of $4,370,934 and $4,301,307 at December 31, 2023 and 2022, respectively	312,181,918	307,750,228
Premises and equipment, net	5,998,742	6,163,630
Accrued interest receivable	1,700,911	1,120,344
Deferred tax assets, net	2,799,503	2,692,168
Cash surrender value of life insurance	2,717,888	2,672,025
Goodwill	649,869	649,869
Core deposit intangible	31,909	67,567
Other assets	5,659,196	4,515,880
Total assets	$ 363,917,818	$ 357,697,586
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 23,839,628	$ 22,634,695
Interest bearing	257,246,330	267,048,730
Total deposits	281,085,958	289,683,425
Accrued interest payable	320,238	119,769
FHLB advances	30,750,000	18,750,000
Long Term Debt	1,700,000	2,100,000
Allowance for credit losses on off-balance sheet credit exposures	94,136	-
Other liabilities	6,635,892	3,906,217
Total liabilities	320,586,224	314,559,411
Commitments and contingencies		
ESOP Repurchase Obligation	1,691,975	1,821,029
Stockholders' equity		
Common stock, $0.01 par value, 100,000,000 shares authorized; 2,552,971 and 2,561,406 shares issued at December 31, 2023 and 2022, respectively	25,529	25,613
Additional paid-in-capital	24,738,476	24,847,455
Retained earnings	21,798,054	21,711,377
Unallocated ESOP shares	(682,192)	(815,766)
Unearned management recognition plan shares	(103,417)	(150,664)
Accumulated other comprehensive income (loss)	(2,444,856)	(2,479,840)
	43,331,594	43,138,175
Less:		
ESOP Owned Shares	(1,691,975)	(1,821,029)
Total Stockholders' Equity	41,639,619	41,317,146
Total Liabilities and Stockholders' Equity	$363,917,818	$357,697,586

See Accompanying Notes to Consolidated Financial Statements

Ottawa Bancorp, Inc. & Subsidiary
Consolidated Statements of Operations
Years Ended December 31, 2023 and 2022

	2023	2022 (as restated)
Interest and dividend income:		
Interest and fees on loans	$14,465,536	$12,545,020
Securities:		
Residential mortgage-backed and related securities	318,790	313,240
State and municipal securities	104,693	161,593
Dividends on non-marketable equity securities	87,416	49,318
Interest-bearing deposits	192,300	59,172
Total interest and dividend income	15,168,735	13,128,343
Interest expense:		
Deposits	5,124,170	1,615,157
Borrowings	629,246	279,357
Total interest expense	5,753,416	1,894,514
Net interest income	9,415,319	11,233,829
Provision for (recovery of) credit losses-loans	(193,138)	1,148,000
Recovery of credit losses – off-balance sheet credit exposures	(56,503)	-
Net interest income after provision for (recovery of) credit losses	9,664,960	10,085,829
Noninterest income:		
Gain on sale of loans, net	119,572	196,015
Loan origination and servicing income	564,984	758,859
Origination of mortgage servicing rights, net of amortization	70,192	263,859
Customer service fees	448,018	458,507
Increase in cash surrender value of life insurance	45,863	22,084
Gain on sale of foreclosed real estate	5,653	-
Other	46,354	52,702
Total noninterest income	1,300,636	1,752,026
Noninterest expenses:		
Salaries and employee benefits	4,728,202	4,904,943
Directors fees	154,500	177,000
Occupancy	625,463	651,399
Deposit insurance premium	147,397	85,229
Legal and professional services	452,341	302,504
Data processing	1,239,742	1,150,203
Loan expense	264,536	333,210
Other	1,027,541	901,417
Total noninterest expenses	8,639,722	8,505,905
Income before income tax expense	2,325,874	3,331,950
Income tax expense	657,123	952,606
Net income	$ 1,668,751	$ 2,379,344
Basic earnings per share	$ 0.66	$ 0.96
Diluted earnings per share	$ 0.66	$ 0.96
Dividends per share	$ 0.43	$ 0.45

See Accompanying Notes to Consolidated Financial Statements.

Ottawa Bancorp, Inc. & Subsidiary
Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31, 2023 and 2022

	2023	2022 (as restated)
Net income	$ 1,668,751	$ 2,379,344
Other comprehensive (loss) income, before tax:		
Securities available for sale:		
Unrealized holding (losses) gains arising during the period	$ 48,933	$ (3,541,313)
Reclassification adjustment for (gains) included in net income	-	-
Other comprehensive (loss) income, before tax	$ 48,933	$ (3,541,313)
Income tax (benefit) expense related to items of other comprehensive (loss) income	$ 13,949	$ (1,009,451)
Other comprehensive (loss) income, net of tax	$ 34,984	$ (2,531,862)
Comprehensive (loss) income	$ 1,703,735	$ (152,518)

See Accompanying Notes to Consolidated Financial Statements.

Ottawa Bancorp, Inc. & Subsidiary
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2023 and 2022

	Common Stock	Additional Paid-in Capital	Retained Earnings (as restated)	Unallocated ESOP Shares	Unearned MRP Shares	Accumulated Other Comprehensive Income (Loss)	Maximum Cash Obligation Related to ESOP Shares	Total (as restated)
Balance, January 1, 2022 (as restated)	$ 28,185	$ 28,473,180	$ 20,483,676	$ (949,340)	$ (99,352)	$ 52,022	$(2,066,911)	$ 45,921,460
Net income (as restated)	-	-	2,379,344	-	-	-	-	2,379,344
Other comprehensive loss	-	-	-	-	-	(2,531,862)	-	(2,531,862)
Allocation of 13,358 of ESOP shares	-	53,614	-	133,574	-	-	-	187,188
ESOP Shares Buy Back-16,633 shares	(169)	(257,651)	-	-	-	-	-	(257,820)
Grant of 8,763 MRP Shares	88	127,835	-	-	(127,923)	-	-	-
Compensation expense on MRP awards granted	-	-	-	-	76,611	-	-	76,611
Change in cash obligation	-	-	-	-	-	-	245,882	245,882
Cash dividends paid, $0.44 per share	-	-	(1,151,643)	-	-	-	-	(1,151,643)
Repurchase 249,100 shares	(2,491)	(3,549,523)	-	-	-	-	-	(3,552,014)
Balance, December 31, 2022	$ 25,613	$ 24,847,455	$ 21,711,377	$ (815,766)	$ (150,664)	$ (2,479,840)	$(1,821,029)	$ 41,317,146
Cumulative change in accounting principle	-	-	(494,254)	-	-	-	-	(494,254)
Balance January 1, 2023 as adjusted for change in accounting principal	25,613	24,847,455	21,217,123	(815,766)	(150,664)	(2,479,840)	(1,821,029)	$ 40,822,892
Net income	-	-	1,668,751	-	-	-	-	1,668,751
Other comprehensive income	-	-	-	-	-	34,984	-	34,984
Allocation of 13,358 of ESOP shares	-	15,991	-	133,574	-	-	-	149,565
ESOP Shares Buy Back- 10,724 shares	(108)	(150,070)	-	-	-	-	-	(150,178)
Grant of 250 MRP Shares	26	43,481	-	-	(2,125)	-	-	41,382
Compensation expense on MRP awards granted	-	-	-	-	49,372	-	-	49,372
Change in cash obligation	-	-	-	-	-	-	129,054	129,054
Cash dividends paid, $0.11 per share	-	-	(1,087 820)	-	-	-	-	(1,087,820)
Repurchase 238 shares	(2)	(18,381)	-	-	-	-	-	(18,383)
Balance, December 31, 2023	$ 25,529	$ 24,738,476	$ 21,798,054	$ (682,192)	$ (103,417)	$ (2,444,856)	$(1,691,975)	$ 41,639,619

See Accompanying Notes to Consolidated Financial Statements

Ottawa Bancorp, Inc. & Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022 (as restated)
Cash Flows from Operating Activities		
Net income	$ 1,688,751	$ 2,379,344
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	244,162	249,943
Provision for (recovery of) credit losses - loans	(193,138)	1,148,000
Recovery of credit losses – off-balance sheet credit exposures	(56,503)	-
Provision for deferred income taxes	(10,101)	125,133
Net amortization of premiums and discounts on securities	18,308	57,200
Gain on sale of securities, net	14,251	-
Origination of mortgage loans held for sale	(15,167,803)	(20,399,252)
Proceeds from sale of mortgage loans held for sale	15,287,375	20,999,187
Gain on sale of loans	(119,572)	(196,015)
Origination and purchase of mortgage servicing rights, net of amortization	(70,192)	(263,859)
Loss on sale of foreclosed real estate	(5,543)	-
Compensation expense on ESOP shares released	149,565	187,188
Compensation expense on MRP options granted	90,754	76,611
Amortization of core deposit intangible	35,658	32,759
Amortization of fair value adjustments on acquired loans	(31,920)	(17,300)
Increase in cash surrender value of life insurance	(45,863)	(22,084)
Change in assets and liabilities:		
Change in accrued interest receivable	(580,567)	(179,330)
Change in other assets	(1,073,124)	276,841
Change in accrued interest payable and other liabilities	2,930,144	(883,045)
Net cash provided by operating activities	3,104,734	3,571,321
Cash Flows from Investing Activities		
Securities available for sale:		
Purchases	(2,850,635)	(998,903)
Sales, calls, maturities and paydowns	4,983,721	9,202,629
Net change in time deposits	250,000	-
Net change in loans	(4,801,632)	(25,003,725)
Net change in federal funds sold	55,000	1,661,000
Proceeds from sale of foreclosed real estate	125,653	-
Purchase of property and equipment	(79,274)	(82,385)
Net cash used in investing activities	(2,317,167)	(15,221,384)
Cash Flows from Financing Activities		
Net change in deposits	(8,597,467)	16,632,487
Proceeds from Federal Home Loan Bank advances	87,750,000	55,000,000
Principal reduction of Federal Home Loan Bank advances	(75,750,000)	(52,774,555)
Long term debt	(400,000)	2,100,000
Shares repurchased and cancelled	(168,561)	(3,809,834)
Dividends paid	(1,087,820)	(1,151,643)
Net cash provided by financing activities	1,533,809	15,996,455
Net change in cash and cash equivalents	2,533,719	4,346,392
Cash and cash equivalents:		
Beginning of year	10,862,700	6,516,308
End of year	$ 13,396,419	$ 10,862,700

See Accompanying Notes to Consolidated Financial Statements.

Ottawa Bancorp, Inc. & Subsidiary
Consolidated Statements of Cash Flows (continued)
Years Ended December 31, 2023 and 2022

	2023	2022
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest paid to depositors	$ 4,904,050	$ 1,565,069
Interest paid on borrowings	648,814	258,501
Income taxes paid	758,963	833,000
Supplemental Schedule of Noncash Investing and Financing Activities		
Change in ESOP obligation	(129,054)	(245,882)

See Accompanying Notes to Consolidated Financial Statements.

Note 1. Summary of Significant Accounting Policies

Entity structure

Ottawa Bancorp, Inc. (the "Company") is a Maryland corporation that was incorporated in May 2016 as the successor to Ottawa Savings Bancorp, Inc. ("Ottawa Savings Bancorp") upon completion of the second-step conversion of Ottawa Savings Bank from the two-tier mutual holding company structure to the stock holding company structure. Ottawa Savings Bancorp MHC was the former mutual holding company for Ottawa Savings Bancorp prior to completion of the second-step conversion. In conjunction with the second-step conversion, Ottawa Savings Bancorp MHC merged into Ottawa Savings Bancorp (and ceased to exist), and Ottawa Savings Bancorp merged into the Company, with the Company as the surviving entity. The second-step conversion was completed on October 11, 2016, at which time the Company sold, for gross proceeds of $23.8 million, a total of 2,383,950 shares of common stock at $10.00 per share, including 190,716 shares purchased by the Bank's employee stock ownership plan. Capital increased an additional $126,000 due to cash contributed by Ottawa Savings Bancorp MHC upon merging into Ottawa Savings Bancorp, Inc. Also, as part of the second-step conversion, treasury shares held by Ottawa Savings Bancorp, Inc. were retired and each of the existing outstanding shares of Ottawa Savings Bancorp common stock owned by persons other than Ottawa Savings Bancorp MHC was converted into 1.1921 of a share of Company common stock.

On December 31, 2014, Ottawa Savings Bancorp completed its acquisition of Twin Oaks Savings Bank ("Twin Oaks"), whereby Twin Oaks was merged with and into the Bank, with the Bank as the surviving institution. As a result of the Merger, Ottawa Savings Bancorp increased its market share in the LaSalle County market and expanded into Grundy County.

On June 30, 2020, Ottawa Bancorp Inc. voluntarily delisted its common stock from the NASDAQ Capital Market and withdrew its registration of its common stock with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Thus, the Company is no longer required to file periodic reports with the SEC, including reports on Forms 10-K, 10-Q and 8-K. The Company has its shares now quoted on the OTCQX Market following the NASDAQ delisting.

On September 27, 2021, Ottawa Savings Bank converted from a federally- chartered savings bank to an Illinois-chartered commercial bank. In connection with the charter conversion, the Bank changed its name to OSB Community Bank and the Company converted from a savings and loan holding company to a bank holding company.

Nature of business

The primary business of the Company is the ownership of the Bank. Through the Bank, the Company is engaged in providing a variety of financial services to individual and corporate customers in the Ottawa, Marseilles, and Morris, Illinois areas, which are primarily agricultural areas consisting of several rural communities with small to medium sized businesses. The Bank's primary source of revenue is interest and fees related to single-family residential loans to middle-income individuals and interest and fees related to commercial loans to small businesses.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Ottawa Bancorp, Inc. (the Company) and its wholly owned subsidiary OSB Community Bank (the Bank). All significant intercompany transactions and balances are eliminated in consolidation.

Note 1. Summary of Significant Accounting Policies (Continued)

Use of estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the fair value of securities available for sale, the determination of the allowance for credit losses, valuation of deferred income taxes, and the fair value measurement for the assets and liabilities.

The determination of the adequacy of the allowance for credit losses is based on estimates that are particularly susceptible to significant changes in the present economic environment. In conjunction with the determination of the estimated losses on loans (the statement of operation's provision for credit losses) management must exercise judgement and obtain independent appraisals for significant collateral.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. 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 reasonably possible that the estimated losses on loans may change materially. However, the amount of the change that is reasonably possible cannot be presently estimated.

Concentration of credit risk

Most of the Bank's business activity is with customers within the Ottawa, Marseilles, and Morris areas. The Bank does not have any significant concentrations to any one industry or customer.

Restatement of prior period

In 2023, information came to the attention of management leading to the conclusion that a portion of the Company's 2022 financial statements should no longer be relied upon due to an overstatement by error in calculation of certain participation loan interest in such financial statements. The Company has restated the accompanying financial statements to reflect the correction of such participation loan interest. The cumulative effect of the change on retained earnings at December 31, 2022 and December 31, 2021 was a decrease of $149,774 and $52,445, respectively. The effects of the error correction as of December 31, 2022 are as follows:

Note 1. Summary of Significant Accounting Policies (Continued)

	December 31, 2022 Originally Reported	Restatement	December 31, 2022 As Restated
Consolidated Balance Sheet			
Assets			
Accrued Interest receivable	$ 1,309,931	$ (189,587)	$ 1,120,344
Deferred tax assets	2,652,355	39,813	2,692,168
Total assets	357,847,360	(149,774)	357,697,586
Stockholder's equity			
Retained earnings	21,861,151	(149,774)	21,711,377
Total stockholder's equity	41,466,920	(149,774)	41,317,146
Total Liabilities and stockholder's equity	357,847,360	(149,774)	357,697,586
Consolidated Statements of Operations			
Interest and dividend income:			
Interest and fees on loans	12,642,349	(97,329)	12,545,020
Total interest and dividend income	13,225,672	(97,329)	13,128,343
Net interest income	11,331,158	(97,329)	11,233,829
Net interest income after provision for (recovery of) credit losses	10,183,158	(97,329)	10,085,829
Income before income tax expense	3,429,279	(97,329)	3,331,950
Net income	2,476,673	(97,329)	2,379,344
Consolidated Statements of Comprehensive Income (Loss)			
Net Income	2,476,673	(97,329)	2,379,344
Comprehensive (loss) income	(55,189)	(97,329)	(152,518)
Consolidated Statements of Cash Flows			
Net Income	2,476,673	(97,329)	2,379,344
Provision for deferred income taxes	151,006	(25,873)	125,133
Changes in assets and liabilities			
Change in accrued interest receivable	(302,532)	123,202	(179,330)

Note 1. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks and interest bearing deposits, including cash items in process of clearing. Cash flows from loans, deposits, time deposits and federal funds sold or purchased are treated as net increases or decreases in the statement of cash flows.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investment securities

Debt securities classified as available for sale are those debt securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available for sale are carried at fair value and transactions are recoded on the trade date. The difference between the fair value and amortized cost, adjusted for amortization of premium and accretion of discounts, computed by the interest method over their contractual maturity or the earliest call date if the bond was purchased with a premium and has a call date, results in an unrealized gain or loss. Unrealized gains or losses are reported as accumulated other comprehensive income (loss), net of the related deferred tax effect and are included as a component of stockholders' equity. Gains or losses from the sale of securities are determined using the specific identification method and are included in earnings. Declines in the fair value of available for sale securities below their amortized cost basis that are deemed to have credit impairment would be reflected in an allowance for credit losses on the balance sheet. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities factoring in amortizing premiums to earliest call date.

Non-marketable equity securities

Nonmarketable equity securities, consisting primarily of the Bank's investment in the Federal Home Loan Bank of Chicago stock, is carried at cost within other assets and is restricted to only being able to be resold to FHLB.

Loans

The Bank primarily lends to small and mid-sized businesses, non-residential real estate customers and consumers providing mortgage, commercial and consumer loans. A substantial portion of the loan portfolio is represented by mortgage loans throughout Ottawa, Marseilles and Morris, Illinois and the surrounding areas. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in the areas in which they lend. It is the Bank's policy to review each prospective credit in order to determine the appropriateness and the adequacy of security or collateral prior to making a loan. In the event of borrower default, the Bank seeks recovery in compliance with state lending laws, the Bank's lending standards, and credit monitoring and remediation procedures.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are generally reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for credit losses ('ACL"), and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield over the contractual life of the loan using the interest method.

Note 1. Summary of Significant Accounting Policies (Continued)

The following portfolio segments and classes of loan receivables have been identified by the Company:

- Commercial
- Non-residential real estate
- One-to-four family residential
- Multi-family residential
- Consumer direct

Generally, for all classes of loans receivable, loans are considered past due when contractual payments are delinquent for 31 days or greater. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful.

For all classes of loans receivable, loans are placed on nonaccrual status when the loan has become over 90 days past due (unless the loan is well secured and in the process of collection).

When a loan is placed on nonaccrual status, income recognition is ceased. Previously recorded but uncollected amounts of interest on nonaccrual loans are reversed at the time the loan is placed on nonaccrual status. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Should full collection of principal be expected, cash collected on nonaccrual loans can be recognized as interest income.

For all classes of loans receivable, nonaccrual loans may be restored to accrual status provided the following criteria are met:

- The loan is current, and all principal and interest amounts contractually due have been made,
- All principal and interest amounts contractually due, including past due payments, are reasonably assured of repayment within a reasonable period, and
- There is a period of minimum repayment performance, as follows, by the borrower in accordance with contractual terms:
    - Six months of repayment performance for contractual monthly payments, or
    - One year of repayment performance for contractual quarterly or semi-annual payments.

Allowance for Credit Losses

Securities – available for sale

For available for sale debt securities in an unrealized loss position, the Bank first assesses whether it intends to sell or it is more likely than not that it will 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 the aforementioned criteria, the Bank 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 of the security. If the present value of the 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 is recognized in other comprehensive income. Changes in the

Note 1. Summary of Significant Accounting Policies (Continued)

allowance for credit losses are recorded as credit loss expense (or reversal). 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.

Loan Receivable

The Allowance for Credit Losses (ACL) 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. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charge-off.

Management estimates the allowance balance 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, although management also compares their own data with peer data. 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 as well as for changes in environmental conditions, such as changes in unemployment rates, property values or other relevant factors.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Bank has identified portfolio segments and measures the allowance for credit losses using risk characteristics as described in Note 3.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

When the discounted cash flow method is used to determine the allowance for credit losses, management may adjust the effective interest rate used to discount expected cash flows to incorporate expected prepayments.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual terms excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Bank.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and

Note 1. Summary of Significant Accounting Policies (Continued)

non-residential loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

A discussion of the risk characteristics and the allowance for estimated losses on loans, by each portfolio segment, follows:

Collateral for commercial loans generally includes accounts receivable, inventory, and equipment. The lending policy specifies approved collateral types and corresponding maximum advance percentages. The value of collateral pledged on loans must exceed the loan amount by a margin sufficient to absorb potential erosion of its value in the event of foreclosure and cover the loan amount plus costs incurred to convert it to cash. The lending policy specifies maximum term limits for commercial loans. For term loans, the maximum term is 10 years. Generally, term loans range from 3 to 5 years. For lines of credit, the maximum term is 365 days. In addition, the Company often takes personal guarantees as support for repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower.

Non-residential real estate loans are subject to underwriting standards and processes similar to commercial loans, in addition to those standards and processes specific to real estate loans. Collateral for non-residential real estate loans generally includes the underlying real estate and improvements and may include additional assets of the borrower. The lending policy specifies maximum loan-to-value limits based on the category of non-residential real estate (non-residential real estate loans on improved property, raw land, land development, and commercial construction). These limits are the same limits established by regulatory authorities. The lending policy also includes guidelines for real estate appraisals, including minimum appraisal standards based on certain transactions. In addition, the Company often takes personal guarantees as support for repayment.

Some of the non-residential loans that the Company originates finance the construction of residential dwellings and land development. For land development, the loans generally can be made with a maximum loan to value ratio of 70% and a maximum term up to 10 years. Additionally, the Company will underwrite commercial construction loans for commercial development projects including condominiums, apartment buildings, single-family subdivisions, single-family speculation loans, as well as owner-occupied properties used for business. These loans provide for payment of interest only during the construction phase and may, in the case of an apartment or commercial building, convert to a permanent loan upon completion. In the case of a single-family subdivision or construction or builder loan, as individual lots are sold, the principal balance is reduced by a minimum of 80% of the net lot sales price. In the case of a commercial construction loan, the construction period may be from nine months to two years. Loans are generally made to a maximum of 80% of the appraised value as determined by an appraisal of the property made by an independent state certified general real estate appraiser. Periodic inspections are required of the property during the term of the construction loan for both residential and commercial construction loans.

For commercial and non-residential real estate loans, the ACL consists of specific and general components. For loans that are considered impaired as defined above, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

The Company hires an independent firm to perform a loan review every 12 months to validate the risk ratings on selected commercial and non-residential loans. Additionally, the reviews include an analysis of debt service requirements, covenant compliance, if applicable, and collateral adequacy. They also perform a documentation review on selected loans to determine if the credit is properly documented and closed in accordance with approval authorities and conditions.

Generally, the Company's one-to-four family real estate loans conform to the underwriting standards of Freddie Mac and Fannie Mae which would allow the Company the ability to sell the loans in the secondary market. The Company structures most loans that will not conform to those underwriting requirements as adjustable rate mortgages that adjust in one, three or

Note 1. Summary of Significant Accounting Policies (Continued)

five-year increments and retains those in its portfolio. The board approved lending policy establishes minimum appraisal and credit underwriting guidelines, The Company also participates with the USDA Rural Development Agency to offer loans to qualifying borrowers. USDA guaranteed loans are granted up to 100% of the appraised value and the USDA guarantees up to 90% of the loan. These loans typically require no down payment, but are subject to maximum income limitations.

The Company also originates loans for multi-family dwellings. These loans follow board and regulatory approved underwriting guidelines similar to commercial loans, in addition to those standards and processes specific to real estate loans. Collateral for multi-family real estate loans generally includes the underlying real estate and improvements and may include additional assets of the borrower. The board approved lending policy specifies maximum loan-to-value limits based on the type of property. The lending policy also includes guidelines for real estate appraisals, including minimum appraisal standards based on certain transactions. The policy also specifies minimum ongoing credit administration procedures including the collection of financial statements, tax returns and rent rolls when applicable. Additionally, the Company will take personal guarantees and cross collateralize other assets of the guarantors as support for repayment.

The Company provides many types of installment and other consumer loans including motor vehicle, home improvement, share loans, personal unsecured loans, home equity, and small personal credit lines. The lending policy addresses specific credit guidelines by consumer loan type. Unsecured loans generally have a maximum borrowing limit of $25,000 and a maximum term of four years.

The procedures for underwriting consumer loans include an assessment of the applicant's payment history on other debts and ability to meet existing obligations and payments on the proposed loans. Although the applicant's credit-worthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount.

For residential real estate loans, multi-family and consumer direct loans (e.g. installment, in-house auto, other consumer loans, etc.) The allowance for estimated losses on loans consists of a specific and general component. The specific component is evaluated for only loans that are classified as impaired, which is based on current information and events if it is probable that the Company will be unable to collect the scheduled payments according to the terms of the agreement. Impairment on these is measured on a case-by-case basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. For large groups of smaller balance homogenous loans that are under 90 days past due, they are collectively measured using the expected credit loss basis. To determine the general component, the Company measures relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the amortized cost basis. Adjustments to historical loss information are made for differences in current loan specific in underwritten standards, portfolio mix, delinquency level or term as well as changes in environmental conditions such as unemployment rates, property values and other relevant factors. Ongoing impacts of CECL will be dependent upon changes in economic conditions and forecast, prepayment speeds, credit performance trends, portfolio duration and other factors. Quantitative factors based on historical charge-off experience in total for each segment. Additionally, the historical loss factors are adjusted based on qualitative factors determined by the Company which impact each segment.

Off-balance sheet instruments

The Bank estimates expected credit losses over the contractual period in which the Bank is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Bank. The allowance for credit losses on off-balance credit exposures is adjusted through provision for credit losses. The estimate includes

Note 1. Summary of Significant Accounting Policies (Continued)

consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

Loans Acquired in a Transfer

The loans acquired in the Twin Oaks merger were recorded at fair value as of the acquisition date and no separate valuation allowance was established. Management engaged the services of an independent valuation specialist to determine the fair values based on expected cash flows discounted at appropriate rates.

FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality,* applies to loans acquired in a transfer with evidence of deterioration of credit quality for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. If both conditions exist, the Company determines whether to account for each loan individually or whether such loans will be assembled into pools based on common risk characteristics such as credit score, loan type, and origination date. Based on this evaluation, the Company determined that the loans acquired from the Twin Oaks merger subject to ASC Topic 310-30 would be accounted for individually.

The Company considered expected prepayments and estimated the total expected cash flows, which included undiscounted expected principal and interest. The excess of that amount over the fair value of the loan is referred to as accretable yield. Accretable yield is recognized as interest income on a constant yield basis over the expected life of the loan. The excess of the contractual cash flows over expected cash flows is referred to as non-accretable difference and is not accreted into income. Over the life of the loan, the Company continues to estimate expected cash flows. Subsequent decreases in expected cash flows are recognized as impairments in the current period through the ACL. Subsequent increases in cash flows to be collected are first used to reverse any existing valuation allowance and any remaining increases are recognized prospectively through an adjustment of the loan's yield over its remaining life.

FASB ASC Topic 310-20, *Nonrefundable Fees and Other Costs,* was applied to loans not considered to have deteriorated credit quality at acquisition. Under ASC Topic 310-20, the difference between the loan's principal balance at the time of purchase and the fair value is recognized as an adjustment of yield over the life of the loan.

Mortgage Partnership Finance Program

In 2018, the Company began participating in the Mortgage Partnership Finance ("MPF") Program of the Federal Home Loan Bank of Chicago ("FHLBC"). The program is intended to provide member institutions with an alternative to holding fixed-rate mortgage in their loan portfolios or selling in the secondary market. The Company participates in the MPF Program by either originating individual loans on a "flow" basis as an agent for the FHLBC pursuant to the "MPF Original Program" and the "MPF 125 Program" or by selling, as a principal, closed loans owned by the Company to the FHLBC pursuant to one of the FHLBC's closed loan programs. Under the MPF Program, credit risk is shared by the Company and the FHLBC by structuring the loss exposure in several layers, with the Company being liable for losses after application of an initial layer of losses (after any private mortgage insurance) is absorbed by the FHLBC, subject to an agreed-upon maximum amount of such secondary credit enhancement which is intended to be in an amount equivalent to a "AA" credit risk by a rating agency. The Company may also be liable for certain first layer losses after a specified period of time. The Company received credit enhancement fees from the FHLBC for providing this credit enhancement and continuing to manage the credit risk of the MPF Program loans.

Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based

Note 1. Summary of Significant Accounting Policies (Continued)

on fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. The Company's servicing of assets is recorded in other assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Transfers of financial assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) 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 (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Foreclosed real estate

Real estate properties acquired through, or in lieu of, loan foreclosures are initially recorded at fair value less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other expenses.

The Company had no foreclosed residential real estate property as of December 31, 2023 and December 31, 2022. There were four residential real estate loans totaling $255,220 in the process of foreclosure as of December 31, 2023 and none as of December 3, 2022.

Income taxes

Deferred income tax assets and liabilities are computed quarterly for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to amounts which are more likely than not realizable. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or

Note 1. Summary of Significant Accounting Policies (Continued)

sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation process, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. The Company has no uncertain tax positions for which a liability has been recorded. The Company is no longer subject to examination by federal or state taxing authorities for tax years prior to 2020.

Premises and equipment

Land is carried at cost. Premises and equipment are carried at cost, less accumulated depreciation. Premises and equipment are depreciated using the straight-line and accelerated depreciation methods over the estimated useful lives of the assets:

	Years
Buildings and improvements	7-39
Furniture and equipment	5-15

Employee stock ownership plan

The Bank has an employee stock ownership plan (ESOP) covering substantially all employees. The cost of shares issued to the ESOP but not yet allocated to participants is presented in the consolidated balance sheets as a reduction of stockholders' equity. Compensation expense is recorded based on the market price of the shares as they are committed to be released for allocation to participant accounts.

Stock-based compensation

The Company recognizes compensation cost for all stock-based awards based on the estimated grant date fair value. The fair value of stock options is estimated using a Black-Scholes option pricing model and amortized to expense over the option's vesting periods, as more fully disclosed in Note 10.

Off-balance-sheet financial instruments

Financial instruments include off-balance-sheet credit instruments, such as commitments to originate loans, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Comprehensive income (loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale net of the related tax effect.

Note 1. Summary of Significant Accounting Policies (Continued)

Revenue from Contracts with Customers

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers* (ASC 606). Under ASC 606, the Company must identify the contract with a customer, identify the performance obligation(s) within the contract, determine the transaction price, allocate the transaction price to the performance obligation(s) within the contract, and recognize revenue when (or as) the performance obligation(s) are/is satisfied. The core principle under ASC 606 requires the Company to recognize revenue to depict the transfer of services or products to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those services or products recognized as performance obligations are satisfied. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Since performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying ASC 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

The majority of the Company's revenue is not subject to ASC 606, including net interest income, loan servicing income, fees related to loans and loan commitments, increase in cash surrender value of bank owned life insurance, and gain on sales of loans and securities.

The following revenue-generating transactions are within the scope of ASC 606, which are presented in the consolidated statements of operations as components of noninterest income:

Customer service fees – The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, such as ATM use fees, wires, 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 Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly service charges and maintenance fees, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs as this corresponds with the Company's performance obligation.

Interchange fees – Customers use a bank-issued debit card to purchase goods and services, and the Company earns interchange fees on those transactions, typically a percentage of the sale amount of the transaction. The Company is considered an agent with respect to these transactions. Interchange fee payments received, net of related expense, are recognized as income daily, concurrently with the transaction processing services provided to the cardholder through the payment networks. There are no contingent debit card interchange fees recorded by the Company that could be subject to a claw-back in future periods. These amounts are included in the customer service fees line item on the statements of operations.

Gain (loss) on sale of foreclosed assets – The Company records a gain or loss from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed and transfer of control is completed. When the Company finances the sale to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether the Company expects to collect substantially all of the transaction price. Once these criteria are met, the asset is derecognized and the gain or loss on the sale is recognized. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if the financing does not include market terms.

Note 1. Summary of Significant Accounting Policies (Continued)

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. In the normal course of business, management will reach settlements over legal issues which are recorded in the period received.

Management does not believe there are any such matters that will have a material effect on the consolidated financial statements.

Fair value measurements

In accordance with the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures,* fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and is not adjusted for transaction costs. This guidance also establishes a framework for measuring fair value and disclosure of fair value measurements. See Note 15 for additional information.

Fair value 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.

Cash surrender value of life insurance

The Company has purchased bank-owned life insurance on certain directors and officers. Bank-owned life insurance is recorded at its cash surrender value. Changes in the cash surrender values are included in other income.

Goodwill

Goodwill resulting from business combinations is generally determined as the excess of the fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. On December 31, 2014, the Company completed its acquisition of Twin Oaks Savings Bank, which resulted in the recognition of goodwill of approximately $650,000.

Goodwill acquired in a purchase business combination is not amortized, but tested for impairment at least annually or more frequently if events or circumstances exist that indicate that a goodwill test should be performed. The Company has selected December 31 as the date to perform the annual impairment test. At December 31, 2023, the Company's evaluation of goodwill indicated that goodwill was not impaired.

Core deposit intangible

The core deposit intangible represents the value of acquired customer relationships resulting from the Company's December 31, 2014 merger with Twin Oaks. The core deposit intangible will be amortized using the double declining balance

Note 1. Summary of Significant Accounting Policies (Continued)

method over an estimated useful life of 9.8 years. The Company will periodically review the status of the core deposit intangible for any events or circumstances which may change the recoverability of the underlying basis.

Estimated future amortization expense on core deposit intangible is shown in the table below:

Year Ending December 31,	Amount
2024	31,909
	$ 31,909

Earnings per share

Basic earnings per share is based on net income divided by the weighted average number of shares outstanding during the period, including allocated and committed-to-be-released Employee Stock Ownership Plan ("ESOP") shares and vested Management Recognition Plan ("MRP") shares. Diluted earnings per share show the dilutive effect, if any, of additional common shares issuable under stock options and awards. See Note 10 for additional information on the MRP and Recognition and Retention Plan ("RRP") plans.

	Years ended December 31,	
	2023	**2022**
Net income available to common stockholders	$ 1,668,751	$ 2,379,344
Basic potential common shares:		
Weighted average shares outstanding	2,561,637	2,682,541
Weighted average unvested MRP shares	(40,977)	(94,934)
Weighted average unallocated ESOP shares	(10,833)	(10,896)
Basic weighted average shares outstanding	2,509,827	2,576,711
Dilutive potential common shares:		
Weighted average unrecognized compensation on MRP shares	-	410
Dilutive weighted average shares outstanding	2,509,827	2,577,121
Basic earnings per share	$ 0.66	$ 0.96
Diluted earnings per share	$ 0.66	$ 0.96

Recent accounting pronouncements

On January 1, 2023, the Bank adopted ASU 2016-13 , *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* , as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ACS 326 made changes to the accounting for available for sale debt securities. One

Note 1. Summary of Significant Accounting Policies (Continued)

such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Bank adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, and off-balance sheet (OBS) credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Bank recorded a decrease to retained earnings of $375,250 as of January 1, 2023 for the cumulative effect of adopting ASC 326, which is net of deferred federal tax benefit of $99,750.

The following table illustrates the impact of ACS 326 (in thousands):

	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Loans			
One-to-four family	$2,413	$2,173	$ 240
Multi-family	101	91	10
Non-residential	1,868	1,682	186
Commercial	314	283	31
Consumer direct	80	72	8
Allowance for credit losses on loans	$4,776	$4,301	$ 475
Liabilities:			
Allowance for credit losses on OBS credit exposures	$ 151	$ -	$ 151

Note 2. Investment Securities

The amortized cost and fair values of investment securities, with gross unrealized gains and losses, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2023:				
Available for Sale				
State and municipal securities	$ 3,369,612	$ 3,681	$ 71,485	$ 3,301,808
Residential mortgage-backed securities	18,831,468	-	3,351,813	$ 15,479,655
	$ 22,201,080	$ 3,681	$ 3,423,298	$ 18,781,463

Note 2. Investment Securities (Continued)

December 31, 2022:				
Available for Sale				
State and municipal securities	$ 4,550,614	$ 2,600	$ 143,256	$ 4,409,958
Residential mortgage-backed securities	19,816,111	-	3,327,894	$ 16,488,217
	$ 24,366,725	$ 2,600	$ 3,471,150	$ 20,898,175

At December 31, 2023 and 2022, there were no pledged securities.

The amortized cost and fair value at December 31, 2023, by contractual maturity, are shown below. Maturities may differ from contractual maturities in residential mortgage-backed securities because the mortgages underlying the securities may be called or repaid without any penalties. Therefore, stated maturities of residential mortgage-backed securities are not disclosed.

	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in three months or less	$ -	$ -
Due after three months through one year	504,855	497,045
Due after one year through five years	1,146,585	1,125,526
Due after five years through ten years	635,905	618,689
Due after ten years	1,082,267	1,060,548
Residential mortgage-backed securities	18,831,468	15,479,655
	$ 22,201,080	$ 18,781,463

Information pertaining to securities with gross unrealized losses at December 31, 2023 and 2022 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2023						
Securities Available for Sale						
State and municipal securities	$ 807,406	$ 19,670	$ 1,640,776	$ 51,815	$ 2,448,182	$ 71,485
Residential mortgage-backed securities	1,238,251	24,610	14,241,405	3,327,203	15,479,656	3,351,813
	$ 2,045,657	$ 44,280	$15,882,181	$ 3,379,018	$ 17,927,838	$ 3,423,298
December 31, 2022						
Securities Available for Sale						
State and municipal securities	$ 3,498,564	$ 130,280	$ 282,053	$ 12,976	$ 3,780,617	$ 143,256
Residential mortgage-backed securities	3,072,631	115,320	13,415,586	3,212,574	16,488,217	3,327,894
	$ 6,571,195	$ 245,600	$13,697,639	$ 3,225,550	$ 20,268,834	$ 3,471,150

Management evaluates securities for credit impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the

Note 2. Investment Securities (Continued)

extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability to retain and whether it is not more likely than not the Company will be required to sell its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports.

At December 31, 2023, forty-one securities had an unrealized loss with aggregate depreciation of 16.03% from their amortized cost basis. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell these securities and it is not more likely than not the Company will be required to sell these securities before recovery of the amortized cost basis, which may be maturity, the Company does not consider these investments to be credit impaired at December 31, 2023.

Note 3. Loans and Allowance for Credit Losses

Loans

The components of loans, net of deferred loan costs (fees), are as follows:

	December 31, 2023	December 31, 2022
Mortgage loans:		
One-to-four family	$ 185,336,599	$ 187,743,525
Multi-family	13,332,181	15,015,606
Total mortgage loans	198,668,780	202,759,131
Other loans:		
Non-residential	82,903,415	70,028,578
Commercial loans	28,547,275	30,107,851
Consumer direct	6,433,382	9,155,975
Total other loans	117,884,072	109,292,404
Gross loans	316,552,852	312,051,535
Less: Allowance for credit losses	(4,370,934)	(4,301,307)
Loans, net	$ 312,181,918	$ 307,750,228

Loans acquired in the merger with deteriorated credit quality and accounted for under FASB ASC Topic 310-30 as of the acquisition date, which was December 31, 2014, had a contractual balance due of approximately $3,194,000 and an estimated fair value of approximately $1,324,000. The estimate of the contractual cash flows not expected to be collected due to credit quality was approximately $1,870,000 which consists of an accretable discount of $(362,000) and non-accretable discount of $(1,508,000).

Note 3. Loans and Allowance for Credit Losses (Continued)

The following table reflects activity for the loans acquired with deteriorated credit quality for the years ended December 31, 2023 and 2022:

	2023	2022
Balance, beginning of year	$ 132,245	$ 143,129
Payment activity	(20,044)	(10,884)
	$ 112,201	$ 132,245

The contractual amount outstanding for the loans acquired with deteriorated credit quality totaled $400,000 and $413,000 as of December 31, 2023, and December 31, 2022, respectively.

There were no purchases of loans receivable for the periods ended December 31, 2023 and 2022.

Note 3. Loans and Allowance for Credit Losses (Continued)

The following table presents the activity in the ACL by portfolio segment as of or for the years ended December 31, 2023 and 2022:

December 31, 2023	One-to-Four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
Balance at beginning of period	$ 2,173,182	$ 90,566	$ 1,682,368	$ 282,637	$ 72,554	$ -	$ 4,301,307
CECL Adjustment	239,988	10,001	185,787	31,212	8,012	-	475,000
Recovery of credit losses	(35,054)	78,186	(213,529)	(50,707)	27,966	-	(193,138)
Loans charged off	-	-	(350,813)	-	(30,333)	-	(381,146)
Recoveries of loans previously charged off	166,244	-	-	-	2,667	-	168,911
Balance at end of period	$ 2,544,360	$ 178,753	$ 1,303,813	$ 263,142	$ 80,866	$ -	$ 4,370,934
Period-end amount allocated to:							
Loans individually evaluated for impairment	$ 39,738	$ -	$ 236,864	$ -	$ -	$ -	$ 276,602
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Loans collectively evaluated for impairment	2,504,622	178,753	1,066,949	263,142	80,866	-	4,094,332
Balance at end of period	$ 2,544,360	$ 178,753	$ 1,303,813	$ 263,142	$ 80,866	$ -	$ 4,370,934

December 31, 2022	One-to-Four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Purchased Auto	Total
Balance at beginning of period	$ 2,346,514	$ 75,627	$ 702,268	$ 365,981	$ 99,000	$ 50,755	$ 3,640,145
Provision charged to income	(182,647)	11,139	1,545,864	(152,491)	(25,873)	(47,992)	1,148,000
Loans charged off	-	-	(566,219)	(70,853)	(2,752)	(12,249)	(652,073)
Recoveries of loans previously charged off	9,315	3,800	455	140,000	2,179	9,486	165,235
Balance at end of period	$ 2,173,182	$ 90,566	$ 1,682,368	$ 282,637	$ 72,554	$ -	$ 4,301,307
Period-end amount allocated to:							
Loans individually evaluated for impairment	$ 8,109	$ -	$ 635,036	$ -	$ -	$ -	$ 643,145
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Loans collectively evaluated for impairment	2,165,073	90,566	1,047,332	282,637	72,554	-	3,658,162
Balance at end of period	$ 2,173,182	$ 90,566	$ 1,682,368	$ 282,637	$ 72,554	$ -	$ 4,301,307

Note 3. Loans and Allowance for Credit Losses (Continued)

The following table presents the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2023 and 2022:

December 31, 2023	One-to-four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Total
Loans individually evaluated for impairment	$653,313	$ -	$ 929,105	$ -	$ -	$ 1,582,418
Loans acquired with deteriorated credit quality	112,201	-	-	-	-	112,201
Loans collectively evaluated for impairment	184,571,085	13,332,181	81,974,310	28,547,275	6,433,382	314,858,233
Ending Balance	$ 185,336,559	$ 13,332,181	$ 82,903,415	$ 28,547,275	$ 6,433,382	$ 316,552,852

December 31, 2022	One-to-four Family	Multi-family	Non-residential	Commercial	Consumer Direct	Total
Loans individually evaluated for impairment	$707,843	$ -	$ 1,446,972	$ -	$ -	$ 2,154,815
Loans acquired with deteriorated credit quality	132,244	-	-	-	-	132,244
Loans collectively evaluated for impairment	186,903,438	15,015,606	68,581,606	30,107,851	9,155,975	309,764,476
Ending Balance	$ 187,743,525	$ 15,015,606	$ 70,028,578	$ 30,107,851	$ 9,155,975	$ 312,051,535

The ACL is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions.

Note 3. Loans and Allowance for Credit Losses (Continued)

Impaired Loans

The following table presents the amortized cost basis of collateral-dependent loans by type of collateral and by class of loans at December 31, 2023:

December 31, 2023	Residential Real Estate	Non-Residential Real Estate	Related Allowance
One-to-four family	$ 98,598	$ -	$ 39,738
Non-residential	-	512,912	236,864
	$ 98,598	$ 512,912	$ 276,602

The following table presents loans individually evaluated for impairment, including loans acquired with deteriorated credit quality, by class of loans, at December 31, 2022:

December 31, 2022	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
One-to-four family	$1,523,402	$773,793	$66,294	$840,087	$8,109	$1,133,263
Multi-family	171,211	-	-	-	-	-
Non-residential	2,142,556	730,936	716,036	1,446,972	635,036	864,774
Commercial	-	-	-	-	-	35,427
Consumer direct	8,366	-	-	-	-	9,307
	$3,845,535	$1,504,729	$782,330	$2,287,059	$643,145	$2,042,771

The Company recognized no material cash basis interest income on impaired loans for the years ended December 31, 2023 and 2022.

Loan Modifications

Occasionally, the Company modifies loans to borrowers in financial distress by providing concessions such as a reduction in the interest rate on the loan, payment extensions, principal forgiveness, forbearance, or other actions intended to maximize collection. Modifying the terms of the loans may result in an increase or decrease in the allowance for credit losses depending upon the change in terms. In some cases the Company may provide multiple types of concessions on one loan. There were no loans that were both experiencing financial distress and modified during the year ended December 31, 2023.

Loan modifications prior to the adoption of CECL

Prior to January 1, 2023, if a borrower was experiencing financial difficulty, the Company considered, in certain circumstances, modifying the terms of their loan in a troubled debt restructuring (TDR) to maximize collection of amounts due. Within each of the Company's loan classes, TDR's typically involved either a reduction of the stated interest rate of the loan, an extension of the loan's maturity date with a stated rate lower than the current market rate for a new loan with similar risk or granting interest only payments for a certain period of time. Modifying the terms of loans may have resulted in an increase or decrease to the allowance for loan losses depending upon the terms modified, the method used to measure the allowance for loan losses for a loan prior to

Note 3. Loans and Allowance for Credit Losses (Continued)

modification, and whether any charge-offs were recorded on the loan before or at the time of modification. During the year ended December 31, 2022, there were no loans modified as TDRs. The total TDR balance at December 31, 2022 was approximately $81,000.

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still on accrual status, by class of loans, as of December 31, 2023 and 2022:

December 31, 2023	Nonaccrual individually analyzed with specific allowance	Nonaccrual individually analyzed without specific allowance	Nonaccrual not individually analyzed	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Total Nonperforming
One-to-four family	$ 98,598	$ 670,198	-	$ 768,796	$ -	$ 768,796
Multi-family	-	-	-	-	-	-
Non-residential	512,912	412,914	-	925,826	3,104,264	4,030,090
Commercial	-	-	-	-	-	-
Consumer direct	-	-	-	-	-	-
Purchased auto	-	-	-	-	-	-
	$ 611,510	$ 1,083,112	$ -	$ 1,694,622	$ 3,104,264	$ 4,798,886

December 31, 2022	Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Total Nonperforming
One-to-four family	$ 501,582	$ -	$ 501,582
Multi-family	-	-	-
Non-residential	1,577,932	-	1,577,932
Commercial	-	-	-
Consumer direct	-	-	-
Purchased auto	-	-	-
	$ 2,079,514	$ -	$ 2,079,514

The following table presents the aging of the recorded investment in loans, by class of loans, as of December 31, 2023 and 2022:

December 31, 2023	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans
One-to-four family	$ 4,389,557	$ 576,472	$ 160,192	$ 5,126,221	$ 180,210,378	$ 185,336,599
Multi-family	-	-	-	-	13,332,181	13,332,181
Non-residential	210,539	178,547	3,848,317	4,237,403	78,666,012	82,903,415
Commercial	-	-	-	-	28,547,275	28,547,275
Consumer direct	-	-	-	-	6,433,382	6,433,382
Purchased auto	-	-	-	-	-	-
	$ 4,600,096	$ 755,019	$ 4,008,509	$ 9,363,624	$ 307,189,228	$ 316,552,852

Note 3. Loans and Allowance for Credit Losses (Continued)

December 31, 2022	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans
One-to-four family	$ 1,374,399	$ 367,846	$ 119,891	$ 1,862,136	$ 185,881,389	$ 187,743,525
Multi-family	-	-	-	-	15,015,606	15,015,606
Non-residential	362,044	217,719	1,393,103	1,972,866	68,055,712	70,028,578
Commercial	-	-	-	-	30,107,851	30,107,851
Consumer direct	34,272	-	-	34,272	9,121,703	9,155,975
Purchased auto	-	-	-	-	-	-
	$ 1,770,715	$ 585,565	$ 1,512,994	$ 3,869,274	$ 308,182,261	$ 312,051,535

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. For commercial and non-residential real estate loans, the Company's credit quality indicator is internally assigned risk ratings. Each commercial and non-residential real estate loan is assigned a risk rating upon origination. The risk rating is reviewed annually, at a minimum, and on an as needed basis depending on the specific circumstances of the loan.

For residential real estate, multi-family real estate, consumer direct and purchased auto loans, the Company's credit quality indicator is performance determined by delinquency status. Delinquency status is updated regularly by the Company's loan system for residential real estate, multi-family real estate and consumer direct loans. The Company receives monthly reports on the delinquency status of the purchased auto loan portfolio from the servicing company.

The Company uses the following definitions for risk ratings:

- Pass – loans classified as pass are of a higher quality and do not fit any of the other "rated" categories below (e.g. special mention, substandard or doubtful). The likelihood of loss is considered remote.
- Special Mention – loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
- Substandard – loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.
- Doubtful – loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.
- Not Rated – loans in this category are not evaluated on an individual basis.

Note 3. Loans and Allowance for Credit Losses (Continued)

As of December 31, 2023 and 2022, the risk category of loans by class is as follows:

December 31, 2023	Pass	Special Mention	Substandard	Doubtful	Total Loans
One-to-four family	$ 184,253,791	$ 317,294	$ 765,514	$ -	$ 185,336,559
Multi-family	13,332,181	-	-	-	13,332,181
Non-residential	78,792,522	77,524	4,033,369	-	82,903,415
Commercial	28,547,275	-	-	-	28,547,275
Consumer direct	6,433,382	-	-	-	6,433,382
Purchased auto	-	-	-	-	-
Total	$ 311,359,151	$ 394,818	$ 4,798,883	$ -	$ 316,552,852

December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Total Loans
One-to-four family	$ 186,631,342	$ 272,096	$ 840,087	$ -	$ 187,743,525
Multi-family	15,015,606	-	-	-	15,015,606
Non-residential	68,383,386	198,220	1,446,972	-	70,028,578
Commercial	30,107,851	-	-	-	30,107,851
Consumer direct	9,155,975	-	-	-	9,155,975
Purchased auto	-	-	-	-	-
Total	$ 309,294,160	$ 470,316	$ 2,287,059	$ -	$ 312,051,535

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families and companies in which these parties have a 10% or more beneficial ownership. Loans to directors, principal officers, and their immediate families at December 31, 2023 and 2022 were $0 and $0 respectively.

Note 4. Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced for others were $126,295,955 and $127,617,950 at December 31, 2023 and 2022, respectively. The carrying value of mortgage servicing rights associated with loans serviced for others included in other assets on the consolidated balance sheets, as of December 31, 2023 and 2022, was $1,228,325 and $1,158,133, respectively.

Note 5. Accrued Interest Receivable

Accrued interest receivable at December 31, 2023 and 2022, are summarized as follows:

	2023	2022
State and municipal securities	$ 29,715	$ 25,953
Residential mortgage-backed securities	20,236	25,867
Loans	1,650,960	1,258,111
	$ 1,700,911	$ 1,309,931

Note 6. Premises and Equipment

Premises and equipment at December 31, 2023 and 2022, are summarized as follows:

	2023	2022
Cost:		
Land	$ 2,190,649	$ 2,190,649
Buildings and improvements	7,645,809	7,621,309
Furniture and equipment	1,797,492	1,742,718
	11,633,950	11,554,676
Less: Accumulated depreciation	5,635,208	5,391,046
	$ 5,998,742	$ 6,163,630

Note 7. Deposits

Deposits at December 31, 2023 and 2022, are summarized as follows:

	2023		2022	
	Amount	Percent	Amount	Percent
Non-interest bearing checking	$ 23,858,692	8.49%	$ 22,634,695	7.81%
Interest bearing checking	78,213,053	27.82%	88,703,744	30.62%
Money market	22,834,889	8.12%	28,500,876	9.84%
Savings	28,563,031	10.16%	33,490,148	11.56%
Certificates of deposit	127,635,358	45.40%	116,353,962	40.17%
Interest bearing	257,246,330	91.51%	267,048,730	92.19%
Total	$ 281,105,022	100.00%	$ 289,683,425	100.00%

Interest expense on deposits is summarized as follows:

	Years Ended December 31,	
	2023	2022
Money market	$ 222,537	$ 52,373
Savings	32,745	10,887
Certificates of deposit	3,294,739	1,083,361
Interest bearing checking	1,574,149	468,536
	$ 5,124,170	$ 1,615,157

Deposits from directors, principal officers, and their immediate families at December 31, 2023 and 2022 were $770,231 and $1,234,203 respectively.

The aggregate amount of public deposits at December 31, 2023 and 2022 was $40,971,037 and $47,061,972 respectively.

Certificates of deposit with balances greater than $250,000 totaled approximately $46.5 million and $39.9 million at December 31, 2023 and 2022, respectively.

Note 7. Deposits (Continued)

At December 31, 2023, scheduled maturities of certificates of deposit are as follows:

2024	$ 83,016,387
2025	21,972,065
2026	12,298,004
2027	7,173,435
2028	3,175,467
	$ 127,635,358

The Company held brokered deposits of approximately $51.3 million and $47.0 million, respectively at December 31, 2023 and 2022. The broker receives a fee from the Company for the brokered deposits. Total fee expenses of $19,300 and $17,398 were recognized for the year ended December 31, 2023 and December 31, 2022, respectively.

Note 8. Borrowings

Our borrowings consist of open line and term advances from the Federal Home Loan Bank of Chicago ("FHLBC") and Federal Funds purchased from Bankers Bank of Wisconsin. As a member, we are required to own capital stock in the FHLBC and are authorized to apply for advances on the security of such stock and certain of our mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to credit-worthiness have been met. At December 31, 2023, we had the ability to borrow $56.5 million from the FHLBC. In addition, as of December 31, 2023, the Bank had $7.9 million of available credit from Bankers Bank of Wisconsin to purchase Federal Funds and $5.0 million of available credit from Midwest Independent Bank to purchase federal funds. There were Federal Home Loan Bank advances outstanding of approximately $30.8 million and $18.7 million, respectively at December 31, 2023 and 2022. There were no Federal Funds purchased outstanding at December 31, 2023 or 2022.

A summary of outstanding advances is as follows:

	December 31, 2023	December 31, 2022
Matures 01/04/2023 at 4.29%, fixed	-	2,500,000
Matures 01/06/2023 at 4.29%, fixed	-	2,500,000
Matures 01/09/2023 at 4.31%, fixed	-	3,000,000
Matures 03/21/2023 at 3.15%, fixed	-	500,000
Matures 09/21/2023 at 3.18%, fixed	-	500,000
Matures 01/02/2024 at 5.44%, fixed	4,000,000	-
Matures 01/02/2024 at 5.43%, fixed	3,000,000	-
Matures 01/03/2024 at 5.45%, fixed	2,500,000	-
Matures 02/02/2024 at 3.33%, fixed	2,000,000	-
Matures 08/28/2024 at 1.59%, fixed	1,500,000	1,500,000
Matures 03/03/2025 at 1.19%, fixed	2,000,000	2,000,000
Matures 08/25/2025 at 3.80%, fixed	4,000,000	-
Matures 09/26/2025 at 4.03%, fixed	3,500,000	-
Matures 10/27/2025 at 0.00%, fixed	1,250,000	1,250,000
Matures 11/03/2025 at 4.03%, fixed	2,000,000	-
Matures 08/28/2029 at 1.93%, fixed	1,500,000	1,500,000
Matures 10/03/2029 at 1.96%, fixed	1,000,000	1,000,000
Matures 01/28/2030 at 2.06%, fixed	1,500,000	1,500,000
Matures 02/25/2030 at 1.81%, fixed	1,000,000	1,000,000
	$ 30,750,000	$ 18,750,000

Note 9. Employment Benefit and Retirement Plans

Employee stock ownership plan

On May 6, 2005, the Company adopted an employee stock ownership plan (ESOP) for the benefit of substantially all employees. On July 8, 2005, the ESOP borrowed $763,140 from the Company and used those funds to acquire 76,314 shares of the Company's stock in the initial public offering at a price of $10.00 per share. On October 11, 2016, the ESOP borrowed $1,907,160 from the Company and used those funds to acquire 190,716 shares of the Company's stock in its conversion to a fully-public stock holding company at a price of $10.00 per share. As of December 31, 2019, the shares purchased in 2005 were all released and the loan was fully repaid.

Shares purchased by the ESOP with the loan proceeds are held in a suspense account and are allocated to ESOP participants on a pro rata basis as principal and interest payments are made by the ESOP to the Company. The loan is secured by shares purchased with the loan proceeds and will be repaid by the ESOP with funds from the Company's discretionary contributions to the ESOP and earnings on the ESOP assets. Annual principal and interest payments of approximately $161,000 are to be made by the ESOP.

As shares are released from collateral, the Company will report compensation expense equal to the current market price of the shares, and the shares will become outstanding for earnings-per-share (EPS) computations. Dividends on allocated ESOP shares reduce retained earnings; dividends on unallocated ESOP shares reduce the ESOP principal balance. During 2023, 13,357 shares, with an average fair value of $11.20 per share were committed to be released, resulting in ESOP compensation expense of $149,565 as compared to 13,357 shares, with an average fair value of $14.02 per share were committed to be released, resulting in ESOP compensation expense of $187,192 for 2022.

A terminated participant or the beneficiary of a deceased participant who received a distribution of employer stock from the ESOP has the right to require the Company to purchase such shares at their fair market value any time within 60 days of the distribution date. If this right is not exercised, an additional 60-day exercise period is available in the year following the year in which the distribution is made and begins after a new valuation of the stock has been determined and communicated to the participant or beneficiary.

	December 31,	
	2023	2022
Total shares originally in the plan	281,691	281,691
Shares withdrawn from the plan	(80,767)	(70,043)
Shares remaining in the plan	200,924	211,648
Unallocated shares	68,220	81,575
Allocated shares	132,704	130,073
Fair value of unallocated shares	$ 869,805	$ 1,442,050

Supplemental executive retirement plan (SERP)

On September 19, 2007, the Bank entered into salary continuation agreements with certain of its executive officers to provide additional benefits upon retirement. The present value of the estimated liability under the agreement is being accrued using a discount rate of 4.5 percent ratably over the remaining years to the date when each executive is first eligible for benefits. The recorded SERP liability included in other liabilities on the consolidated balance sheets was $118,648 as of December 31, 2023 and $132,923 as of December 31, 2022. The SERP compensation charged to expense totaled $6,473 and $0 for the years ended December 31, 2023 and 2022, respectively.

Note 9. Employment Benefit and Retirement Plans (Continued)

The Bank allows certain executive officers to defer all or any portion of their compensation. Specifically, participants may elect to defer a designated percentage of base pay or cash incentive awards. This election must be made no later than December 31st of the year preceding the year the compensation is earned or, for new participants, within 30 days of the participant's initial eligibility under the plan. The recorded liability for deferred compensation included in other liabilities on the consolidated balance sheets was $45,964 and $86,244 as of the years ended December 31, 2023 and 2022, respectively. The deferred compensation charges to expense totaled $0 and $0 for the years ended December 31, 2023 and 2022, respectively. Additionally, there were payments of $40,280 and $40,281 for the years ended December 31, 2023 and 2022, respectively.

401(k) plan

The Bank maintains a voluntary 401(k) plan for substantially all employees. Employees may contribute a percentage of their compensation to the plan subject to certain limits based on federal tax laws. The Bank makes matching contributions to the 401(k) plan of 50 percent of the first 6 percent of an employee's compensation contributed to the plan. The Bank also makes Safe Harbor contributions, in addition to any matching contributions, equal to 3 percent of an eligible employee's compensation to the 401(k) plan each pay period. Employer contributions vest to the employee ratably over a six-year period. Employer contribution expense was $201,727 and $207,116 for the years ended December 31, 2023 and 2022, respectively.

Deferred directors fees

The Bank has agreements with certain directors that are funded through the deferral of monthly fees earned. Contributions to the plan for the years ended December 31, 2023 and 2022 were $33,600 and $33,600, respectively. The deferred liability included on the balance sheet in other liabilities was $1,754,209 and $1,459,108 at December 31, 2023 and 2022, respectively. Additionally, there are savings accounts established for the directors containing $340,439 and $382,678 at December 31, 2023 and 2022 respectively. There are also funds held in a retirement trust account at a third party totaling $1,754,209 and $1,459,108 as of December 31, 2022 and 2021 recorded in other assets.

Director retirement plan

The Bank has, as a result of the Twin Oaks merger, a director retirement plan for five of the former members of the Twin Oak's Board of Directors. The plan provides monthly retirement benefits equal to one-twelfth of the annual Board fees. Payments are based on years of service on the Twin Oaks Board of Directors prior to the merger, with ten years of payments guaranteed. Three of the former members are retired and collecting benefit payments. Two former members became part of the Bank's board as of the merger date and will not commence their benefit until they retire. As of the merger date, the Plan was frozen as to benefit accruals and years of service. The compensation liability included on the balance sheet in other liabilities was $241,400 and $269,100 as of December 31, 2023 and 2022, respectively. This is an unfunded plan.

Director retirement plan valuation

	December 31,	
	2023	2022
Number of participants:		
Retirees	4	4
Active directors - not yet eligible	1	1
Total	5	5

Note 9. Employment Benefit and Retirement Plans (Continued)

Obligations and funded status:

	Years ended December 31, 2023		Years ended December 31, 2022	
Change in benefit obligation				
Benefit obligation at beginning of year	$	269,100	$	286,800
Interest cost		12,000		12,000
Actuarial Loss		(10,000)		-
Benefits paid		(29,700)		(29,700)
Benefit obligation at end of year	$	241,400	$	269,100
Change in plan assets				
Employer contributions	$	29,700	$	29,700
Benefits paid		(29,700)		(29,700)
Fair value of plan assets at year end		-		-
Funded status		(269,100)		(286,800)
Change in funded status		27,700		17,700
Net amount recognized	$	(241,400)	$	(269,100)

Amounts recognized in the balance sheets consist of:

	December 31, 2023		December 31, 2022	
Accumulated post-retirement benefit obligation:				
Active participants	$	(58,852)	$	(64,359)
Retired participants including beneficiaries		182,548		(204,741)
Total		(241,400)		(269,100)
Plan assets at fair value		-		-
Funded status		(269,100)		(286,800)
Actuarial gain (loss)		27,700		17,700
(Accrued) cost included in other liabilities	$	(241,400)	$	(269,100)

Components of Net Periodic Benefit Cost:

	Years ended December 31, 2023		Years ended December 31, 2022	
Service cost	$	-	$	-
Interest cost		12,000		12,000
Amortization net gain		-		-
Net cost (benefit)	$	12,000	$	12,000

Note 10. Stock Compensation

Management recognition plan

A Management Recognition and Retention Plan ("MRP") provides for the issuance of shares to directors and officers. Pursuant to the Ottawa Savings Bancorp, Inc. 2018 Equity Incentive Plan, 333,753 shares were authorized by the Company in May, 2018. Additionally, 30,000 of incentive stock options were also authorized. Generally, granted shares vest in equal installments over a five-year period, with ownership of the share transferring to the recipient upon vesting. During 2023, there were 2,530 shares granted, of these 2,280 vested immediately. The remaining 250 shares vest over three years. Due to the employee leaving in 2023 these share were forfeited. During 2022, there were 8,979 shares granted, of these, 2,268 vested immediately, and 6,026 shares vest over 5 years. The remaining 685 shares vest over 3 years. At December 31, 2023, there were 9,338 shares not yet vested. At December 31, 2022, there were 12,937 shares not yet vested.

A summary of the status of the MRP stock awards is as follows:

Year ended December 31, 2023	Shares	Weighted Average Grant Date Fair Value
Outstanding and non-vested at beginning of year	12,937	$ 14.31
Granted	2,530	10.87
Vested and transferred to recipients	(5,879)	12.87
Forfeited	250	10.19
Outstanding and non-vested at end of year	9,338	14.40

Year ended December 31, 2022	Shares	Weighted Average Grant Date Fair Value
Outstanding and non-vested at beginning of year	8,392	$ 13.94
Granted	8,979	14.27
Vested and transferred to recipients	(4,434)	14.20
Forfeited	-	-
Outstanding and non-vested at end of year	12,937	14.31

At December 31, 2023, there were 20,696 shares vested and 9,338 shares not vested. Therefore, there was $100,299 of future compensation cost related to non-vested shares not yet recognized at December 31, 2023. The Company recognized compensation expense of $49,372 for the year ended December 31, 2023. At December 31, 2022 there were 19,251 shares vested and 12,937 shares not vested. Therefore, there was $151,416 of future compensation cost related to non-vested shares not yet recognized at December 31, 2022. The Company recognized compensation expense of $76,608 for the year ended December 31, 2022.

Stock option plan

A Recognition and Retention Plan ("RRP") provides for the issuance of stock options to directors, officers and employees. Pursuant to the Ottawa Savings Bancorp, Inc. 2006 Equity Incentive Plan, on November 21, 2006, the Company granted stock options to purchase 92,666 shares of the Company's common stock, at an exercise price of $12.35 per share. Under the same plan, the Company granted stock options to purchase 5,451 shares of the Company's common stock, at an exercise price of $9.90 per share on December 21, 2008, 8,722 shares of the Company's common stock, at an exercise price of $6.00 per share on November 17,

Note 10. Stock Compensation (Continued)

2010, and 13,083 shares of the Company's common stock, at an exercise price of $4.25 per share on November 16, 2011. The options become exercisable in equal installments over a five-year period from the grant date. The options expire ten years from the grant date.

The fair value of the stock options granted has been estimated using a Black-Scholes option pricing model. This option pricing model requires management to make subjective assumptions, such as expected stock price volatility, dividend rates, and expected time to exercise. There were no options granted during 2023 and 2022.

Note 11. Income Taxes

The Company and Bank file a consolidated federal income tax return on a calendar year basis.

Income tax expense is summarized as follows:

	Years Ended December 31, 2023	Years Ended December 31, 2022
Federal:		
Current	$ 431,772	$ 537,727
Deferred	162,924	113,033
	594,696	650,760
State:		
Current	45,325	263,874
Deferred	17,102	37,972
	62,427	301,846
	$ 657,123	$ 952,606

	Years Ended December 31, 2023	Years Ended December 31, 2022
Federal income taxes computed at the statutory rate	$ 448,433	$ 705,804
Increase(decrease) in taxes resulting from:		
Tax exempt interest	(14,515)	(29,812)
Non-taxable income on bank owned life insurance	(9,631)	(4,638)
State taxes, net of federal tax benefit	190,785	242,497
Other	2,051	38,755
	$ 657,123	$ 952,606

Note 11. Income Taxes (Continued)

The components of the net deferred tax asset are as follows:

	December 31,	
	2023	2022
Deferred tax assets:		
Employee benefit plans	$ 701,552	$ 653,689
Allowance for credit losses	1,226,253	1,154,818
Unrealized losses on AFS Securities	956,159	989,037
Loans	-	3,905
Purchase accounting - acquisition expenses	44,943	51,715
Accrued bonus	30,547	36,666
Nonaccrual interest	129,191	89,610
Other	152,433	-
Total deferred tax assets	3,241,078	2,979,440
Deferred tax liabilities:		
Prepaid expenses	(33,626)	(27,269)
Depreciation	-	(8,409)
Origination of mortgage servicing rights	(344,603)	(199,576)
Core deposit intangible	(9,887)	(18,956)
Deferred loan fees	(53,459)	(51,112)
Other	-	(21,763)
Total deferred tax liabilities	(441,575)	(327,085)
Net deferred income tax asset	$ 2,799,503	$ 2,652,355

Stockholders' equity at December 31, 2023 and 2022 includes approximately $2.3 million for which no federal income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions for tax purposes only. Reductions of amounts so allocated for purposes other than bad debt losses or adjustments arising from carry-back of net operating losses would create income for tax purposes only, which would be subject to the then current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately $646,000 at December 31, 2023 and December 31, 2022, respectively.

Management believes that it is more likely than not that the deferred tax assets included in the accompanying consolidated balance sheets will be fully utilized. We have determined that no valuation allowance is required as of December 31, 2023, although there is no guarantee that those assets will be fully recognizable in future periods.

Note 12. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank and the consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving 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 classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Note 12. Regulatory Matters (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the tables below). In July 2013, the federal banking agencies issued a final rule revising the regulatory capital rules applicable to most national banks and federal savings associations as well as their holding companies generally beginning on January 1, 2015. The rule implements the Basel Committee's December 2010 framework known as "Basel III" for strengthening the international capital standards as well as certain provisions of the Dodd-Frank Act. The final rule implements a revised definition of regulatory capital, a new common equity Tier 1 minimum capital requirement of 4.50%, and a higher minimum Tier 1 capital requirement of 6.00% (which is an increase from 4.00%). Under the final rule, the total capital ratio remains at 8.00% and the minimum leverage ratio is 4.00%. Management believes as of December 31, 2023 and 2022, that the Bank meets all capital adequacy requirements to which it is subject.

Additionally, under the final rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a 2.5% capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements. The buffer is measured relative to risk-weighted assets. The final rule also enhances risk sensitivity and addresses weaknesses identified by the regulators over recent years with the measure of risk-weighted assets.

The new minimum capital requirements were effective for the Company on January 1, 2015, whereas the capital conservation buffer and the deductions from common equity Tier 1 capital phase in over time. Beginning on January 1, 2016, the Bank must begin holding 0.625% of risk-weighted assets and would increase by that amount annually, until fully implemented in January 2019, as a capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments. As a bank holding company with less than $3.0 billion in assets, the Company is not subject to separate capital requirements.

As of December 31, 2023, the most recent examination conducted by the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, Common equity Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the following table. There are no conditions or events that management believes have occurred that would change the Bank's capitalization classification.

The Bank's actual capital amounts and ratios as of December 31, 2023 and 2022, are presented below:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Purposes	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2023:						
Total Risk-Based Capital (to risk-weighted assets)	$ 47,300	17.861%	$ 21,185	8.000%	$ 26,482	10.000%
Tier I Capital (to risk-weighted assets)	$ 43,979	16.607%	$ 15,889	6.000%	$ 21,185	8.000%
Common Equity Tier I (to risk-weighted assets)	$ 43,979	16.607%	$ 11,917	4.500%	$ 17,213	6.500%
Tier I Leverage (to adjusted total assets)	$ 43,979	12.289%	$ 14,315	4.000%	$ 17,894	5.000%
December 31, 2022:						
Total Risk-Based Capital (to risk-weighted assets)	$ 47,068	18.632%	$ 20,209	8.000%	$ 25,262	10.000%
Tier I Capital (to risk-weighted assets)	$ 43,897	17.377%	$ 15,157	6.000%	$ 20,209	8.000%
Common Equity Tier I (to risk-weighted assets)	$ 43,897	17.377%	$ 11,368	4.500%	$ 16,420	6.500%
Tier I Leverage (to adjusted total assets)	$ 43,897	12.472%	$ 14,079	4.000%	$ 17,598	5.000%

Note 13. Commitments and Contingencies

In the ordinary course of business, the Bank has various commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. In the opinion of management, the ultimate disposition of these matters is not expected to have a material adverse effect on the financial position of the Bank.

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. These instruments involve elements of credit and interest-rate risk in excess of the amount recognized in the balance sheets.

At December 31, 2023 and 2022, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Variable rate	Fixed rate	Total	Range of rates on fixed rate commitments
As of December 31, 2023:				
Commitments to originate loans	$ 412,930	$ 2,187,500	$ 2,600,430	3.25% - 11.50%
Unfunded commitments on construction loans	5,228,315	4,273,179	9,501,494	
Unfunded commitments under lines of credit	12,755,158	2,850,205	15,605,363	
	18,396,403	9,310,884	27,707,287	
Standby letters of credit	-	10,000	10,000	
	$ 18,396,403	$ 9,320,884	$ 27,717,287	
As of December 31, 2022:				
Commitments to originate loans	$ 538,756	$ 5,969,800	$ 6,508,556	3.25% - 7.25%
Unfunded commitments on construction loans	7,069,258	18,247,846	25,317,104	
Unfunded commitments under lines of credit	14,196,598	3,216,930	17,413,528	
	21,804,612	27,434,576	49,239,188	
Standby letters of credit	-	10,000	10,000	
	$ 21,804,612	$ 27,444,576	$ 49,249,188	

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be fully drawn upon to the total extent of the approximately $23.9 million to which the Bank is committed. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet obligations.

The Company does not engage in the use of interest rate swaps or futures, forwards or option contracts.

Note 14. Comprehensive Income Reclassification Adjustment

There were no reclassification adjustments for components of accumulated other comprehensive income in 2023 and 2022.

Note 15. Fair Values Measurements and Disclosures

FASB ASC Topic 820, Fair Value Measurements and Disclosures, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and is not adjusted for transaction costs. This guidance also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement inputs) and the lowest priority to unobservable inputs (Level 3 measurement inputs). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Basis of Fair Value Measurement:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets.
- Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices in markets that are not active, quoted prices for similar assets, or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset.
- Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

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

<u>Securities Available for Sale</u>

Securities classified as available for sale are recorded at fair value on a recurring basis using pricing obtained from an independent pricing service. Where quoted market prices are available in an active market, securities are classified within Level 1. The Company has no securities classified within Level 1. If quoted market prices are not available, the pricing service estimates the fair values by using pricing models or quoted prices of securities with similar characteristics. For these securities, the inputs used by the pricing service to determine fair value consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and bonds' terms and conditions, among other things resulting in classification within Level 2. Level 2 securities include state and municipal securities and residential mortgage-backed securities. In cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3. The Company has no securities classified within Level 3.

<u>Foreclosed Assets</u>

Foreclosed assets consisting of foreclosed real estate and repossessed assets, are adjusted to fair value less estimated costs to sell upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of cost or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as non-recurring Level 2. When an 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 Company records the foreclosed asset as non-recurring Level 3. Repossessed assets are included in other assets on the consolidated balance sheet.

Note 15. Fair Values Measurements (continued)

Collateral-dependent Loans

Impairments of collateral-dependent individually analyzed loans is generally based on the fair value of the loan's collateral. Fair value is generally determined based on an independent third-party appraisal of the property net of estimated costs to sell. If the fair value of the collateral-dependent loan is less than the carrying amount of the loan, a specific reserve for the loan is made in the allowance for credit losses and the loan is included in the table below as a Level 3 measurement in the period in which the adjustment is recorded. If the fair value of the collateral exceeds the carrying amount of the loan, the loan is not included in the table below as it is not currently being carried at its fair value.

Impaired Loans – prior to January 1, 2023

For the period prior to January 1, 2023, impaired loans are evaluated and adjusted to the lower of carrying value or fair value less estimated costs to sell at the time the loan is identified as impaired. Impaired loans are carried at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as non-recurring Level 2. When an 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 Company records the impaired loan as non-recurring Level 3.

Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above. Management believes it is more likely than not that a workout solution or liquidation of the collateral is the best use of the asset and therefore has measured fair value based on the underlying collateral of the loans. If management were to sell the impaired loan portfolio to a third party instead of liquidating the collateral, the measurement of fair value could be significantly different.

The tables below present the recorded amount of assets measured at fair value on a recurring basis at December 31, 2023 and 2022.

December 31, 2023	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
State and municipal securities	$ -	$ 3,301,808	$ -	$ 3,301,808
Residential mortgage-backed securities	-	15,479,655	-	15,479,655
	$ -	$ 18,781,463	$ -	$ 18,781,463

December 31, 2022	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
State and municipal securities	$ -	$ 4,409,958	$ -	$ 4,409,958
Residential mortgage-backed securities	-	16,488,217	-	16,488,217
	$ -	$ 20,898,175	$ -	$20,898,175

The tables below present the recorded amount of assets and liabilities measured at fair value on a non-recurring basis at December 31, 2023 and December 31, 2022.

December 31, 2023	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Foreclosed assets	$ -	$ -	$ -	$ -
Collateral-dependent loans	-	334,908	-	334,908

December 31, 2022	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Foreclosed assets	$ -	$ -	$ -	$ -
Impaired loans, net	-	-	139,185	139,185

Note 15. Fair Values Measurements (continued)

The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis for which the Company has utilized Level 3 inputs to determine fair value :

	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range
December 31, 2023				
Foreclosed assets	$ -	Appraisal of collateral	Appraisal adjustments	
Impaired loans, net	$ 334,908	Appraisal of collateral	Appraisal adjustments	(19)% to (100)%
December 31, 2022				
Foreclosed assets	$ -	Appraisal of collateral	Appraisal adjustments	
Impaired loans, net	$ 139,185	Appraisal of collateral	Appraisal adjustments	(48)% to (100)%

Note 16. Fair Values of Financial Instruments

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

	Carrying Amount	December 31, 2023 using: Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$ 13,396,419	$ 13,396,419	$ -	$ -	$ 13,396,419
Time deposits	-	-	-	-	-
Federal funds sold	-	-	-	-	-
Securities	18,781,463	-	18,781,463	-	18,781,463
Net loans	312,181,918	-	-	282,859,332	282,859,332
Loans Held for sale	-	-	-		-
Accrued interest receivable	1,700,911	1,700,911	-	-	1,700,911
Mortgage servicing rights	1,158,133	-	-	1,158,133	1,158,133
Financial Liabilities:					
Non-interest bearing deposits	23,858,692	23,858,692	-	-	23,858,692
Interest bearing deposits	257,246,330	-	-	255,435,816	255,435,816
Accrued interest payable	320,238	320,328	-	-	320,328
FHLB advances	30,750,000	-	30,100,312	-	30,100,312
Long term debt	1,700,000	-	1,664,082	-	1,664,082

Note 16. Fair Values of Financial Instruments (continued)

	Carrying Amount	December 31, 2022 using: Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$ 10,862,700	$ 10,862,700	$ -	$ -	$ 10,862,700
Time deposits	250,000	250,000		-	250,000
Federal funds sold	55,000	55,000	-	-	55,000
Securities	20,898,175	-	20,898,175	-	20,898,175
Net loans	307,750,228	-	-	287,777,168	287,777,168
Loans Held for Sale	-	-	-		-
Accrued interest receivable	1,309,931	1,309,931	-	-	1,309,931
Mortgage servicing rights	1,158,133	-	-	1,158,133	1,158,133
Financial Liabilities:					
Non-interest bearing deposits	22,634,695	22,634,695	-	-	22,634,695
Interest bearing deposits	267,048,730	-	-	265,659,755	265,659,755
Accrued interest payable	119,769	119,769	-	-	119,769
FHLB advances	18,750,000	-	17,756,755	-	17,756,755
Long Term Debt	2,100,000	-	1,988,757	-	1,988,757

In addition, other assets and liabilities of the Bank that are not defined as financial instruments are not included in the above disclosures, such as property and equipment. Also, non-financial instruments typically not recognized in financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the trained work force, customer goodwill and similar items.

Note 17. Condensed Parent Only Financial Statements

	December 31, 2023	2022
Balance sheets		
Assets:		
Cash and cash equivalents	$ 2,475,485	896,710
Equity in net assets of OSB Community Bank	41,934,572	42,136,536
ESOP note receivable	742,130	872,832
Other assets	25,500	1,524,598
Total assets	$ 45,177,687	45,430,496
Liabilities and stockholders' equity:		
Liabilities:		
Long Term Debt	1,700,000	2,100,000
Other liabilities	146,093	42,547
Total liabilities	1,846,093	2,142,547
Commitments and contingencies		
ESOP repurchase obligation	1,691,975	1,821,029
Stockholders' equity:		
Total equity	41,639,619	41,466,920
Total liabilities and stockholders' equity	$ 45,177,687	45,430,496

Note 17. Condensed Parent Only Financial Statements Cont'd

	Years Ended December 31, 2023	2022
Statements of operations		
Equity in net income of subsidiary	$ 2,075,111	2,564,176
Interest income	30,586	40,251
Operating income	2,105,697	2,604,427
Other expenses	538,517	151,802
Income before income tax benefit	1,567,180	2,425,625
Income tax benefit	(101,571)	(24,027)
Net income	$ 1,668,751	2,476,672
Statements of cash flows		
Operating activities:		
Net income	$1,668,751	2,476,673
Adjustments to reconcile net income to net cash from operating activities:		
Compensation expense on ESOP shares released	149,565	187,188
Compensation expense on MRP shares granted	90,754	76,611
Undistributed (distributed) earnings of sub	(407,260)	1,152,624
Change in assets and liabilities:		
Change in other assets	1,499,100	(1,521,673)
Change in other liabilities	103,546	(5,221)
Net cash provided by operating activities	3,104,454	2,366,202
Investing activities:		
Payments received on ESOP notes receivable	130,702	126,282
Net cash provided by investing activities	130,702	126,282
Financing activities:		
Long term debt	(400,000)	2,100,000
Shares repurchased and cancelled	(168,561)	(3,809,834)
Dividends paid	(1,087,820)	(1,151,643)
Net cash used in financing activities	(1,656,381)	(2,861,477)
Net change in cash	1,578,775	(368,993)
Cash and cash equivalents – beginning of year	896,710	1,265,703
Cash and cash equivalents – end of year	$ 2,475,485	896,710
Supplemental noncash disclosures:		
Change in unrealized gain (loss)	(34,984)	(2,531,862)
Change in ESOP obligation	(129,054)	(245,882)

Note. 18 Subsequent Events

The Company evaluates events and transactions occurring subsequent to the date of the consolidated financial statements for matters requiring recognition or disclosure in the consolidated financial statements. The accompanying consolidated financial statements consider events through March 27, 2024, the dated which the financial statements were available to be issued.