

**2024
PROXY STATEMENT
AND ANNUAL REPORT**

1924 - 2024



Redwood Financial, Inc.
1000 E Cook Street
Redwood Falls, Minnesota 56283
Telephone (507) 637-1000
Fax (507) 637-1001

April 1, 2024

Dear Fellow Stockholder:

On behalf of the Board of Directors and management of Redwood Financial, Inc. (the "Company"), I cordially invite you to attend the Annual Meeting of Stockholders to be held at the Redwood Area Community Center, 901 E. Cook Street, Redwood Falls, Minnesota on May 15, 2024 at 10:00 a.m. The attached Notice of Annual Meeting and Proxy Statement describe the formal business to be transacted at the Annual Meeting. During the Annual Meeting, I will report on the operations of the Company. Directors and Officers of the Company will be present to respond to any questions stockholders may have.

The matters to be considered by stockholders at the Annual Meeting are described in the accompanying Notice of Annual Meeting and Proxy Statement. The Board of Directors of the Company has determined that the matters to be considered at the Annual Meeting are in the best interest of the Company and its stockholders. For the reasons set forth in the Proxy Statement, the Board of Directors unanimously recommends a vote "FOR" each matter to be considered.

Whether or not you plan to attend the annual meeting, please vote your proxy by Internet, by mail or in person. To vote online, log onto www.voteproxy.com and follow the on-screen instructions. To vote by mail, please sign and date the enclosed proxy card and return it in the accompanying postage-paid return envelope as promptly as possible. This will not prevent you from voting in person at the Annual Meeting but will assure that your vote is counted if you are unable to attend the Annual Meeting. **YOUR VOTE IS VERY IMPORTANT.**

Sincerely,



Daryl L. Karsky
CEO



Notice of Annual Meeting of Stockholders

To Be Held on May 15, 2024

Redwood Financial, Inc., 1000 E Cook Street, Redwood Falls MN 56283

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the "Meeting") of Redwood Financial, Inc. (the "Company"), will be held at the Redwood Area Community Center, at 901 E. Cook Street, Redwood Falls, Minnesota on May 15, 2024, at 10:00 a.m.

The Meeting is for the purpose of considering and acting upon the following matter:

1. The election of three directors of the Company.

The Board of Directors is not aware of any other business to come before the Meeting.

Any action may be taken on the foregoing proposals at the Meeting on the date specified above or on any date or dates to which, by original or later adjournment, the Meeting may be adjourned. Stockholders of record at the close of business on April 1, 2024, are the stockholders entitled to vote at the Meeting and any adjournments thereof.

EACH STOCKHOLDER, WHETHER OR NOT HE OR SHE PLANS TO ATTEND THE MEETING, IS REQUESTED TO VOTE THEIR PROXY BY MAIL OR ONLINE. TO VOTE ONLINE, LOG ONTO WWW.VOTEPROXY.COM AND FOLLOW THE ON-SCREEN INSTRUCTIONS. TO VOTE BY MAIL, PLEASE SIGN, DATE AND RETURN THE ENCLOSED PROXY WITHOUT DELAY IN THE ENCLOSED POSTAGE-PAID ENVELOPE. ANY PROXY GIVEN BY THE STOCKHOLDER MAY BE REVOKED BY FILING WITH THE SECRETARY OF THE COMPANY A WRITTEN REVOCATION OR A DULY EXECUTED PROXY BEARING A LATER DATE. ANY STOCKHOLDER PRESENT AT THE MEETING MAY REVOKE HIS OR HER PROXY AND VOTE IN PERSON ON EACH MATTER BROUGHT BEFORE THE MEETING. HOWEVER, IF YOU ARE A STOCKHOLDER WHOSE SHARES ARE NOT REGISTERED IN YOUR OWN NAME, YOU WILL NEED ADDITIONAL DOCUMENTATION FROM YOUR RECORD HOLDER TO VOTE IN PERSON AT THE MEETING.

BY ORDER OF THE BOARD OF DIRECTORS



Cathy L. Prouty
Corporate Secretary

Redwood Falls, Minnesota
April 1, 2024

IMPORTANT: If you vote online or by mail, the prompt return of proxies will save the company the expense of further request for proxies in order to insure a quorum at the meeting. A self-addressed envelope is enclosed for your convenience.

Notice of Annual Meeting of Stockholders

To Be Held on May 15, 2024

Redwood Financial, Inc., 1000 E Cook Street, Redwood Falls MN 56283

General

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Redwood Financial, Inc. (the "Company") to be used at the Annual Meeting of Stockholders of the Company which will be held at the Redwood Area Community Center, at 901 E. Cook Street, Redwood Falls, Minnesota on May 15, 2024, at 10:00 a.m. local time (the "Meeting"). The accompanying Notice of Annual Meeting of Stockholders and this Proxy Statement are being first mailed to stockholders on or about April 17, 2024.

At the Meeting, stockholders will consider and vote upon the election of three directors. The Board of Directors of the Company (the "Board" or the "Board of Directors") knows of no additional matters that will be presented for consideration at the Meeting. Execution of a proxy, however, confers on the designated proxy holder discretionary authority to vote the shares represented by such proxy in accordance with their best judgment on such other business, if any, of which the Company was not aware of on or before March 18, 2024, that may properly come before the Meeting or any adjournment thereof.

Voting and Revocability of Proxies

Stockholders who execute proxies retain the right to revoke them at any time. Unless so revoked, the shares represented by such proxies will be voted at the Meeting and all adjournments thereof. Proxies may be revoked by written notice to the Secretary of the Company at the address above or by the filing of a later dated proxy prior to a vote being taken on a particular proposal at the Meeting. A proxy will not be voted if a stockholder attends the Meeting and votes in person. Proxies solicited by the Board of Directors will be voted in accordance with the directions given therein. **Where no instructions are indicated, signed proxies will be voted "FOR" the nominee for director set forth below and "FOR" the other listed proposal.**

Voting Securities and Principal Holders Thereof

Stockholders of record as of the close of business on April 1, 2024 (the "Record Date"), are entitled to one vote for each share of common stock of the Company (the "Common Stock") then held. As of the Record Date, the Company had 405,567 shares of Common Stock issued and outstanding.

The articles of incorporation of the Company ("Articles of Incorporation") provide that in no event shall any record owner of any outstanding Common Stock which is beneficially owned, directly or indirectly, by a person who beneficially owns in excess of 10% of the then outstanding shares of Common Stock (the "Limit") be entitled or permitted to any vote with respect to the shares held in excess of the Limit. Beneficial ownership is determined pursuant to the definition in the Articles of Incorporation and includes shares beneficially owned by such person or any of his or her affiliates or associates (as such terms are defined in the Articles of Incorporation), shares which such person or his or her affiliates or associates have the right to acquire upon the exercise of conversion rights or options, and shares as to which such person and his or her affiliates or associates have or share investment or voting power, but shall not

include shares beneficially owned by any employee stock ownership plan or similar plan of the Company or any subsidiary.

The presence in person or by proxy of at least a majority of the outstanding shares of Common Stock entitled to vote (after subtracting any shares held in excess of the Limit) is necessary to constitute a quorum at the Meeting. With respect to any matter, any shares for which a broker indicates on the proxy that it does not have discretionary authority as to such shares to vote on such matter (the "Broker Non-Votes") will not be considered present for purposes of determining whether a quorum is present. In the event there are not sufficient votes for a quorum or to ratify any proposals at the time of the Meeting, the Meeting may be adjourned in order to permit the further solicitation of proxies.

As to the election of directors, the proxy being provided by the Board enables a stockholder to vote for the election of the nominee proposed by the Board, or to withhold authority to vote for the nominee being proposed. Directors are elected by a plurality of votes of the shares present in person or represented by proxy at a meeting and entitled to vote in the election of directors.

Proposal 1 – Information With Respect to Nominees for Director, Directors Continuing in Office, and Executive Officers

Election of Directors

The Articles of Incorporation require that the Board of Directors consist of three classes, each of which contains approximately one-third of the members of the Board. The directors are elected by the stockholders of the Company for staggered three-year terms, or until their successors are elected and qualified. The Board of Directors consists of nine members. Three directors will be elected at the Meeting to serve for a three-year term or until a successor has been elected and qualified.

Douglas Schweim, Dean Toft, and Stephen J. O'Neill have been nominated by the Board of Directors to serve as directors with a three-year term to expire in 2027. Mr. Schweim, Mr. Toft and Mr. O'Neill currently serve on the Board of Directors. If a nominee is unable to serve, the shares represented by all valid proxies will be voted for the election of such substitute as the Board of Directors may recommend or the size of the Board may be reduced to eliminate the vacancy. At this time, the Board knows of no reason why a nominee might be unavailable to serve.

Nominations for Directors

Pursuant to Article X of the Articles of Incorporation, nominations, other than those made by or at the direction of a majority of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Company as set forth in that Article. To be timely, a stockholder's notice shall be delivered to, or mailed and received at, the principal executive offices of the Company not less than 60 days prior to the anniversary date of the immediately preceding annual meeting of stockholders of the Company.

Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or re-election as a director (i) the name, age, business address, and residential address of such person, (ii) the principal occupation or employment of



such person, and (iii) the class and number of shares of Common Stock which are beneficially owned by such person on the date of such stockholder notice; and (b) as to the stockholder giving the notice (i) the name and address, as they appear on the Company's books, of such stockholder and any other stockholders known by such stockholder to be supporting such nominees and (ii) the class and number of shares of Common Stock which are beneficially owned by such stockholder on the date of such stockholder notice and, to the extent known, by any other stockholders known by such stockholder to be supporting such nominees on the date of such stockholder notice. At the request of the Board of Directors, any person nominated by, or at the direction of, the Board for election as a director at an annual meeting shall furnish to the Secretary of the Company that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee.

The Board of Directors may reject any nomination by a stockholder not timely made in accordance with the requirements of the Articles of Incorporation. If the presiding officer at the meeting determines that a nomination was not made in accordance with the terms of the Articles of Incorporation, the presiding officer shall so declare at the annual meeting, and the defective nomination shall be disregarded.

Miscellaneous

The Board of Directors is not aware of any business to come before the Meeting other than those matters described above in this Proxy Statement. However, if any other matters should properly come before the Meeting, it is intended that proxies in the accompanying form will be voted in respect thereof in accordance with the judgment of the persons named in the accompanying proxy. If the Company did not have notice of a matter on or before March 18, 2024, it is expected that the persons named in the accompanying proxy will exercise discretionary authority when voting on that matter.

The cost of soliciting proxies will be borne by the Company. The Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of Common Stock.

The Company's Annual Report to Stockholders for the fiscal year ended December 31, 2023, including financial statements, has been mailed on or about April 17, 2024, to all stockholders of record as of the close of business on April 1, 2024. Any stockholder who has not received a copy of such an Annual Report may obtain a copy by writing to the Secretary of the Company.



Stockholder Proposals

To be eligible for inclusion in the Company's proxy materials for next year's Annual Meeting of Stockholders, any stockholder proposal to take action at such meeting must be received at the Company's executive offices at 1000 E. Cook Street, Redwood Falls, Minnesota 56283, no later than March 14, 2025.

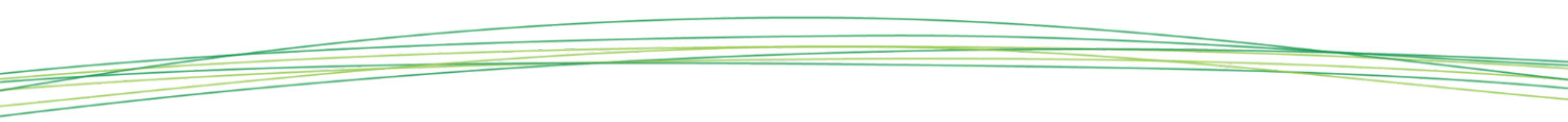
In the event the Company receives notice of a stockholder proposal to take action at next year's annual meeting of stockholders that is not submitted for inclusion in the Company's proxy material, or is submitted for inclusion but is properly excluded from the proxy material, the persons named in the proxy sent by the Company to its stockholders intend to exercise their discretion to vote on the stockholder proposal in accordance with their best judgment if notice of the proposal is not received at the Company's main office by March 14, 2025. The Articles of Incorporation provide that if notice of a stockholder proposal to take action at next year's annual meeting is not received at the Company's main office by March 14, 2025, the proposal will not be eligible for presentation at that meeting.

BY ORDER OF THE BOARD OF DIRECTORS

A handwritten signature in black ink that reads "Cathy L. Prouty". The signature is written in a cursive, flowing style with a large initial "C" and "P".

Cathy L. Prouty
Corporate Secretary

Redwood Falls, Minnesota
April 1, 2024





**ANNUAL REPORT TO
STOCKHOLDERS AND
FINANCIAL STATEMENTS**

HomeTown Bank Celebrates 100 Years!

HOMETOWN BANK

100
YEARS

This year, we are thrilled to celebrate our 100th anniversary, a testament to our enduring commitment to serve the communities we call home. Each of our branch locations are hosting a special community celebration, a moment to express our gratitude and appreciation to our valued customers, partners, and friends who have supported us through this journey.



In addition to our community events, we are hosting a special event for our employees, board members, and their families at Canterbury Park. This gathering is a reflection of our strong bonds as a bank family and a way to celebrate this historic occasion together.

Looking forward, we are committed to expanding our footprint and bringing exceptional banking services to new communities. We anticipate opening a new location in Carver in the Summer of 2024, followed by the construction of a new bank in Victoria in 2025. Both of these locations will be sharing a lobby space with the Mocha Monkey coffee shop. We have experienced success with this business model in the past, and look forward to providing the convenience of banking and coffee to new communities.



At the heart of our mission is not just financial success but also making a positive impact in the lives of those around us. We strive to be a force for good in our communities. Our commitment to providing outstanding banking experiences and contributing to the well-being of our communities remains unwavering.

HomeTown Bank Timeline

1924

HomeTown Bank originally chartered as Redwood Falls Building and Loan Association

1975

Opened a storefront in Olivia

1969

Purchased location in Redwood Falls

1995

Formed holding company - Redwood Financial

1998

Changed name to HomeTown Bank

2009

Purchased location in Jordan

2006

Purchased four branches - St. Peter, Le Sueur, Henderson and Cleveland

2013

Opened a new office in Waconia

2015

Opened a location in Shakopee

2022

Opened a LPO/DPO location in Victoria

2024

Constructing new office in Carver, MN with expectant Summer 2024 opening

A Letter From Our Chief Executive Officer



Daryl Karsky

Dear Stockholder:

On behalf of the Board of Directors, management, and employees of Redwood Financial, Inc., I am pleased to present to you the twenty-ninth annual stockholders' report.

In 2023, the financial sector encountered significant challenges due to increasing interest rates and a slow economy. Despite these obstacles, I am proud of our employees' resilience, which remains the cornerstone of our Redwood Financial group. In an effort to stop the panic from spreading, the government stepped in and helped ease the public nerves by issuing an emergency funding program. In addition, with the Fed continuing to rapidly raise interest rates in the first two quarters of 2023, the financial sector knew it was in for a bumpy ride. Through it all, HomeTown Bank remained well positioned, demonstrating its safety, stability, and resilience consistently throughout the year.

Financial Summary

Total assets of the company grew to \$584.1 million as of 12-31-23 compared to \$546.1 million as of 12-31-22. Total liabilities grew to \$548.3 million as of 12-31-23 from \$516.3 million as of 12-31-22. Stockholder's equity increased to \$35.8 million as of 12-31-23 from \$29.7 million as of 12-31-22. [\$49.7 if excluding unrealized loss in bond portfolio] Basic earnings per share in fiscal year 2023 were \$7.13 compared to \$13.96 in fiscal year 2022 and \$12.37 in fiscal year 2021.

Subsidiaries

Our wholly-owned subsidiary, HomeTown Bank, similar to previous years once again experienced good loan growth and generated a net profit of \$2.780 million. In FY23, the total assets of the bank grew about 7.5% to \$574.0 million. Total loans increased by 16.1% from year-end 2022 to \$350.9 million. While many of our peers struggled to maintain deposit balances, our total deposits increased 4.7% to \$503.1 million. Total capital increased by 25.5% to \$35.0 million (6.10% of assets). [\$49.0 million adding back unrealized loss in bond portfolio]

Fee income, most of which is traditionally generated from our residential mortgage program and portfolio loan fees, was 10.2% higher in 2023 at \$1.7 million. Loan losses remain at a very low level. The bank was honored for the ninth consecutive year as a Top Workplace by the *Minneapolis Star Tribune*.

A Letter From Our Chief Executive Officer

Our wholly-owned insurance company, Community Insurance Brokerage, Inc., doing business as HomeTown Insurance, experienced another good year with profitability in 2023 generating a profit of \$207,191. It's important to note that EBITDA for the agency was \$770,540 and the impact on net income is mostly due to the amortization of a couple of agency purchases in the last few years.

HomeTown Solutions, Inc., completing only its second full year, had a net profit in 2023 of \$500,951. The new subsidiary continues to add staff and expand our presence in key markets.

As it has for the past 100 years, Redwood Financial, Inc., through HomeTown Bank, continues to provide credit to farmers, businesses, and consumers. Credit quality continues to be a very important focus. Our loan committee team continues to support strong loan growth without sacrificing credit quality. Non-performing loans were very low at \$596,188 (0.17% of net loans) as of 12-31-23 compared to \$347,310 (0.12% of net loans) as of 12-31-22. HomeTown Bank maintained the provision in our loan loss reserves in 2023 proportionate to our loan growth bringing the year-end total to \$5.03 million. (1.44% of loans) compared to \$4.54 million (1.50% of loans) as of 12-31-22. The Board of Directors is committed to maintaining a strong loan loss reserve commensurate with the risk carried in our loan portfolio. We closed and funded over \$21 million in residential real estate mortgages, which is lower than the \$44 million in 2022, mostly as a result of rising long-term interest rates. HomeTown Bank also services our residential mortgage loans providing an ongoing source of revenue for the bank.

Redwood Financial, Inc. paid its twelfth consecutive annual dividend to stockholders in 2023. The Board of Directors determined that the Company had the ability to pay a \$2.15 per share dividend to stockholders, which was a \$.05 per share increase over the \$2.10 per share paid in 2022 and a \$1.90 per share increase over the first dividend of \$0.25 per share paid in 2012.

While 2023 did not produce the type of earnings results we have become accustomed to, I am extremely excited and optimistic about the future. My confidence and optimism are supported by an extremely talented and forward-thinking management team and Board of Directors. Our ability to optimize earnings in the future will largely be supported by continued efforts to build and diversify revenue streams. Two years ago, the launch of HomeTown Solutions, Inc. was an important step towards this strategy. This company has shown a profit in each of its first two years of operation and will continue to grow over time as we expand our operations across multiple states in the Midwest. Our insurance division also continues to expand into new markets and position itself for future growth.

A Letter From Our Chief Executive Officer

Throughout 2024 HomeTown Bank will be celebrating our 100th anniversary. The timeline and story are featured earlier in this letter for your reference. Each month, we will be holding a celebration at one of our branches, culminating with an all staff get together mid-summer. In addition, in July we plan to open our newest bank location in the community of Carver, MN. Then in the following year, 2025, we plan to move our current loan and deposit production office into a newly constructed standalone bank building in the community of Victoria, MN. These latest additions to our group of HomeTown Branches came after careful and thoughtful analysis of what markets we should enter to support growth for many years to come. We are extremely thrilled to bring our style of banking and commitment to each of these communities.

Thank You!

In closing, on behalf of all management at our group here at Redwood Financial, Inc., I want to share that our commitment to deliver the best possible customer service, expert advice, and counseling to all those we serve remains unwavering. Our employees are the strength of our company and as we grow, hiring staff from the communities we serve remains a focus. 2023 challenged us and I am proud to say we have emerged from the challenge stronger than ever.

I couldn't be more excited about the future, and your loyalty and investment in this Company are essential to the economic vitality to support each of the communities we serve. With the continued guidance and support of our Board of Directors, and the hard work and dedication of our employees, Redwood Financial, Inc. is committed to being the best we can be in each of the markets we serve.

I would like to thank the Board of Directors for their ongoing support and leadership over the past year. My leadership team has truly benefited from their knowledge and experience, and I personally have enjoyed working with and building our companies with all of them. I would also like to extend my gratitude to over 130 employees across our companies for their contributions to our past and future successes. We continue to be focused on the road ahead and building our organization with the support of our employees, customers, stockholders. Thank you for the trust and confidence you place in our team and its ability to continue to make our Redwood Financial Group the best we can be in each of the communities we serve!

Sincerely,



Daryl L. Karsky

President and Chief Executive Officer



Consolidated Financial Statements
December 31, 2023 and 2022

Redwood Financial, Inc. and Subsidiaries

Redwood Financial, Inc. and Subsidiaries

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December 31, 2023 and 2022

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The Stockholders and Board of Directors
Redwood Financial, Inc. and Subsidiaries
Redwood Falls, Minnesota

Management is responsible for the accompanying consolidated financial statements of Redwood Financial Inc. and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed the compilation engagement in accordance with the Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the consolidated financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these consolidated financial statements.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of FASB Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as of January 1, 2023 using the modified retrospective approach.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Mankato, Minnesota
March 12, 2024

Redwood Financial, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	\$ 14,054,739	\$ 22,945,044
Interest-bearing deposits in banks	4,655,000	4,900,000
Available-for-sale debt securities, at fair value (amortized cost 2023 - \$189,544,785, 2022 - \$193,730,207)	170,406,885	169,175,267
Loans, net of allowance for credit losses 2023 - \$5,031,932 net of allowance for loan losses 2022 - \$4,544,449	351,112,783	302,303,829
Investments in restricted stock	7,768,800	7,405,800
Accrued interest receivable	2,813,358	2,062,672
Premises and equipment, net	13,990,106	14,214,331
Mortgage servicing rights	4,871,230	4,806,011
Goodwill	4,478,398	4,478,398
Intangible assets, net	5,327,576	5,758,910
Deferred tax asset	3,113,435	4,603,195
Other assets	1,510,903	3,425,473
Total Assets	\$ 584,103,213	\$ 546,078,930
Liabilities and Stockholders' Equity		
Deposits	\$ 502,128,170	\$ 480,736,491
Borrowings	31,990,601	22,245,721
Subordinated debentures	6,186,000	6,186,000
Accrued interest payable	868,416	194,505
Advance payments by borrowers for taxes and insurance	3,646,945	3,480,826
Accrued expenses and other liabilities	3,510,884	3,492,856
Total liabilities	548,331,016	516,336,399
Common stock (\$.10 par value); authorized and issued 2023 - 1,125,520 shares, 2022 - 1,125,000 shares; outstanding 2023 - 405,567 shares, 2022 - 405,047 shares	112,552	112,500
Additional paid-in capital	10,681,594	10,625,486
Retained earnings	51,443,930	49,424,863
Accumulated other comprehensive loss	(13,970,668)	(17,925,107)
Treasury stock, at cost, 719,953 shares	(12,495,211)	(12,495,211)
Total stockholders' equity	35,772,197	29,742,531
Total Liabilities and Stockholders' Equity	\$ 584,103,213	\$ 546,078,930

Redwood Financial, Inc. and Subsidiaries

Consolidated Statements of Income
Years Ended December 31, 2023 and 2022

	2023	2022
Interest Income		
Loans, including fees	\$ 18,402,183	\$ 13,747,295
Debt securities available-for-sale	2,265,749	2,187,372
Interest-bearing deposits in banks	437,591	253,034
Total interest income	21,105,523	16,187,701
Interest Expense		
Demand deposits	2,989,562	410,790
Savings deposits	731,031	206,947
Certificates of deposits	1,849,413	228,528
Borrowings	895,471	552,550
Subordinated debentures	439,299	218,903
Total interest expense	6,904,776	1,617,718
Net interest income	14,200,747	14,569,983
Provision for Credit Losses	515,000	741,400
Net interest income after provision for credit losses	13,685,747	13,828,583
Non-Interest Income		
Fees and service charges	1,696,394	1,539,231
Mortgage servicing income	1,134,560	2,478,883
Insurance commissions	5,068,177	4,119,068
Loss on sale of securities	-	(1,143,443)
Other	774,972	3,352,935
Total non-interest income	8,674,103	10,346,674
Non-Interest Expense		
Compensation and employee benefits	11,353,401	10,199,529
Occupancy expenses	1,446,504	1,372,181
Data processing expenses	1,960,918	2,151,692
Federal deposit insurance premiums	360,071	166,389
Advertising expenses	266,603	243,096
Intangible amortization	431,333	433,320
Legal and accounting expenses	468,891	497,655
Other operating expenses	2,093,618	1,546,103
Total non-interest expense	18,381,339	16,609,965
Income before income taxes	3,978,511	7,565,292
Income Tax Expense	1,087,475	1,912,300
Net income	\$ 2,891,036	\$ 5,652,992
Earnings per Share		
Basic	\$ 7.13	\$ 13.96
Diluted	\$ 7.13	\$ 13.96

Redwood Financial, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Net Income	\$ 2,891,036	\$ 5,652,992
Other Comprehensive Income (Loss), Net of Tax:		
Unrealized gain (loss) on securities		
Unrealized holding gains (losses) arising during period	5,417,040	(22,980,459)
Less: reclassification adjustment for losses included in net income	-	1,143,443
Tax effect	<u>(1,462,601)</u>	<u>5,895,994</u>
Other comprehensive income (loss), net of tax	<u>3,954,439</u>	<u>(15,941,022)</u>
Comprehensive Income (Loss)	<u>\$ 6,845,475</u>	<u>\$ (10,288,030)</u>

Redwood Financial, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2023 and 2022

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance on December 31, 2021	\$ 112,500	\$ 10,625,486	\$ 44,622,470	\$ (1,984,085)	\$ (12,495,211)	\$ 40,881,160
Net Income	-	-	5,652,992	-	-	5,652,992
Other Comprehensive Loss	-	-	-	(15,941,022)	-	(15,941,022)
Dividends Paid	-	-	(850,599)	-	-	(850,599)
Balance on December 31, 2022	112,500	10,625,486	49,424,863	(17,925,107)	(12,495,211)	29,742,531
Net Income	-	-	2,891,036	-	-	2,891,036
Other Comprehensive Income	-	-	-	3,954,439	-	3,954,439
Issuance of Common Stock	52	56,108	-	-	-	56,160
Dividends Paid	-	-	(871,969)	-	-	(871,969)
Balance on December 31, 2023	<u>\$ 112,552</u>	<u>\$ 10,681,594</u>	<u>\$ 51,443,930</u>	<u>\$ (13,970,668)</u>	<u>\$ (12,495,211)</u>	<u>\$ 35,772,197</u>

Redwood Financial, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Net income	\$ 2,891,036	\$ 5,652,992
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	515,000	741,400
Depreciation	757,746	729,281
Amortization of premiums/discounts on debt securities available-for-sale	682,003	951,235
Amortization of intangibles	431,333	433,320
Mortgage servicing rights capitalized	(485,930)	(2,458,411)
Amortization of mortgage servicing rights	420,711	1,079,449
Loss on sale of debt securities available-for-sale	-	1,143,443
Decrease (increase) in other assets	1,917,088	(2,759,171)
Increase in accrued interest receivable	(750,686)	(202,537)
Increase in accrued interest payable	673,911	96,823
Increase in deferred income taxes	24,642	438,418
(Decrease) increase in accrued expenses and other liabilities	(61,972)	477,965
Net Cash Provided by Operating Activities	7,014,882	6,324,207
Cash Flows from Investing Activities		
Purchase of interest-bearing deposits in banks	(980,000)	(735,000)
Proceeds from maturities of interest-bearing deposits in banks	1,225,000	1,960,000
Proceeds from maturities, calls or paydowns of debt securities available-for-sale	12,460,438	15,312,319
Proceeds from sale of debt securities available-for-sale	-	15,260,251
Purchases of debt securities available-for-sale	(8,957,019)	(2,804,701)
Increase in loans, net	(49,243,954)	(47,910,634)
Purchase of premises and equipment	(533,521)	(405,113)
Purchases of restricted stock	(363,000)	(139,600)
Net Cash Used in Investing Activities	(46,392,056)	(19,462,478)
Cash Flows from Financing Activities		
Increase in deposits, net	21,391,679	28,363,663
(Decrease) increase in repurchase agreements, net	(469,880)	39,676
Federal Home Loan Bank advances	90,150,000	-
Payments on Federal Home Loan Bank advances	(80,866,659)	(872,292)
Payments on Bank stock loan	(200,000)	(200,000)
Payments on notes payable	(150,581)	(136,092)
Increase in federal funds purchased, net	1,282,000	-
Increase in advance payments by borrowers for taxes and insurance	166,119	118,102
Issuance of common stock	56,160	-
Dividends paid	(871,969)	(850,599)
Net Cash Provided by Financing Activities	30,486,869	26,462,458
(Decrease) Increase in Cash and Cash Equivalents	(8,890,305)	13,324,187
Cash and Cash Equivalents, Beginning of Year	22,945,044	9,620,857
Cash and Cash Equivalents, End of Year	\$ 14,054,739	\$ 22,945,044
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for:		
Interest	\$ 6,230,865	\$ 1,520,895
Income taxes	\$ 1,384,097	\$ 793,100

Note 1 - Summary of Significant Accounting Policies

Nature of Operations

Redwood Financial, Inc. (the Company) is the financial holding company of HomeTown Bank (the Bank), a state-chartered bank. The Bank, operating in ten facilities, provides a variety of financial services to the areas of south central and south western Minnesota, as well as the south metropolitan area, including mortgage, commercial, agricultural and consumer lending products and various deposit and savings plans. The Company also conducts business as Hometown Insurance, Inc. (the Agency). The Agency offers property, casualty, crop insurance, and health/life insurance in ten facilities throughout south central and south western Minnesota, and the south metropolitan area. The Agency owns Corn Capital Innovations, LLC (Corn Capital), Fuhr Insurance Agency, LLC (Fuhr) and started Redwood Financial Plan, a captive insurance, in 2023. The Company also conducts business as Hometown Solutions, Inc (HTS), which is a finder business connecting growers with suppliers allowing growers to have access to products from the top sellers in the ag industry. The Company owns 100% of the common stock of Redwood Financial Statutory Trust I (the Trust). The Trust issued Preferred Trust Securities to independent entities.

The accounting and reporting policies of the Company and its subsidiaries conform to accounting principles generally accepted in the United States of America. The following summarizes the more significant accounting policies the Company follows in preparing and presenting its consolidated financial statements.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, the Bank, the Agency, and HTS. All significant intercompany account balances and transactions have been eliminated in consolidation. In accordance with Financial Accounting Standards Board Codification Topic ASC 810-10, the Company has not consolidated its statutory trust (the Trust), as described in Note 10 – Subordinated Debentures.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for credit losses, fair value of mortgage servicing rights, valuation of debt securities and goodwill.

Cash, Cash Equivalents and Cash Flows

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, all of which have original maturities of 90 days or less.

Balances in transaction accounts at other financial institutions may exceed amounts covered by federal deposit insurance. Management regularly evaluates the credit risk associated with other financial institutions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents.

Cash flows from loans, deposits, federal funds and repurchase agreements are reported net.

Interest-Bearing Deposits in Banks

Interest-bearing deposits in banks have maturities within five years and are carried at cost.

Debt Securities Available-for-Sale

The Company classifies its debt securities as available-for-sale. Securities classified as available-for-sale are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in comprehensive income (loss).

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Premiums on callable debt securities are amortized to the call date. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Allowance for Credit Losses – Available-for-Sale Securities

Effective January 1, 2023, with the adoption of ASC 326, the Company measures the allowance for credit losses on available-for-sale debt securities by first assessing whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost. If it is determined that the Company intends or will be required to sell the security, it is written down to its fair value through income. For securities issued by government agencies that do not meet the aforementioned criteria, there are no expected credit losses as they are guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. For other debt securities that do not meet the aforementioned criteria, the Company evaluates quarterly 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 cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses on available-for-sale investments is recorded and is limited to the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded though an allowance for credit losses is recognized in other comprehensive income (loss).

Changes in the allowance for credit losses are recorded as provision for or (reversal) of credit losses. Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale debt security is confirmed or when the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for-sale debt securities totaling \$599,557 and \$555,318 at December 31, 2023 and 2022, respectively, is included in accrued interest receivable on the consolidated balance sheets and is excluded from the estimate of credit losses.

Prior to 2023, the Company applied an other than temporary impairment model to available-for-sale investment securities.

Investments in Restricted Stock

The Company is a member of the Federal Home Loan Bank (FHLB) system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

The Bank is a stockholder of United Bankers' Bancorporation, Inc. stock (UBB). UBB stock is carried at cost, less impairment, and adjusted for any observable price changes. Cash dividends are reported as income.

Fair Value Measurements

The Company determined the fair value of certain assets in accordance with the provisions of FASB Accounting Standards Codification Topic Accounting Standards Codification 820, *Fair Value Measurements*, which provides a framework for measuring fair value under generally accepted accounting principles.

Fair value is defined as the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. It is required that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The Standard also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset. Level 3 inputs are unobservable inputs related to the asset.

Loans

Loans are reported at their outstanding unpaid principal balance adjusted for the allowance for credit losses.

Interest income is accrued on the unpaid principal balance. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Past due status is based on contractual terms of the loan. Loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Accrued interest receivable on loans totaling \$2,066,496 and \$1,361,631 at December 31, 2023 and 2022, respectively, is included in accrued interest receivable on the consolidated balance sheets and is excluded from the estimate of credit losses.

The Company has determined that the accounting for nonrefundable fees and costs associated with originating or acquiring loans does not have a material effect on its consolidated financial statements. As such, these fees and costs have been recognized during the period they are collected and incurred, respectively.

Allowance for Credit Losses (ACL) - Loans

The ACL for loans is a valuation allowance for the current expected credit losses in the Company's loan portfolio that is deducted from the loan's amortized cost basis to present the net amount expected to be collected. Loans are charged-off against the allowance when management believes the collectability of the loan balance is unlikely. Subsequent recoveries, if any, are credited to the ACL. Prior to January 1, 2023, the valuation allowance (Allowance for Loan Losses) was established for probable and inherent credit losses.

Management estimates the allowance over the loan's entire contractual term, adjusted for expected prepayments when appropriate. The allowance estimate considers relevant, available information from internal and external sources relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for qualitative or environmental factors that cause the estimate for expected losses as of the evaluation date to differ from historical loss experience. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions, changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; changes in the collateral valuations; concentrations of credit; the effect of other external factors such as competition and legal and regulatory requirements; and other relevant factors determined by management.

The ACL is measured on a collective (pool) basis when similar risk characteristics exist and on an individual basis when management determines that the loan does not share similar risk characteristics with other loans. The Company has identified the following loan pools: commercial, agricultural, commercial real estate, residential real estate and consumer loans. Relevant risk characteristics for agricultural, commercial, and commercial real estate loan pools include debt service coverage, loan-to-value ratios and financial performance. Relevant risk characteristics for residential real estate and consumer loan pools include credit scores, debt-to income ratios, collateral type and loan-to-value ratios. Quarterly the Company uses the Weighted Average Remaining Maturity (WARM) method to measure the ACL for all loan pools to calculate a loss rate that combines the pool's risk characteristics, historical loss experience, and reasonable and supportable future economic forecasts to project lifetime losses. The loss rate is then combined with the loans balance and contractual maturity, adjusted for expected prepayments, to determine expected future losses. Future and supportable economic forecasts are based on various economic conditions over a period of up to two years followed by a reversion back to historical losses.

Loans that do not share similar risk characteristics to their loan pool are evaluated on an individual basis and are excluded from the collective measurement. Loans can be identified for individual evaluation for various reasons including delinquency, nonaccrual status, risk rating and loan modifications. A loan is considered collateral dependent when management determines that foreclosure is probable or when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The ACL on collateral dependent loans is measured using the amortized cost basis of the financial asset less the fair value of the underlying collateral, adjusted for costs to sell, when applicable. If the value of the underlying collateral is determined to be less than the recorded amount of the loan, a specific reserve for that loan is recorded. If the Company determines that the loss represented by the specific reserve is uncollectible it records a charge-off for the uncollectible portion.

Allowance for Credit Losses (ACL) – Unfunded Commitments

The Company establishes a liability for estimated expected credit losses on unfunded commitments to originate or fund loans and standby letters of credit, excluding commitments that are unconditionally cancellable. The estimate is included in accrued expenses and other liabilities on the consolidated balance sheets. Expected credit losses are estimated over the contractual period in which the Company is exposed to credit risk through the commitment adjusted for anticipated prepayments when appropriate. The estimate of the liability also considers the likelihood that funding will occur. The ACL on unfunded commitments is adjusted through provision for credit losses on consolidated statements of income. The underwriting process and risks associated with unfunded commitments and standby letters of credit are essentially the same as loans and therefore the Company uses the same ACL process as loans to estimate the liability.

Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit and standby letters of credit. Such financial instruments are recorded when they are funded.

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 – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (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 or the ability to unilaterally cause the holder to return specific assets.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 40 to 50 years. Building improvements are depreciated using the straight-line method with useful lives ranging from 10 to 35 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 1 to 10 years.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated cost 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 cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Mortgage Servicing Rights

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on its 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. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is recognized through valuation allowance for individual tranches, to the extent that fair value is less than the capitalized amount for the tranches. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income. Capitalized servicing rights are reported as a separate line item on the consolidated balance sheets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

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.

Goodwill

Goodwill represents the excess of purchase price over the fair value of net assets of the businesses acquired, including other identifiable intangible assets.

Goodwill is not amortized, rather potential impairment is considered on an annual basis, or more frequently upon the occurrence of an event or when circumstances indicate that the amount of goodwill is greater than its fair value. As of December 31, 2023 and 2022, the carrying value of the Company's goodwill was not considered impaired.

Intangible Assets

Intangible assets with a finite life consist of insurance customer lists and are carried at cost less accumulated amortization. The Company amortizes the cost of identifiable intangible assets on a straight-line basis over the expected period of benefit, which is 15 years for insurance customer lists.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of property and equipment, intangible assets, and accrued expenses for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of December 31, 2023 and 2022, the unrecognized tax benefit accrual was zero. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Advertising Costs

Advertising costs are expensed as incurred.

Earnings per Common Share

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock plans. A reconciliation of earning per share for the years ended December 31, 2023 and 2022 is below:

	<u>2023</u>	<u>2022</u>
Net income	\$ 2,891,036	\$ 5,652,992
Basic EPS:		
Weighted average number of shares	405,435	405,047
Earnings per share	\$ 7.13	\$ 13.96
Diluted EPS:		
Weighted average number of shares	405,435	405,047
Earnings per share	\$ 7.13	\$ 13.96

Revenue Recognition

The Company recognizes revenue pursuant to FASB Accounting Standards Codification Topic 606, Revenue from Contracts with Customers (Topic 606). The majority of the Company's revenues come from interest income and other sources, including loans and securities that are outside the scope of Topic 606. The Company's services that fall within the scope of Topic 606 are presented within non-interest income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of Topic 606 include fees and service charges, insurance commissions and the sale of foreclosed assets.

A description of the Company's revenue streams accounted for under Topic 606 follows:

Fees and service charges: The Company earns fees from its deposit customers for transaction-based, account-maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, debit card interchange fees, 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 related primarily to monthly maintenance, 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. Service charges on deposits are withdrawn from the customer's account balance.

Insurance Commissions: The Company's insurance commissions has one distinct performance obligation which is the selling of the policy as an agent for the carrier. This performance obligation is satisfied upon binding of the policy.

Gains (Losses) on Sales 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. When the Company finances the sale of foreclosed asset to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectibility of the transaction price is probable. Once these criteria are met, the foreclosed asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

Comprehensive Income (Loss)

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

Recent Accounting Guidance

Adoption of Accounting Standards Codification Topic 326

On January 1, 2023, the Company adopted Accounting Standard Update (“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 referred to as current expected credit losses (“CECL”). The measurement of expected losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loans, held-to-maturity debt securities and off-balance sheet credit exposures. In addition, Topic 326 made changes to the accounting for available-for-sale debt securities including the requirement to present credit losses as an allowance rather than a write-down on available-for-sale debt securities that management does not intend to sell or believes it is more likely than not they will be required to sell.

Redwood Financial, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

The Company adopted Topic 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet 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 Company had no adjustment to retained earnings as of January 1, 2023 for the cumulative effect of adopting Topic 326. The Company recorded a net decrease to the ACL related to loans and a net increase in the ACL related to unfunded commitments of \$40,000 for the adoption of Topic 326.

	Pre-ASU 2016-13 Adoption December 31, 2022	Impact of ASU 2016-13	As Reported Under ASU 2016-13 January 1, 2023
Assets			
Loans			
Allowance for credit losses on loans	\$ 4,544,449	\$ (40,000)	\$ 4,504,449
Liabilities			
Accrued expenses and other liabilities -			
Allowance for credit losses on unfunded commitments	-	40,000	40,000
Total allowance for credit losses	\$ 4,544,449	\$ -	\$ 4,544,449

ASU 2022-02, Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures - This ASU addresses and amends areas identified by the FASB as part of its post-implementation review of the accounting standard that introduced the current expected credit losses model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the current expected credit losses model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require disclosure of current-period gross write-offs for financing receivables by year of origination in the vintage disclosures. The company adopted ASU 2022-02 in conjunction with ASU 2016-13 on January 1, 2023 using the prospective approach.

Subsequent Events

The Company has evaluated subsequent events through March 12, 2024, the date which the consolidated financial statements were available to be issued.

Note 2 - Restrictions on Cash and Cash Equivalents

Effective March 26, 2020, the Federal Reserve announced the reduction of the reserve requirement ratio to zero percent across all deposit tiers. Depository institutions that were required to maintain deposits in a Federal Reserve Bank account to satisfy reserve requirements will no longer be required to do so and can use the additional liquidity to lend to individuals and businesses. It is our understanding that the Federal Reserve currently has no current plans to reinstate the reserve requirement. However, the Federal Reserve may adjust reserve requirement ratios in the future if conditions warrant.

Note 3 - Debt Securities Available-for-Sale

The following summarizes the amortized cost, gross unrealized gain, gross unrealized losses, and fair value of available-for-sale debt securities at December 31, 2023:

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government securities	\$ 88,422,221	\$ 63,585	\$ (7,417,478)	\$ 81,068,328
State and municipal securities	22,561,751	43,185	(1,286,569)	21,318,367
Mortgage-backed securities	69,227,587	37,867	(9,191,035)	60,074,419
Collateralized mortgage obligations	9,333,226	-	(1,387,455)	7,945,771
Total debt securities available-for-sale	<u>\$ 189,544,785</u>	<u>\$ 144,637</u>	<u>\$ (19,282,537)</u>	<u>\$ 170,406,885</u>

The following summarizes the amortized cost, gross unrealized gain, gross unrealized losses, and fair value of available-for-sale debt securities at December 31, 2022:

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government securities	\$ 87,090,618	\$ 1,248	\$ (10,387,509)	\$ 76,704,357
State and municipal securities	23,770,073	7,709	(1,818,655)	21,959,127
Mortgage-backed securities	72,593,555	-	(10,823,753)	61,769,802
Collateralized mortgage obligations	10,275,961	-	(1,533,980)	8,741,981
Total debt securities available-for-sale	<u>\$ 193,730,207</u>	<u>\$ 8,957</u>	<u>\$ (24,563,897)</u>	<u>\$ 169,175,267</u>

Debt securities and interest-bearing deposits in banks with a carrying value of approximately \$40,752,000 and \$23,395,000 as of December 31, 2023 and 2022, were pledged to secure public deposits and debt.

Redwood Financial, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

The amortized cost and estimated fair value of debt securities available-for-sale at December 31, 2023, by contractual maturity, are shown below:

	Amortized Cost	Fair Value
Due within one year	\$ 15,036,524	\$ 14,642,710
Due after one year through five years	86,560,066	79,302,024
Due after five years through ten years	8,485,902	7,707,239
Due after ten years	901,480	734,722
	110,983,972	102,386,695
Mortgage-backed securities	69,227,587	60,074,419
Collateralized mortgage obligations	9,333,226	7,945,771
Total	\$ 189,544,785	\$ 170,406,885

There were no sales of available-for-sale securities during the year ended December 31, 2023. Proceeds for the sale of available-for-sale securities during the year ended December 31, 2022 was \$15,260,251, resulting in gross realized losses of \$1,143,443.

The following table shows the gross unrealized losses and fair value of the Company's available-for-sale securities, aggregated by investment category and length of time that individual debt securities have been in a continuous unrealized loss position at December 31, 2023 and 2022.

	December 31, 2023					
	Less Than Twelve Months		Over Twelve Months		Totals	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. government securities	\$ -	\$ -	\$ (7,417,478)	\$ 76,994,424	\$ (7,417,478)	\$ 76,994,424
State and municipal securities	(2,341)	232,101	(1,284,228)	19,330,007	(1,286,569)	19,562,108
Mortgage-backed securities	(188)	772,404	(9,190,847)	56,246,346	(9,191,035)	57,018,750
Collateralized mortgage obligations	-	-	(1,387,455)	7,945,771	(1,387,455)	7,945,771
Total	\$ (2,529)	\$ 1,004,505	\$ (19,280,008)	\$ 160,516,548	\$ (19,282,537)	\$ 161,521,053

	December 31, 2022					
	Less Than Twelve Months		Over Twelve Months		Totals	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. government securities	\$ (213,260)	\$ 2,555,352	\$ (10,174,249)	\$ 73,999,260	\$ (10,387,509)	\$ 76,554,612
State and municipal securities	(61,889)	4,330,221	(1,756,766)	17,320,467	(1,818,655)	21,650,688
Mortgage-backed securities	(554,241)	7,101,354	(10,269,512)	54,668,448	(10,823,753)	61,769,802
Collateralized mortgage obligations	(391,079)	3,336,544	(1,142,901)	5,405,437	(1,533,980)	8,741,981
Total	\$ (1,220,469)	\$ 17,323,471	\$ (23,343,428)	\$ 151,393,612	\$ (24,563,897)	\$ 168,717,083

At December, 31, 2023, no ACL was established for available-for-sale securities. The Company reviews the securities portfolio on a quarterly basis to monitor its credit exposure. A determination as to whether a security's decline in fair value is the result of credit risk takes into consideration numerous factors and the relative significance of any single factor can vary by security. Some factors the Company may consider in this impairment analysis include the extent to which the security has been in an unrealized loss position, the change in security rating, financial condition and near-term prospects of the issuer, as well as security and industry specific economic conditions.

At December 31, 2023, the Companies security portfolio consisted of 219 securities, 180 of which were in an unrealized loss position and the total loss is about 10% of the total amortized cost. Approximately 93% of the unrealized losses on available-for-sale securities are primarily composed of securities that are mortgage-backed, or U.S. government securities. The securities are highly rated by major rating agencies with a history of no credit losses. All issuers continue to make timely principal and interest payments and financial statements are periodically reviewed as part of post-purchase analysis. The decline in value in any of these securities is deemed to be temporary and not attributable to credit losses. Furthermore, the Company does not intend to sell, and it is likely that management will not be required to sell, these securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions.

Note 4 - Loans and Allowance for Credit Losses ("ACL")

Loan portfolio segments:

Commercial loans are primarily made for business working capital needs and are underwritten based on the identified or projected cash flows of the borrower and/or the underlying collateral provided by the borrower. The primary repayment risks of commercial loans are that the cash flows of the borrower may be unpredictable, and the collateral securing these loans may fluctuate in value. Collateral for these loans generally includes the business assets financed, accounts receivable, inventory, and equipment. The collateral securing these loans may depreciate over time, may be difficult to appraise, and may fluctuate in value based on the success of the business. These loans may incorporate a corporate or personal guarantee.

Commercial real estate loans are offered to commercial customers for the acquisition of real estate used in their businesses, such as offices, warehouses and production facilities, and to real estate investors for the acquisition of apartment buildings, retail centers, office buildings and other commercial buildings. Commercial real estate loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Management examines current and projected cash flows to determine the ability of the borrower to repay its obligations as agreed. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on sufficient income from the properties securing the loans to cover operating expenses and debt service. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy.

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Agricultural operating loans are generally comprised of loans to fund farm operations and the purchase of equipment and livestock. Operating lines are typically written for one year and secured by the crop and other farm assets or business assets, as considered appropriate. Repayment of agricultural loans depends on the successful operation or management of the farm property securing the loan or for which an operating loan is utilized. The ability of the borrower to repay may be affected by many factors outside of the borrower's control including adverse weather conditions, loss of livestock due to disease or other factors, declines in market prices for agricultural products and the impact of government regulations. Agricultural real estate loans are primarily comprised of loans for the purchase of farmland. Loan-to-value ratios on loans secured by farmland generally do not exceed 75%.

Residential real estate loans are collateralized by primary and secondary positions on 1-4 family real estate and are underwritten primarily based on borrower's documented income, credit scores, and collateral values. Repayment of these loans is largely dependent on the borrower's financial stability and may be impacted by adverse personal circumstances. Credit risk is minimized within the residential mortgage portfolio due to relatively smaller loan balances spread across many individual borrowers.

Consumer installment loans are comprised of term loans secured primarily by automobiles, boats and recreational vehicles and other consumer loans secured primarily by other personal assets. Consumer loan underwriting terms are dependent on the collateral type, debt to income ratio and the borrower's creditworthiness as evidenced by their credit score. In the event of a consumer installment loan default, collateral value alone may not provide an adequate source of repayment of the outstanding loan balance. This shortage is a result of the nature of the collateral securing the loan.

A summary of loans by major category follows:

	2023	2022
Commercial	\$ 76,704,456	\$ 30,896,733
Commercial real estate	112,391,655	122,735,076
Agricultural	23,845,503	14,499,824
Residential real estate	130,446,471	106,914,088
Consumer	12,756,630	31,802,557
Total loans	356,144,715	306,848,278
Allowance for credit losses	(5,031,932)	(4,544,449)
Loans, net	\$ 351,112,783	\$ 302,303,829

Overdraft deposits of \$117,362 and \$113,843 as of December 31, 2023 and 2022, have been reclassified from deposits and included in consumer loans.

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The following table presents the activity in the ACL by portfolio segment for the years ended December 31, 2023:

	December 31, 2023					Total
	Commercial	Commercial Real Estate	Agricultural	Residential Real Estate	Consumer	
Allowance for Credit Losses						
Balance at beginning of period	\$ 344,695	\$ 2,095,558	\$ 401,975	\$ 1,284,594	\$ 417,627	\$ 4,544,449
Impact of adopting ASC 326	(6,800)	(7,600)	(6,800)	(18,800)	-	(40,000)
Charge-offs	-	-	-	-	(10,256)	(10,256)
Recoveries	9,581	34,318	-	17,147	1,693	62,739
Provision for credit losses	<u>1,024,474</u>	<u>(604,576)</u>	<u>(150,998)</u>	<u>446,540</u>	<u>(240,440)</u>	<u>475,000</u>
Balance at end of period	<u>\$ 1,371,950</u>	<u>\$ 1,517,700</u>	<u>\$ 244,177</u>	<u>\$ 1,729,481</u>	<u>\$ 168,624</u>	<u>\$ 5,031,932</u>

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2022, and the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method as of December 31, 2022.

Activity at December 31, 2022 is as follows:

	Commercial	Commercial Real Estate	Agricultural	Residential Real Estate	Consumer	Total
Allowance for loan losses						
Balance at beginning of period	\$ 275,866	\$ 1,724,524	\$ 481,724	\$ 973,458	\$ 308,181	\$ 3,763,753
Charge-offs	-	-	-	-	(2,165)	(2,165)
Recoveries	27,177	-	-	4,440	9,844	41,461
Provisions	<u>41,652</u>	<u>371,034</u>	<u>(79,749)</u>	<u>306,696</u>	<u>101,767</u>	<u>741,400</u>
Balance at end of period	<u>\$ 344,695</u>	<u>\$ 2,095,558</u>	<u>\$ 401,975</u>	<u>\$ 1,284,594</u>	<u>\$ 417,627</u>	<u>\$ 4,544,449</u>
Individually evaluated for impairment	\$ -	\$ 97,673	\$ -	\$ -	\$ -	\$ 97,673
Collectively evaluated for impairment	<u>344,695</u>	<u>1,997,885</u>	<u>401,975</u>	<u>1,284,594</u>	<u>417,627</u>	<u>4,446,776</u>
Balance at end of period	<u>\$ 344,695</u>	<u>\$ 2,095,558</u>	<u>\$ 401,975</u>	<u>\$ 1,284,594</u>	<u>\$ 417,627</u>	<u>\$ 4,544,449</u>
Loans						
Individually evaluated for impairment	\$ -	\$ 1,073,237	\$ -	\$ 324,820	\$ 7,221	\$ 1,405,278
Collectively evaluated for impairment	<u>30,896,733</u>	<u>121,661,839</u>	<u>14,499,824</u>	<u>106,589,268</u>	<u>31,795,336</u>	<u>305,443,000</u>
Balance at end of period	<u>\$ 30,896,733</u>	<u>\$ 122,735,076</u>	<u>\$ 14,499,824</u>	<u>\$ 106,914,088</u>	<u>\$ 31,802,557</u>	<u>\$ 306,848,278</u>

In addition to the ACL on loans, the Company has established an ACL on off-balance sheet exposures of \$80,000 at December 31, 2023. The following table presents the activity in the ACL on off-balance sheet exposures for the year ended December 31, 2023.

Balance at beginning of period	\$ -
Impact of adopting ASC 326	40,000
Additions to ACL recorded as provision for credit losses	<u>40,000</u>
Balance at end of period	<u><u>\$ 80,000</u></u>

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, collateral adequacy, credit documentation, public information and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes larger, non-homogeneous loans such as commercial real estate, commercial, and agricultural loans. This analysis is performed on an ongoing basis as new information is obtained. The Bank uses the following definitions for risk ratings:

Pass – Loans classified as pass represent loans that are evaluated and are performing under the stated terms. Pass rated assets are analyzed by the paying capacity, the current net worth, and the value of the loan collateral of the obligor.

Watch – Loans classified as watch possess potential weaknesses that require management attention, but do not yet warrant adverse classification. While the status of a loan put on this list may not technically trigger their classification as substandard or doubtful, it is considered a proactive way to identify potential issues and address them before the situation deteriorates further and does result in a loss for the Company.

Substandard – Loans classified as substandard are inadequately protected by the current net worth, paying capacity of the obligor, or by the collateral pledged. Substandard loans must have a well-defined weakness or weaknesses that jeopardize the repayment of the debt as originally contracted. They are characterized by the distinct possibility that the Company will sustain a loss if the deficiencies are not corrected.

Doubtful – Loans classified as doubtful have the weaknesses of 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.

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Based on the most recent analysis performed, the risk category of loans by class of loans and origination year as of December 31, 2023 was as follows:

	December 31, 2023						Revolving Loans Amortized Cost Basis	Total
	Term Loans Amortized Cost Basis by Origination Year							
	2023	2022	2021	2020	2019	Prior		
Commercial								
Pass	\$ 15,958,119	\$ 19,449,463	\$ 12,127,570	\$ 2,393,422	\$ 6,051,056	\$ 3,226,839	\$ 14,468,940	\$ 73,675,409
Watch	-	-	-	-	-	-	37,210	37,210
Substandard	-	-	20,604	-	-	2,817,336	153,897	2,991,837
Doubtful	-	-	-	-	-	-	-	-
Total commercial loans	\$ 15,958,119	\$ 19,449,463	\$ 12,148,174	\$ 2,393,422	\$ 6,051,056	\$ 6,044,175	\$ 14,660,047	\$ 76,704,456
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial Real Estate								
Pass	\$ 25,403,538	\$ 28,103,468	\$ 14,066,632	\$ 9,465,428	\$ 10,822,190	\$ 19,515,482	\$ 2,187,921	\$ 109,564,659
Watch	340,692	-	-	-	-	1,436,513	-	1,777,205
Substandard	-	58,559	-	217,837	-	773,395	-	1,049,791
Doubtful	-	-	-	-	-	-	-	-
Total commercial real estate loans	\$ 25,744,230	\$ 28,162,027	\$ 14,066,632	\$ 9,683,265	\$ 10,822,190	\$ 21,725,390	\$ 2,187,921	\$ 112,391,655
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Agricultural								
Pass	\$ 5,875,947	\$ 1,435,822	\$ 2,556,115	\$ 47,743	\$ 212,087	\$ 42,305	\$ 12,177,235	\$ 22,347,254
Watch	586,270	211,772	-	-	-	-	561,190	1,359,232
Substandard	31,586	56,950	-	-	-	-	50,481	139,017
Doubtful	-	-	-	-	-	-	-	-
Total agricultural	\$ 6,493,803	\$ 1,704,544	\$ 2,556,115	\$ 47,743	\$ 212,087	\$ 42,305	\$ 12,788,906	\$ 23,845,503
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential Real Estate								
Pass	\$ 28,610,510	\$ 32,615,166	\$ 26,053,604	\$ 7,301,276	\$ 4,371,662	\$ 13,387,271	\$ 16,492,784	\$ 128,832,273
Watch	209,000	-	-	-	-	227,264	-	436,264
Substandard	108,000	-	-	40,008	59,251	930,900	39,775	1,177,934
Doubtful	-	-	-	-	-	-	-	-
Total residential real estate loans	\$ 28,927,510	\$ 32,615,166	\$ 26,053,604	\$ 7,341,284	\$ 4,430,913	\$ 14,545,435	\$ 16,532,559	\$ 130,446,471
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer								
Pass	\$ 5,845,677	\$ 4,738,099	\$ 1,470,903	\$ 279,473	\$ 146,160	\$ 36,859	\$ 176,609	\$ 12,693,780
Watch	18,096	-	-	-	-	-	-	18,096
Substandard	33,666	10,105	983	-	-	-	-	44,754
Doubtful	-	-	-	-	-	-	-	-
Total consumer	\$ 5,897,439	\$ 4,748,204	\$ 1,471,886	\$ 279,473	\$ 146,160	\$ 36,859	\$ 176,609	\$ 12,756,630
Current period gross charge-offs	\$ -	\$ 7,765	\$ -	\$ -	\$ -	\$ 2,491	\$ -	\$ 10,256

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Based on the most recent analysis performed, the risk category of loans by class of loans as of December 31, 2022 was as follows:

	December 31, 2022				Total
	Pass	Watch	Substandard	Doubtful	
Commercial	\$ 30,631,206	\$ 64,000	\$ 201,527	\$ -	\$ 30,896,733
Commercial Real Estate	117,031,603	934,215	4,769,258	-	122,735,076
Agricultural	13,055,479	1,355,680	88,665	-	14,499,824
Residential Real Estate	104,519,864	1,841,523	552,701	-	106,914,088
Consumer	31,704,582	77,677	20,298	-	31,802,557
	<u>\$296,942,734</u>	<u>\$ 4,273,095</u>	<u>\$ 5,632,449</u>	<u>\$ -</u>	<u>\$306,848,278</u>

The following table summarizes the aging of the past due loans by loan class within the portfolio segments as of December 31, 2023:

	December 31, 2023				Total
	30-89 Days Past Due	Over 89 Days Past Due	Total Past Due	Loans Not Past Due	
Commercial	\$ 1,861,649	\$ -	\$ 1,861,649	\$ 74,842,807	\$ 76,704,456
Commercial Real Estate	50,944	-	50,944	112,340,711	112,391,655
Agricultural	367,477	-	367,477	23,478,026	23,845,503
Residential Real Estate	765,657	59,251	824,908	129,621,563	130,446,471
Consumer	37,750	-	37,750	12,718,880	12,756,630
Total	<u>\$ 3,083,477</u>	<u>\$ 59,251</u>	<u>\$ 3,142,728</u>	<u>\$ 353,001,987</u>	<u>\$ 356,144,715</u>

The following table presents the amortized cost basis of loans on nonaccrual status as of December 31, 2023.

	December 31, 2023	
	Nonaccrual	Nonaccrual With No Allowance for Credit Loss
Commercial Real Estate	\$ 219,423	\$ 159,780
Residential Real Estate	347,060	347,060
Total	<u>\$ 566,483</u>	<u>\$ 506,840</u>

The Company recognized \$35,753 of interest income on nonaccrual loans during the year ended December 31, 2023.

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The following table summarizes the aging of the past due loans by loan class within the portfolio segments as of December 31, 2022:

	30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual Balance
Commercial Real Estate	\$ 10,038	\$ -	\$ 15,269
Residential Real Estate	361,811	-	324,820
Consumer	36,791	-	7,221
Total	\$ 408,640	\$ -	\$ 347,310

The following table presents the amortized cost basis of collateral dependent loans, by the primary collateral type, which are individually evaluated to determine expected credit losses, and the related ACL allocated to these loans as of December 31, 2023.

	December 31, 2023	
	Collateral Type Real Estate	ACL
Commercial Real Estate	\$ 219,423	\$ 42,000
Residential Real Estate	347,060	-
Total	\$ 566,483	\$ 42,000

The following tables summarize individually impaired loans by class of loans as of December 31, 2022:

	Recorded Investment	Unpaid Principal Balance (1)	Average Recorded Investment	Interest Income Recognized
With No Related Allowance Recorded				
Commercial real estate	\$ 15,269	\$ 30,972	\$ 31,456	\$ 1,756
Residential real estate	324,820	418,284	422,935	23,187
Consumer	7,221	7,920	11,437	633
	<u>\$ 347,310</u>	<u>\$ 457,176</u>	<u>\$ 465,828</u>	<u>\$ 25,576</u>
With an Allowance Recorded				
	Recorded Investment	Unpaid Principal Balance (1)	Average Recorded Investment	Interest Income Recognized
Commercial real estate	<u>\$ 1,057,968</u>	<u>\$ 1,057,968</u>	<u>\$ 1,071,997</u>	<u>\$ 43,605</u>

(1) Represents the borrower's loan obligation, gross of any previously charged-off amounts.

Occasionally, the Company may modify loans to borrowers who are experiencing financial difficulty. Loan modifications to borrowers experiencing financial difficulty may be in the form of principal forgiveness, term extension, an other-than-insignificant payment delay, interest rate reduction, or combination thereof.

There were no loan modifications for the year ended December 31, 2023.

Impaired loans also include loans modified in a troubled debt restructuring (TDR) where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collections.

There were no new modifications of loans classified as troubled debt restructurings during the year ended December 31, 2022.

There were no troubled debt restructurings (TDRs) that subsequently defaulted during the year ended December 31, 2022.

There were no material commitments to lend additional funds to customers whose loans were classified as impaired or restructured at December 31, 2022.

Note 5 - Premises and Equipment

A summary of premises and equipment at December 31 are as follows:

	<u>2023</u>	<u>2022</u>
Land and office buildings	\$ 17,934,862	\$ 17,643,452
Furniture and equipment	<u>3,147,118</u>	<u>3,624,258</u>
	21,081,980	21,267,710
Less: accumulated depreciation	<u>(7,091,874)</u>	<u>(7,053,379)</u>
Total premises and equipment, net	<u>\$ 13,990,106</u>	<u>\$ 14,214,331</u>

Depreciation expense totaled \$757,746 and \$729,281 for the years ended December 31, 2023 and 2022, respectively.

Note 6 - Mortgage Servicing Rights

Loans serviced for others are not included in the accompanying consolidated balance sheet. The risks inherent in mortgage servicing rights relate primarily to changes in prepayments that result from shifts in mortgage interest rates. The unpaid principal balances of loans serviced for others was \$423,959,642 and \$435,479,940 as of December 31, 2023 and 2022, respectively. The carrying amount of the mortgage servicing rights were \$4,871,230 and \$4,806,011 as of December 31, 2023 and 2022, respectively.

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Mortgage servicing rights for the years ended December 31, 2023 and 2022 were:

	2023	2022
Mortgage servicing rights at beginning of year	\$ 4,806,011	\$ 3,427,049
Additions	223,886	423,172
Disposals	-	-
Recovery to mark to fair value	262,044	2,035,239
Amortization	(420,711)	(1,079,449)
Mortgage servicing rights at end of year	\$ 4,871,230	\$ 4,806,011
Estimated fair value of servicing rights, beginning of period	\$ 4,806,011	\$ 3,549,037
Estimated fair value of servicing rights, end of period	4,871,230	4,806,011

The fair value of servicing rights was determined using discount rates ranging from 10.375% to 13.375%, and prepayment speeds assumptions (PSA) ranging from 91 PSA to 179 PSA, depending on the stratification of the specific right.

Future amortization of mortgage servicing rights for the years ending December 31 follows:

2024	\$ 324,482
2025	298,177
2026	274,320
2027	252,372
2028	232,179
Thereafter	3,489,700
	\$ 4,871,230

Projections of amortization are based on existing asset balances and the existing interest rate environment as of December 31, 2023 and 2022. The Company's actual experiences may be significantly different depending upon changes in mortgage rates and other market conditions.

Contractually specified servicing and ancillary fees are included in mortgage servicing income, and late fees are included in fees and service charges.

	2023	2022
Contractually specified servicing fees	\$ 1,069,341	\$ 1,099,920
Late fees	18,063	32,026
	\$ 1,087,404	\$ 1,131,946

Note 7 - Intangible Assets and Goodwill

Intangible assets consist of the following:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
December 31, 2023			
Insurance Customer Lists	<u>\$ 6,470,000</u>	<u>\$ 1,142,424</u>	<u>\$ 5,327,576</u>
December 31, 2022			
Insurance Customer Lists	<u>\$ 6,470,000</u>	<u>\$ 711,090</u>	<u>\$ 5,758,910</u>

Amortization expense for the year ended December 31, 2023 and 2022 was \$431,333 and \$433,320, respectively. Estimated future amortization expense related to these intangible assets is as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2024	\$ 433,333
2025	433,333
2026	433,333
2027	433,333
2028	433,333
Thereafter	<u>3,160,911</u>
	<u>\$ 5,327,576</u>

There were no changes in the carrying amount of goodwill of \$4,478,398 during the years ended December 31, 2023 and 2022.

Note 8 - Deposits

A summary of deposits at December 31 follows:

	<u>2023</u>	<u>2022</u>
Non-interest bearing demand deposit accounts	\$ 126,591,694	\$ 141,442,581
Interest-bearing demand deposit accounts	178,475,897	158,882,407
Savings and money market accounts	124,725,637	143,112,281
Time deposits, meet or exceed the FDIC insurance limit	15,612,490	13,040,821
Other time deposits	<u>56,722,452</u>	<u>24,258,401</u>
Total deposits	<u>\$ 502,128,170</u>	<u>\$ 480,736,491</u>

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At December 31, 2023, the scheduled maturities of time deposits are as follows:

2024	\$ 66,202,201
2025	4,859,267
2026	805,270
2027	311,231
2028 and thereafter	<u>156,973</u>
Total time deposits	<u><u>\$ 72,334,942</u></u>

Note 9 - Borrowings

Borrowings at December 31 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Federal Home Loan Bank advances	\$ 25,232,779	\$ 15,949,438
Federal funds purchased	1,282,000	-
Repurchase agreements	-	469,880
Bank stock loan	4,592,495	4,792,495
Notes payable	<u>883,327</u>	<u>1,033,908</u>
Total borrowings	<u><u>\$ 31,990,601</u></u>	<u><u>\$ 22,245,721</u></u>

Federal Home Loan Bank Advances

At December 31, 2023, the interest rates on the Company's Federal Home Loan Bank (FHLB) advances ranged from 2.15% to 5.54%. At December 31, 2022, the interest rates on the Company's Federal Home Loan Bank (FHLB) advances ranged from 2.15% to 4.68%. At December 31, 2023, the scheduled maturities of the FHLB advances are as follows:

<u>Years Ending December 31</u>	
2024	\$ 18,805,126
2025	800,000
2026	-
2027	-
2028	3,995,576
Thereafter	<u>1,632,077</u>
	<u><u>\$ 25,232,779</u></u>

The Company's level of FHLB stock at December 31, 2023 and 2022, is required by FHLB to maintain the current level of FHLB advances.

The Company maintains a collateral pledge agreement with the Federal Home Loan Bank of Des Moines covering secured advances whereby the Company has agreed to retain, free of all other pledges, liens and encumbrances, residential, and commercial and agricultural real estate loans. The amount of eligible loans was approximately \$93,268,000 and \$80,122,000 as of December 31, 2023 and 2022, respectively.

With sufficient collateral, the total borrowing limit from the FHLB was approximately \$60,308,000 at December 31, 2023. With the total FHLB advances of \$25,232,779 and the net credit enhancement commitments on the loans sold to FHLB of \$857,012 as of December 31, 2023, the Company can borrow approximately an additional \$34,218,350 from FHLB.

Federal Funds Purchased

Federal funds amounting to \$1,282,000 and \$-0- were purchased from United Bankers' Bank (UBB) as of December 31, 2023 and 2022, respectively. The federal funds purchased bear interest at 6.35% and mature on a daily basis.

Repurchase Agreements

Repurchase agreements, which are classified as secured borrowings, generally mature within one year from the transaction date. Repurchase agreements are reflected at the amount of cash received in connection with a transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

Federal Reserve Bank Borrowings

In March of 2023, the Bank was approved to obtain funding from the Federal Reserve Bank's Term Funding Program ("BTFP"). The Bank has pledged eligible collateral totaling \$23,500,000 as of December 31, 2023. As of December 31, 2023, the Bank has not borrowed from this facility. Borrowings under the BTFP carry a term of up to 12 months and an interest rate of the one-year overnight index rate plus 10 basis points determined on the date of advance.

Bank Stock Loan

The Company borrowed \$4,992,495 on December 15, 2021, collateralized by HomeTown Bank stock. Quarterly interest payments are due through 2026, with principal and interest payments beginning March 15, 2027.

Amount	\$	4,992,495
Issuance date		December 15, 2021
Maturity date		December 15, 2031
Fixed interest rate		3.38%

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The Company has a \$10,000,000 line of credit with Bell Bank. At December 31, 2023, this line is subject to a variable interest rate of 0.50 % under the current “Prime Rate”. The rate at December 31, 2023 was 8.00%. This line matures on December 15, 2025. As of December 31, 2023, there were no advances on the line of credit.

Notes Payable

The Agency has notes payable to the former owners of Fuhr Insurance Agency, LLC.

<u>Note #1</u>	
Amount	\$ 639,392
Issuance date	December 31, 2021
Maturity date	January 1, 2032
Fixed interest rate	1.50%
<u>Note #2</u>	
Amount	\$ 243,935
Issuance date	December 31, 2021
Maturity date	January 1, 2027
Fixed interest rate	1.50%

The scheduled maturities of the notes payable are as follows:

<u>Years Ending December 31</u>	
2024	\$ 152,820
2025	155,164
2026	157,507
2027	85,159
2028	79,589
Thereafter	<u>253,088</u>
	<u>\$ 883,327</u>

Note 10 - Subordinated Debentures

The Company has a statutory business trust for the purpose of issuing trust preferred securities. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trust, were invested in junior subordinated debentures (debentures). Concurrent with the issuance of the preferred securities by the trust, the trust issued guarantees for the benefit of the security holders.

The sole assets of the trust are the debentures. The common securities of the trust are owned by the Company and are reported as an investment in unconsolidated subsidiaries within other assets of the consolidated balance sheet. The preferred securities issued by the trust rank senior to the common securities. The obligations of Redwood Financial Statutory Trust I under the debentures, the indentures, the relevant trust agreements and the guarantees, in the aggregate, constitute a full and unconditional guarantee by the trust of the obligations of the trust under the trust preferred securities and rank subordinate and junior in right of payment to all their other liabilities. The Company guarantees the obligations of Redwood Financial Statutory Trust I.

Amount	\$	6,186,000
Issuance date		September 21, 2006
Maturity date		December 15, 2036
Interest rate		3 month CME Term SOFR plus spread adjustment +1.75
Interest rate on December 31, 2023		7.40%

The trust preferred securities are subject to mandatory redemption at the stated maturity date of the debentures, upon repayment of the debentures, or earlier, pursuant to the terms of the Trust Agreement. On any interest payment date, the trust preferred securities may be redeemed, and the corresponding debentures may be prepaid at the option of the Company subject to Federal Reserve Bank approval, at declining redemption prices. Prior to the maturity date indicated above, the trust preferred securities may be redeemed at the option of the Company, on the occurrence of certain events that result in a negative tax impact, negative regulatory impact on the trust preferred securities or negative legal or regulatory impact on the appropriate special purpose trust which would define it as an investment company. In addition, the Company has the right to defer payment of interest on the debentures and, therefore, distributions on the trust preferred securities for up to five years.

Note 11 - Income Taxes

Deferred tax assets and liabilities consists of the following components as of December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Deferred tax assets:		
Allowance for credit losses on loans receivable	\$ 1,486,030	\$ 1,306,075
Unrealized loss on securities available-for-sale	5,167,233	6,629,834
Other	694,141	915,898
	<u>7,347,404</u>	<u>8,851,807</u>
Deferred tax liabilities:		
Goodwill	(1,276,346)	(1,176,510)
Mortgage servicing asset	(1,400,089)	(1,381,248)
Premises and equipment	(1,208,855)	(1,170,247)
Other	(348,679)	(520,607)
	<u>(4,233,969)</u>	<u>(4,248,612)</u>
Net deferred tax asset	<u>\$ 3,113,435</u>	<u>\$ 4,603,195</u>

The provision for income taxes charged to operations consists of the following:

	<u>2023</u>	<u>2022</u>
Current tax expense	\$ 1,062,833	\$ 1,473,882
Deferred tax expense	24,642	438,418
	<u>\$ 1,087,475</u>	<u>\$ 1,912,300</u>

The income tax provision differs from the amount of income tax determined by applying the U.S. Federal income tax rate to pretax income as follows:

	<u>2023</u>	<u>2022</u>
Computed "expected" federal income tax expense	\$ 835,487	\$ 1,588,712
Increase (decrease) resulting from:		
State income taxes, net of federal tax benefit	322,208	585,705
Tax-exempt interest income (net of disallowed expenses)	-	(66,434)
Other	(70,220)	(195,683)
	<u>\$ 1,087,475</u>	<u>\$ 1,912,300</u>

Note 12 - Related Party Transactions

In the ordinary course of business, the Bank has granted loans to directors and executive officers of the Company. The aggregate amount of loans to such related parties was \$0 and \$2,038 as of December 31, 2023 and 2022, respectively.

Liabilities at December 31, 2023 and 2022, included amounts on deposit from Company directors and executive officers of \$1,524,404 and \$997,192, respectively. Such deposits were accepted in the ordinary course of business with normal interest rates, interest payment terms, and maturities.

Note 13 - Employee Benefits

401(k) Plan

All employees are eligible to participate in the Company's 401(k) plan on the first day of the following quarter from the date of hire, after they attain age 21, and are employed at least 1,000 hours during the plan year. Participating employees may contribute the maximum amount allowed by law and the Company will match up to five percent. The match vests at 20% after the second year of service, until fully vested after six years of service. Contributions to the plan for the years ended December 31, 2023 and 2022 were \$404,351 and \$337,585, respectively.

Phantom Stock Plan

The Company has a phantom stock plan for certain key management employees, which vest over a five-year period at 20% per year. Awards of phantom shares are determined by the board of directors and vested amounts are paid out at the end of employment to eligible employees. Changes in the plan are based on changes in fair value of the Company's stock and plan activity including new awards, vesting and forfeitures. Deferred compensation reflected in other liabilities in on the consolidated balance sheet totaled \$2,082,519 and \$2,325,888 as of December 31, 2023 and 2022, respectively. Expenses related to the changes in the plan at December 31, 2023 and 2022 totaled (\$243,987) and \$365,985, respectively.

Note 14 - Minimum Regulatory Capital Requirements

The federal banking agencies published final rules (the “Basel III Capital Rules”) that revised their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to implement, in part, agreements reached by the Basel Committee and certain provisions of the Dodd-Frank Act. The Basel III Capital Rules apply to banking organizations, including the Bank.

In connection with the effective date of Basel III, most banks were required to decide whether to elect to opt-out of the inclusion of Accumulated Other Comprehensive Income (“AOCI”) in their Common Equity Tier 1 Capital. This was a one-time election and generally irrevocable. If electing to opt-out, most AOCI items will be treated, for regulatory capital purposes, in the same manner in which they were prior to Basel III. The Bank has elected to opt-out of the inclusion.

Among other things, the Basel III Capital Rules: (i) introduce a new capital measure entitled “Common Equity Tier 1” (“CET1”); (ii) specify that tier 1 capital consist of CET1 and additional financial instruments satisfying specified requirements that permit inclusion in tier 1 capital; (iii) define CET1 narrowly by requiring that most deductions or adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions or adjustments from capital as compared to the existing regulations.

A minimum leverage ratio (tier 1 capital as a percentage of total assets) of 4.0% is also required under the Basel III Capital Rules (even for highly rated institutions). The Basel III Capital Rules additionally require institutions to retain a capital conservation buffer of 2.5% above these required minimum capital ratio levels. Banking organizations that fail to maintain the minimum 2.5% capital conservation buffer could face restrictions on capital distributions or discretionary bonus payment to executive officers.

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum 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’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Common Equity Tier 1 Capital (“CET1”), Tier 1 Capital, Total Capital and leverage ratio of Tier 1 Capital. As of January 1, 2015, the requirements are:

- 4.5% based upon CET1
- 6.0% based upon tier 1 capital
- 8.0% based on total regulatory capital
- Leverage ratio of Tier 1 Capital assets equal to 4%

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As of December 31, 2023 and 2022, management believes the Bank met all capital adequacy requirements to which they are subject. As of December 31, 2023, the most recent notification from the Federal Deposit Insurance Company (FDIC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Bank's category.

The Banks' actual capital amounts and ratios are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2023:						
Common equity Tier 1 capital (to risk weighted assets)	\$ 47,575,000	12.5%	≥ \$17,154,000	≥4.5%	≥ \$24,778,000	≥6.5%
Tier I capital (to risk weighted assets)	\$ 47,575,000	12.5%	≥ \$22,872,000	≥6.0%	≥ \$30,496,000	≥8.0%
Total capital (to risk weighted assets)	\$ 52,344,000	13.7%	≥ \$30,496,000	≥8.0%	≥ \$38,120,000	≥10.0%
Tier I capital (to average assets)	\$ 47,575,000	8.2%	≥ \$23,302,000	≥4.0%	≥ \$29,128,000	≥5.0%
As of December 31, 2022:						
Common equity Tier 1 capital (to risk weighted assets)	\$ 46,795,000	13.7%	≥ \$15,356,000	≥4.5%	≥ \$22,180,000	≥6.5%
Tier I capital (to risk weighted assets)	\$ 46,795,000	13.7%	≥ \$20,474,000	≥6.0%	≥ \$27,299,000	≥8.0%
Total capital (to risk weighted assets)	\$ 51,064,000	15.0%	≥ \$27,299,000	≥8.0%	≥ \$34,124,000	≥10.0%
Tier I capital (to average assets)	\$ 46,795,000	8.5%	≥ \$22,058,000	≥4.0%	≥ \$27,572,000	≥5.0%

Note 15 - Restrictions

The Company's ability to pay dividends to stockholders is subject to the requirements of their state charter. No dividend may be paid by the Company unless the Board of Directors determines that the Company will be able to pay its debts in the ordinary course of business after payment of the dividend. In addition, the Company's ability to pay dividends is dependent, in part, upon the dividends from the subsidiary bank.

Note 16 - Stock Repurchases

During the years ended December 31, 2023 and 2022, the Company did not repurchase any shares of outstanding common stock. During 2023 and 2022, the Company did not release any shares of treasury shares. Repurchased shares are considered treasury shares and will be utilized for general corporate and other purposes.

Note 17 - Commitments and Contingencies

The Company 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. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the accompanying consolidated balance sheets. The contract amounts of these instruments reflect the extent of involvement by the Company.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contract amount of these commitments. The Company uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

The contract amounts of these financial instruments at December 31 are as follows:

	<u>2023</u>	<u>2022</u>
Financial instruments whose contract amount represents risk:		
Commitments to extend credit	\$ 101,090,354	\$ 88,179,050
Standby letters of credit	2,786,370	376,160
MPF credit enhancement	<u>857,012</u>	<u>819,345</u>
Total	<u>\$ 104,733,736</u>	<u>\$ 89,374,555</u>

Commitments to extend credit are agreements to lend to a customer provided 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. Since a portion of the commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on the loan type and on management's evaluation of the borrower. Collateral held varies, but may include real estate, accounts receivable, crops, livestock, inventory, property and equipment, and income-producing commercial properties. The Company would incur no losses if any or all of these commitments expire unused.

Standby letters of credit are conditional lending commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

The Banks' exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Mortgage Partnership Finance (MPF) credit enhancements allow the Corporation to share the credit risk associated with home mortgage finance with the Federal Home Loan Bank (FHLB). MPF provides the Corporation the ability to originate, sell, and service fixed rate residential mortgage loans, and receive a credit enhancement fee based on the performance of the loans. FHLB manages the liquidity, interest rate, and prepayment risks of the loans only after a foreclosure loss exceeds the borrower's equity, private mortgage insurance, and the funded first loss account. Based on the delinquency results for states where properties are located and the Corporation's historical loss experience, the estimated foreclosure losses are immaterial.

Financial Instruments with Concentrations of Credit Risk

Concentration by Loan Type: A large portion of the Company's loan portfolio finances properties secured by real estate, including retail buildings, multi-family homes, farmland, land development, and other non-residential real estate.

Employee Retention Credit

During the year ended December 31, 2022, the Company recorded income of \$2,695,493 for the Employee Retention Credit which is included in the consolidated statement of income as other non-interest income. As of December 31, 2022, the Company still had a receivable of \$1,888,220 for this credit which is included in the consolidated balance sheet under other assets. The Company's credit filings remain open for potential examination by the Internal Revenue Service through the statute of limitations, which has varying expiration dates extending through 2027. Any disallowed claims resulting from such examinations could be subject to repayment to the federal government. The Company's management does not expect any potential examination would result in repayment.

Litigation

In the ordinary course of business, the Company and the Bank may be subject to litigation. Based upon the available information and advice from the Company's legal counsel, management does not believe that any potential, threatened, or pending litigation to which it is a party will have a material adverse effect on the Company's liquidity, financial condition, or results of operations.

Note 18 - Fair Values of Assets and Liabilities

Determination of Fair Value

Accounting guidance on fair value measurements and disclosures defines fair value, and establishes a framework for measuring the fair value of assets and liabilities using a hierarchy system and expands disclosures about fair value measurement. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts business.

The three-level valuation hierarchy for disclosure of fair value is as follows:

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

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

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

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Debt Securities Available-for-Sale

Fair values for debt securities available-for-sale are based on quoted market prices, if available, and are classified within Level 1 of the valuation hierarchy. For those debt securities available-for-sale where quoted prices are unavailable, fair values are calculated based on market prices of similar securities and, therefore, are classified as Level 2 within the valuation hierarchy.

Collateral Dependent Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered collateral dependent and a specific reserve is established. The specific reserves for collateral dependent impaired loans are based on the fair value of the collateral less estimated costs to sell. The fair value of the collateral was determined based on appraisals. When significant adjustments were based on unobservable inputs, the resulting fair value measurement has been categorized as a Level 3 measurement.

Fair values of assets measured on a recurring basis at December 31, 2023 and 2022, are as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using:		
		(Level 1)	(Level 2)	(Level 3)
<u>December 31, 2023</u>				
Debt securities available-for-sale				
U.S. government securities	\$ 81,068,328	\$ -	\$ 81,068,328	\$ -
State and municipal securities	21,318,367	-	21,318,367	-
Mortgage-backed securities	60,074,419	-	60,074,419	-
Collateralized mortgage obligations	7,945,771	-	7,945,771	-
	<u>\$ 170,406,885</u>	<u>\$ -</u>	<u>\$ 170,406,885</u>	<u>\$ -</u>
<u>December 31, 2022</u>				
Debt securities available-for-sale				
U.S. government securities	\$ 76,704,357	\$ -	\$ 76,704,357	\$ -
State and municipal securities	21,959,127	-	21,959,127	-
Mortgage-backed securities	61,769,802	-	61,769,802	-
Collateralized mortgage obligations	8,741,981	-	8,741,981	-
	<u>\$ 169,175,267</u>	<u>\$ -</u>	<u>\$ 169,175,267</u>	<u>\$ -</u>

Fair values of assets measured on a non-recurring basis at December 31, 2023 and 2022, are as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using:			Valuation Technique	Unobservable input	Range (Weighted Avg.)
		(Level 1)	(Level 2)	(Level 3)			
<u>December 31, 2023</u>							
Collateral dependent loans	<u>\$ 18,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,000</u>	Collateral valuation	Discount from market value	0%-30%
<u>December 31, 2022</u>							
Impaired loans	<u>\$ 960,296</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 960,296</u>	Collateral valuation	Discount from market value	0%-30%

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The following table presents quantitative information about recurring Level 3 fair value measurements at December 31, 2023 and 2022:

	2023	2022	Valuation Technique	Unobservable input	Range (Weighted Avg.)
Mortgage servicing rights	\$ 4,871,230	\$ 4,806,011	Discounted Cash Flows	Prepayment speeds Discount Rates	9.0% - 12.0%

Level 3 assets consist entirely of mortgage servicing rights. The Company determines the fair value of mortgage servicing rights using a valuation model that calculates the present value of estimated future net servicing income. The Company utilizes assumptions in the valuation model that market participants use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, costs to service, escrow account earnings and contractual servicing income. These assumptions change from quarter to quarter as market conditions and projected interest rates change.

The following is a reconciliation for Level 3 assets and liabilities measured on a recurring basis:

	Mortgage Servicing Rights	
	2023	2022
Beginning balance	\$ 4,806,011	\$ 3,427,049
Additions	223,886	423,172
Recovery (Impairment)	262,044	2,035,239
Amortization	(420,711)	(1,079,449)
Ending balance	<u>\$ 4,871,230</u>	<u>\$ 4,806,011</u>

The estimated fair values, and related carrying amounts, of the Company's financial instruments as of December 31, 2023 are as follows:

	Carrying Amount	Fair value at December 31, 2023			
		Total	(Level 1)	(Level 2)	(Level 3)
Financial assets:					
Cash and cash equivalents	\$ 14,054,739	\$ 14,054,739	\$ 14,054,739	\$ -	\$ -
Interest-bearing deposits in banks	4,655,000	4,655,000	4,655,000	-	-
Debt securities available-for-sale	170,406,885	170,406,885	-	170,406,885	-
Loans, net	351,112,783	346,403,582	-	-	346,403,582
Investments in restricted stock	7,768,800	7,768,800	7,768,800	-	-
Interest receivable	2,813,358	2,813,358	2,813,358	-	-
Mortgage servicing rights	4,871,230	4,806,011	-	4,806,011	-
Financial liabilities:					
Deposits	\$ 502,128,170	\$ 503,005,074	\$ -	\$ -	\$ 503,005,074
Borrowings	31,990,601	31,819,649	-	31,819,649	-
Subordinated debentures	6,186,000	6,186,000	6,186,000	-	-
Interest payable	868,416	868,416	868,416	-	-
Off-balance sheet commitments:					
Commitments to extend credit	103,876,724	103,876,724	103,876,724	-	-

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The estimated fair values, and related carrying amounts, of the Company's financial instruments as of December 31, 2022 are as follows:

	Carrying Amount	Fair value at December 31, 2022			
		Total	(Level 1)	(Level 2)	(Level 3)
Financial assets:					
Cash and cash equivalents	\$ 22,945,044	\$ 22,945,044	\$ 22,945,044	\$ -	\$ -
Interest-bearing deposits in banks	4,900,000	4,900,000	4,900,000	-	-
Debt securities available-for-sale	169,175,267	169,175,267	-	169,175,267	-
Loans, net	302,303,829	298,354,855	-	-	298,354,855
Investments in restricted stock	7,405,800	7,233,300	7,233,300	-	-
Interest receivable	2,062,672	2,062,672	2,062,672	-	-
Mortgage servicing rights	4,806,011	4,806,011	-	4,806,011	-
Financial liabilities:					
Deposits	\$ 480,736,491	\$ 481,224,725	\$ -	\$ -	\$ 481,224,725
Borrowings	22,245,721	21,239,090	-	21,239,090	-
Subordinated debentures	6,186,000	6,186,000	6,186,000	-	-
Interest payable	194,505	194,505	194,505	-	-
Off-balance sheet commitments:					
Commitments to extend credit	88,555,210	88,555,210	88,555,210	-	-