UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A

(Amendment No. 1)

[x] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2023

OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to ______.

Commission file number: 0-24100.

HMN FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**41-1777397**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1016 Civic Center Drive Northwest **Rochester, Minnesota**	**55901**
(Address of principal executive offices)	(Zip Code)

(507) 535-1200
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $.01 per share	HMNF	The Nasdaq Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES [ ] NO [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES [ ] NO [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES [X] NO [ ]

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
YES [X] NO [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]		Accelerated filer	[ ]
Non-accelerated filer [X]		Smaller reporting company	[X]
		Emerging growth company	[ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. [ ]

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1 (b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
YES [ ] NO [X]

As of June 30, 2023, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $67.9 million based on the closing stock price of $18.74 on such date as reported on the Nasdaq Global Market.

As of February 28, 2024, the number of outstanding shares of common stock of the registrant was 4,462,555.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the close of the registrant's fiscal year ended December 31, 2023 are incorporated by reference in Part III of this Annual Report on Form 10-K.

EXPLANATORY NOTE

HMN Financial, Inc. is filing this Form 10-K/A as Amendment No. 1 (the Amended Filing) to its Annual Report on Form 10-K for the fiscal year ended December 31, 2023 (the Original Filing) that was filed with the Securities and Exchange Commission on March 15, 2024 to correct (i) Baker Tilly US, LLP's report of independent registered public accounting firm, as a previously superseded version was filed due to a clerical error, and (ii) to add Exhibit 21.

This Amended Filing does not reflect any subsequent events occurring after the original filing date of the Original Filing and does not modify or update in any way disclosures made in the Original Filing except as described above.

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Forward-Looking Statements

This Annual Report on Form 10-K and other reports filed by HMN Financial, Inc. (HMN or the Company) with the Securities and Exchange Commission (SEC), may contain forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements are often identified by such forward-looking terminology as “anticipate,” “continue,” “could,” “expect,” “future,” “may,” “project” and “will,” or similar statements or variations of such terms and include, but are not limited to, those relating to: enacted and expected changes to the federal funds rate and the resulting impacts on consumer deposits, loan originations, net interest margin, net interest income and related aspects of the Home Federal Savings Bank’s (HFSB or the Bank) business; the anticipated impacts of inflation and rising interest rates on the general economy, the Bank’s clients, and the allowance for credit losses; anticipated future levels of the provision for credit losses; anticipated level of future asset growth; anticipated ability to maintain and grow core deposit relationships; anticipated call dates of callable investments owned; anticipated impact of tax law changes on future taxable state income; anticipated level of future core deposit growth; and the payment of dividends by HMN.

A number of factors, many of which may be amplified by deterioration in economic conditions, could cause actual results to differ materially from the Company’s assumptions and expectations. These include but are not limited to the adequacy and marketability of real estate and other collateral securing loans to borrowers; federal and state regulation and enforcement; possible legislative and regulatory changes, including changes to regulatory capital rules; the ability of the Bank to comply with other applicable regulatory capital requirements; enforcement activity of the Office of the Comptroller of the Currency (OCC) and the Federal Reserve Bank of Minneapolis in the event of non-compliance with any applicable regulatory standard or requirement; adverse economic, business and competitive developments such as shrinking interest margins, reduced collateral values, deposit outflows, changes in credit or other risks posed by the Company’s loan and investment portfolios; changes in costs associated with traditional and alternate funding sources, including changes in collateral advance rates and policies of the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank; technological, computer-related or operational difficulties including those from any third party cyberattack; reduced demand for financial services and loan products; adverse developments affecting the financial services industry, such as recent bank failures or concerns involving liquidity; changes in accounting policies and guidelines, or monetary and fiscal policies of the federal government or tax laws; domestic and international economic developments; the Company’s access to and adverse changes in securities markets; the market for credit related assets; the future operating results, financial condition, cash flow requirements and capital spending priorities of the Company and the Bank; the availability of internal and, as required, external sources of funding; the Company’s ability to attract and retain employees; or other significant uncertainties. Additional factors that may cause actual results to differ from the Company’s assumptions and expectations include those set forth in the “Risk Factors” section of the Company’s Annual Report on Form 10-K for the year ended December 31, 2023. All forward-looking statements are qualified by, and should be considered in conjunction with, such cautionary statements.

All statements in this Annual Report on Form 10-K, including forward-looking statements, speak only as of the date they are made, and we undertake no duty to update any of the forward-looking statements after the date of this Annual Report on Form 10-K.

PART I

ITEM 1. BUSINESS

General

HMN was incorporated in Delaware in 1994 as a stock savings bank holding company. HMN owns 100 percent of Home Federal Savings Bank. The Bank has a community banking philosophy and operates retail banking and loan production facilities in Minnesota, Iowa and Wisconsin. The Bank has two wholly owned subsidiaries, Osterud Insurance Agency, Inc. (OIA), which does business as Home Federal Investment Services and offers financial planning products and services, and HFSB Property Holdings, LLC (HPH), which is currently inactive, but has acted in the past as an intermediary for the Bank in holding and operating certain foreclosed properties.

As a community-oriented financial institution, the Company seeks to serve the financial needs of communities in its market area. The Company's business involves attracting deposits from the general public and businesses and using such deposits to originate or purchase single family residential, commercial real estate and multi-family mortgage loans as well as consumer, construction and commercial business loans. The Company also invests in mortgage-backed and related securities, U.S. government agency obligations and other permissible investments. The executive offices of the Company are located at 1016 Civic Center Drive Northwest, Rochester, Minnesota 55901. Its telephone number at that address is (507) 535-1200. The Company's website is www.hmnf.com. Information contained on the Company's website is expressly not incorporated by reference into this Annual Report on Form 10-K.

Market Area

The Company serves the southern Minnesota counties of Dodge, Fillmore, Freeborn, Houston, Mower, Olmsted, Steele and Winona, and portions of Goodhue and Wabasha through its corporate office located in Rochester, Minnesota and its eleven branch offices located in Albert Lea, Austin, Kasson, La Crescent, Owatonna, Rochester (4), Spring Valley and Winona, Minnesota. The portion of the Company's southern Minnesota market area consisting of Rochester and the contiguous communities is composed of primarily urban and suburban communities, while the balance of the Company's southern Minnesota market area consists primarily of rural areas and small towns. Primary industries in the Company's southern Minnesota market area include health care, manufacturing, agriculture, wholesale and retail trade, service industries and education. Major employers include the Mayo Clinic, Hormel Foods, Hormel Institute, Quality Pork Processing, International Paper, Federated Insurance, Fastenal, Viracon, Daikin, Gopher Sport, Life Fitness, Wenger Corporation and IBM. The Company's market area is also the home of Winona State University, Rochester Community and Technical College, University of Minnesota - Rochester, Winona State University - Rochester Center, Austin's Riverland Community College, and St. Mary's University and South Eastern Technical College in Winona.

The Company serves Dakota County, in the southern portion of the Minneapolis and St. Paul metropolitan area, from its office located in Eagan, Minnesota. Major employers in this market area include Delta Airlines, Patterson Companies (dental and animal health), UTC (aerospace systems), CHS Cooperative, Flint Hills Resources LP (oil refinery), Unisys Corp (computer software), Twin Cities Orthopedics, Blue Cross Blue Shield of Minnesota and West Group, a Thomson Reuters business (legal research).

The Company serves the Iowa county of Marshall through its branch office located in Marshalltown, Iowa. Major employers in the area include JBS (pork processors), Emerson (automation solutions, and commercial and residential solutions), Lennox Industries (furnace and air conditioner manufacturing), Iowa Veterans Home (hospital care), Marshalltown Community School District (education) and UnityPoint Health (hospital care).

The Company serves the Wisconsin county of Waukesha through its branch office located in Pewaukee, Wisconsin. Major employers in the area include Kohl's Department Stores, ProHealth Care, Quad Graphics, Inc. (media services), Froedtert (academic medical center), General Electric Healthcare (medical technologies), Ascension Healthcare, Roundy's (supermarkets), Aurora Health Care, the School District of Waukesha, Waukesha County Technical College, WE Energies, and Cooper Power.

Lending Activities

General. The Company originates 15 and 30 year fixed rate mortgage loans secured by single family residences and sells the majority of these loans into the secondary market in order to manage its interest rate risk. However, the Company may occasionally place a portion of the 10 or 15 year fixed rate mortgage loans that are eligible for sale in the secondary market into the loan portfolio in order to increase the yield earned on the Bank's interest earning assets. The Company also originates shorter term and generally higher yielding commercial real estate, commercial business and construction loans that it places into its loan portfolio. Some shorter term single family fixed and adjustable rate mortgage loans are also placed into the loan portfolio. The Company also offers an array of consumer loan products that include both open-end and closed-end home equity loans. Home equity lines of credit have adjustable interest rates based upon the prime rate, as published in the Wall Street Journal, plus a margin. See "*Note 5 Loans Receivable, Net*" and "*Note 6 Allowance for Credit Losses and Credit Quality Information*" in Item 8 of Part II in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K for more information on the loan portfolio.

The following table shows the composition of the Company's loan portfolio by fixed and adjustable rate loans as of December 31:

	2023		2022	
(Dollars in thousands)	Amount	Percent	Amount	Percent
Fixed Rate Loans				
Real estate:				
Single family	$ 116,581	13.59 %	$ 120,843	15.34 %
Multi-family	42,292	4.93	35,348	4.49
Commercial	210,457	24.52	211,307	26.82
Construction	23,831	2.78	22,371	2.84
Total real estate loans	393,161	45.82	389,869	49.49
Non-real estate:				
Consumer loans:				
Home equity	6,420	0.75	6,587	0.84
Recreational vehicle	5,965	0.69	7,870	1.00
Other	6,471	0.76	4,489	0.57
Total consumer loans	18,856	2.20	18,946	2.41
Commercial business loans	34,717	4.04	39,575	5.02
Total non-real estate loans	53,573	6.24	58,521	7.43
Total fixed rate loans	446,734	52.06	448,390	56.92
Adjustable Rate Loans				
Real estate:				
Single family	147,722	17.21	85,047	10.79
Multi-family	18,321	2.14	18,537	2.35
Commercial	152,382	17.76	159,608	20.26
Construction	42,670	4.97	24,174	3.07
Total real estate loans	361,095	42.08	287,366	36.47
Non-real estate:				
Consumer loans:				
Home equity line	13,962	1.63	17,551	2.23
Home equity	5,670	0.66	4,278	0.54
Other	4,246	0.49	4,042	0.51
Total consumer loans	23,878	2.78	25,871	3.28
Commercial business loans	26,401	3.08	26,260	3.33
Total non-real estate loans	50,279	5.86	52,131	6.61
Total adjustable rate loans	411,374	47.94	339,497	43.08
Total loans	858,108	100.00 %	787,887	100.00 %
Less:				
Unamortized discounts	15		13	
Net deferred loan fees	577		519	
Allowance for credit losses	11,824		10,277	
Total loans receivable, net	$ 845,692		$ 777,078	

The following table illustrates the interest rate and maturities of the Company's loan portfolio by loan category and interest rate type at December 31, 2023. Loans which have adjustable or renegotiable interest rates are shown as maturing in the period during which the contract is due. Scheduled repayments of principal are reflected in the year in which they are scheduled to be paid. The schedule does not reflect the effects of possible prepayments or enforcement of due-on-sale clauses.

	Real Estate											
(Dollars in thousands)	Single family		Multi-family and Commercial		Construction and Development		Consumer		Commercial Business		Total	
Fixed-rate loans:												
Due during years ending December 31,	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
2024 [1]	$ 8,278	3.71 %	$ 24,434	5.19 %	$ 11,272	6.60 %	$ 4,818	6.53 %	$ 19,942	4.65 %	$ 68,744	5.18 %
2025 through 2028	35,660	3.81	198,865	4.18	12,559	5.15	9,655	5.93	13,640	5.94	270,379	4.33
2029 through 2038	46,244	3.38	29,399	3.91	0	0.00	4,375	6.22	1,135	6.80	81,153	3.77
2039 and thereafter	26,399	3.71	51	4.50	0	0.00	8	8.04	0	0.00	26,458	3.71
Total fixed-rate loans	$ 116,581		$ 252,749		$ 23,831		$ 18,856		$ 34,717		$ 446,734	
Adjustable-rate loans:												
2024 [1]	$ 3,338	4.63 %	$ 6,509	4.93 %	$ 11,461	8.62 %	$ 1,329	7.55 %	$ 16,470	8.83 %	$ 39,107	7.72 %
2025 through 2028	14,022	4.64	57,507	5.24	7,854	8.19	2,967	6.73	8,117	7.75	90,467	5.68
2029 through 2038	46,966	4.64	102,288	4.71	23,355	5.04	16,573	7.72	1,814	7.60	190,996	5.02
2039 and thereafter	83,396	4.85	4,399	5.41	0	0.00	3,009	7.63	0	0.00	90,804	4.97
Total adjustable-rate loans	$ 147,722		$ 170,703		$ 42,670		$ 23,878		$ 26,401		$ 411,374	
Total	$ 264,303		$ 423,452		$ 66,501		$ 42,734		$ 61,118		$ 858,108	

[1] Includes demand loans, loans having no stated maturity, and overdraft loans.

The total amount of loans due after December 31, 2024 which have predetermined interest rates is $378.0 million, while the total amount of loans due after such date that have floating or adjustable interest rates is $372.3 million. Construction and development loans at December 31, 2023 were $23.3 million for single family, $23.5 million for multi-family and $19.7 million for nonresidential.

The aggregate amount of loans and extensions of credit that the Bank is permitted to make to any one borrower is generally limited to 15% of unimpaired capital and surplus. In addition to the 15% limit, the Bank is permitted to lend an additional amount equal to 10% of unimpaired capital and surplus if the additional amount is fully secured by “readily marketable collateral” having a current market value of at least 100% of the loan or extension of credit. Applicable law establishes a number of rules for combining loans to separate borrowers. Loans or extensions of credit to one person may be attributed to other persons if: (i) the proceeds of a loan or extension of credit are used for the direct benefit of the other person; or (ii) a common enterprise is deemed to exist between persons. At December 31, 2023, based upon the 15% limitation, the Bank's regulatory limit for loans to one borrower was approximately $17.1 million and no loans to any one borrower exceeded this amount. At December 31, 2023, the Bank’s largest aggregate amount of loans to one borrower totaled $15.4 million. All of the loans for the largest borrower were performing in accordance with their terms as of December 31, 2023 and the borrower had no affiliation with the Bank other than their relationship as a customer.

All of the Bank's lending is subject to its written underwriting standards and to loan origination procedures. Decisions on loan requests are made on the basis of detailed applications and property valuations determined by an independent appraiser. The loan applications are designed primarily to determine the borrower's ability to repay. The more significant items on the application are verified through the use of credit reports, financial statements, tax returns or confirmations.

Single family loans are originated either for inclusion in the loan portfolio under the Bank’s Portfolio First loan program or for sale in the secondary market. Loans not placed into the portfolio are sold in the secondary market to the Federal National Mortgage Association (FNMA) on a servicing retained basis or to other third party investors on a servicing released basis. The limit for a retail mortgage originated for sale on the secondary market was $726,200 and $647,200 for 2023 and 2022, respectively, and these loans require the approval of a designated secondary market underwriter.

Two levels of approval authority have been established for loans originated under the Portfolio First loan program. The two levels of authority include Approved Portfolio First Lenders and Credit Administration positions with Portfolio First approval authority. Approved Portfolio First Lenders are select mortgage loan officers recommended for the Portfolio First program approval authority by their Market President and are approved by the Chief Credit Officer or Chief Operating Officer. The Credit Administration positions with Portfolio First approval authority include the Director of Retail Lending and Loan Servicing, the Chief Credit Officer, the designated Assistant Vice President (AVP) Credit Administration and the Chief Operating Officer.

Loans less than $750,000 require the approval of one of the two designated Credit Administration individuals with Portfolio First approval authority. Loans over $750,000 require the approval of two individuals with Portfolio First approval authority. Loans where the total aggregate amount of all loan obligations owed or guaranteed to the Bank plus the new obligation is greater than $2.5 million require the approval of a majority of the Senior Loan Committee, which is comprised of the Bank’s most experienced lending staff.

Loans that meet the underwriting guidelines of secondary market investors are approved by designated Credit Administration positions. The Credit Administration positions with secondary market approval authority include Retail Loan Underwriters, the Director of Retail Lending and Servicing, the Chief Credit Officer and the Chief Operating Officer. Resident, physician and professional loan products that fall under the Portfolio First Policy are underwritten and approved by a Retail Loan Underwriter who has the authority to approve these loans. Resident, physician and professional loans with exceptions require a second approval from an individual with Portfolio First approval authority. Approval level authorities are granted by the Chief Credit Officer or Chief Operating Officer and confirmed by the Executive Loan Committee on an annual basis. Loans are originated based on the specific guidelines established by the secondary market investor.

The Bank generally requires title insurance on its mortgage loans, as well as fire and extended coverage casualty insurance in amounts at least equal to the principal amount of the loan or the value of improvements on the property. The Bank also requires flood insurance to protect the property securing its interest when the property is located in a flood plain.

Single Family Residential Real Estate Lending. At December 31, 2023, the Company's single family real estate loans, consisting of both fixed rate and adjustable rate loans, totaled $264.3 million, an increase of $58.4 million from $205.9 million at December 31, 2022. The single family loan portfolio increased in 2023 primarily because a higher percentage of our originated single family loans were placed into the loan portfolio. The majority of the single family loans that were placed into the loan portfolio were originated in non-salable loan products specific to our executive banking initiative targeting high net worth individuals and medical professionals. The majority of the longer term loans that were originated during the year continued to be sold into the secondary market in order to generate income and to manage the Company’s interest rate risk position.

The Company offers conventional fixed rate single family loans that have maximum terms of 30 years. In order to manage interest rate risk, the Company typically sells the majority of fixed rate loan originations with terms to maturity of 15 years or greater that are eligible for sale in the secondary market. The interest rates charged on the fixed rate loan products are based on the secondary market delivery rates, as well as other competitive factors. The Company also originates fixed rate loans with terms up to 30 years that are insured by the Federal Housing Administration (FHA), Veteran’s Administration (VA), Minnesota Housing Finance Agency, Iowa Finance Authority, or the United States Department of Agriculture-Guaranteed Housing (RD).

The Company also offers one year adjustable rate mortgages (ARMs) at a margin (generally 250 to 300 basis points) over the yield on the Average Weekly One Year U.S. Treasury Constant Maturity Index for terms of up to 30 years. The ARMs offered by the Company allow the borrower to select (subject to pricing) an initial period of one to fifteen years between the loan origination and the date the first interest rate change occurs. The ARMs generally have a 150 to 200 basis point annual interest rate change cap and a lifetime cap of 300 to 600 basis points over or under the initial rate. The Company’s originated ARMs do not permit negative amortization of principal, generally do not contain prepayment penalties and are not convertible into fixed rate loans. Because of the low interest rate environment that had existed prior to the last two years, a limited number of ARM loans had been originated before 2022 as consumers generally opted for longer term fixed rate loans. Because of the increase in mortgage interest rates during 2022 and 2023, more adjustable rate loans were originated and placed into the loan portfolio.

In underwriting single family residential real estate loans, the Company evaluates the borrower's credit history and ability to make principal, interest and escrow payments; the value of the property that will secure the loan; and debt-to-income ratios. Properties securing single family residential real estate loans made by the Company are appraised by independent appraisers. The Company originates residential mortgage loans with loan-to-value ratios up to 100% for owner-occupied homes and up to 85% for nonowner-occupied homes; however, private mortgage insurance is generally required to reduce the Company's exposure to 80% or less of the value on most loans. The Company generally seeks to underwrite its loans in accordance with secondary market, FHA, VA or RD standards. However, the Company does originate some shorter term fixed rate and adjustable rate single family loans for its portfolio that do not meet certain secondary market guidelines.

The Company's single family mortgage loans customarily include due-on-sale clauses giving it the right to declare the loan immediately due and payable in the event that, among other things, the borrower sells or otherwise disposes of the property subject to the mortgage.

At December 31, 2023, $0.8 million of the single family residential loan portfolio was non-performing, compared to $0.9 million at December 31, 2022.

Commercial Real Estate and Multi-Family Lending. The Company originates permanent commercial real estate and multi-family loans secured by properties located primarily in its market area. It also purchases a limited amount of participations in commercial real estate and multi-family loans originated by third parties. The commercial real estate and multi-family loan portfolio includes loans secured by motels, hotels, apartment buildings, townhomes, churches, manufacturing plants, land developments, office buildings, movie theaters, shopping malls, nursing homes, restaurants, warehouses and other non-residential building properties primarily located in the upper Midwestern portion of the United States. At December 31, 2023, the Company's commercial and multi-family real estate loans totaled $423.4 million, a decrease of $1.4 million from $424.8 million at December 31, 2022.

Permanent commercial real estate and multi-family loans are generally originated for a maximum term of 10 years and may have longer amortization periods with balloon maturity features. The interest rates may be fixed for the term of the loan or have adjustable features that are tied to the prime rate or another published index. Commercial real estate and multi-family loans are generally written in amounts up to 80% of the lesser of the appraised value of the property or the purchase price and generally have a debt service coverage ratio of at least 110%. The debt service coverage ratio is the ratio of net cash from operations to debt service payments. The Company may originate construction loans secured by commercial or multi-family real estate, or may purchase participation interests in third party originated construction loans secured by commercial or multi-family real estate.

Appraisals on commercial real estate and multi-family real estate properties are performed by independent appraisers prior to the time the loan is originated. For transactions less than $500,000, the Company may use an internal valuation. All appraisals on commercial and multi-family real estate are reviewed and approved by a qualified Bank employee or independent third party. The Bank's underwriting procedures require verification of the borrower's credit history, income, financial statements, banking relationships and income projections for the property. The commercial loan policy generally requires personal guarantees from the proposed borrowers. An initial on-site inspection is generally required for all collateral properties for loans with balances in excess of $250,000. Independent annual reviews are performed for aggregate commercial lending relationships that exceed $500,000. The reviews cover financial performance, documentation completeness and accuracy of loan risk ratings.

Multi-family and commercial real estate loans generally present a higher level of risk than loans secured by single family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family and commercial real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed), the borrower's ability to repay the loan may be impaired. At December 31, 2023, $0.5 million of loans in the commercial real estate portfolio were non-performing, compared to no loans that were non-performing at December 31, 2022.

Construction Lending. The Company makes construction loans to individuals for the construction of their residences and to builders for the construction of single family residences. It also makes loans to builders for houses built on speculation. Construction loans also include commercial real estate loans.

Almost all loans to individuals for the construction of their residences are structured as permanent loans. These loans are made on the same terms as residential loans, except that during the construction phase, which typically lasts up to twelve months, the borrower pays interest only. Generally, the borrower also pays a construction fee at the time of origination plus other costs associated with processing the loan.

Residential construction loans are underwritten pursuant to the same guidelines used for originating residential loans on existing properties.

Construction loans to builders or developers of single family residences generally carry terms of one year.

Construction loans to owner occupants are generally made in amounts up to 95% of the lesser of cost or appraised value, but no more than 90% of the loan proceeds can be disbursed until the building is completed. The Company generally limits the loan-to-value ratios on loans to builders to 80%. Prior to making a commitment to fund a construction loan, the Company requires a valuation of the property, financial data and verification of the borrower's income. The Company obtains personal guarantees for substantially all of its construction loans to builders. Personal financial statements of guarantors are also obtained as part of the loan underwriting process. Construction loans are generally located in the Company's market area.

Construction loans are obtained principally through continued business from builders and developers who have previously borrowed from the Bank, as well as referrals from existing and walk-in clients. The application process includes a submission to the Bank of accurate plans, specifications and costs of the project to be constructed. These items are some of the factors utilized in the determination of the appraised value of the subject property to be built.

At December 31, 2023, construction loans totaled $66.5 million, an increase of $20.0 million from $46.5 million at December 31, 2022. Total construction loans included $23.3 million and $28.4 million of single family residential, $23.5 million and $1.7 million of multi-family residential, and $19.7 million and $16.4 million of commercial real estate loans at December 31, 2023 and 2022, respectively. The nature of construction loans makes them more difficult to evaluate and monitor than loans on existing buildings. The risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value upon completion of the project, experience of the builder and the estimated cost (including interest) of the project. If the estimate of value proves to be inaccurate, the Company may be confronted, at or prior to the maturity of the loan, with a project having a value that is insufficient to assure full repayment or the possibility of having to make substantial investments to complete and sell the project. Because defaults in repayment may not occur during the construction period, it may be difficult to identify problem loans at an early stage. In these cases, the Company may be required to modify the terms of the loan. There were no construction loans in the commercial real estate portfolio that were non-performing at December 31, 2023 or December 31, 2022.

Consumer Lending. The Company originates a variety of consumer loans, including home equity (open-end and closed-end), automobile, recreational vehicle, mobile home, lot loans, loans secured by deposit accounts and other loans for household and personal purposes. At December 31, 2023, the Company’s consumer loans totaled $42.7 million, a decrease of $2.1 million from $44.8 million at December 31, 2022.

Consumer loan terms vary according to the type and value of collateral, length of contract and creditworthiness of the borrower. The Company's consumer loans are made at fixed or adjustable interest rates, with terms up to 20 years for secured loans and up to five years for unsecured loans.

The Company's home equity loans are generally written so that the total commitment amount, when combined with the balance of any other outstanding mortgage liens, does not exceed 80% of the appraised value of the property or an internally established market value. Internal market values are established using current market data, including recent sales data, and are typically lower than third party appraised values. The closed-end home equity loans are written with fixed or adjustable rates with terms up to 20 years. The open-end home equity lines are written with an adjustable rate and a 2, 5 or 10 year draw period that requires interest only payments followed by a 10 year repayment period that fully amortizes the outstanding balance. The consumer may access the open-end home equity line by making a withdrawal at the Bank, transferring funds through our online or mobile banking products or writing a check on the home equity line of credit account. Open and closed-end equity loans, which are generally secured by second mortgages on the borrower’s principal residence, represented 61.0% and 63.4% of the Company’s consumer loan portfolio at December 31, 2023 and December 31, 2022, respectively.

The underwriting standards employed by the Company for consumer loans include a determination of the applicant's payment history on other debts and their ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is of primary consideration, the underwriting process also includes a comparison of the value of the security, if any, in relation to the proposed loan amount. Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or are secured by rapidly depreciable assets, such as automobiles, recreational vehicles or mobile homes. In these cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans. At December 31, 2023, $0.4 million of the consumer loan portfolio was non-performing, the same as the amount at December 31, 2022.

Commercial Business Lending. The Company maintains a portfolio of commercial business loans to borrowers associated with the real estate industry as well as to retail, manufacturing operations, agricultural operations and professional firms. The Company's commercial business loans generally have terms ranging from six months to five years and may have either fixed or variable interest rates. The Company's commercial business loans generally include personal guarantees and are usually, but not always, secured by business assets such as inventory, equipment, leasehold interests in equipment, fixtures, real estate and accounts receivable. The underwriting process for commercial business loans includes consideration of the borrower's financial statements, tax returns, projections of future business operations and inspection of the subject collateral, if any. The Company may also purchase a limited amount of participation interests in commercial business loans originated outside of the Company’s market area from third party originators. These loans generally have underlying collateral of inventory or equipment and repayment periods of less than ten years. At December 31, 2023, the Company’s commercial business loans totaled $61.1 million, a decrease of $4.7 million from $65.8 million at December 31, 2022. The decrease in commercial business loans was primarily due to a $6.2 million decrease in commercial secured loans and lines of credit that was partially offset by a $1.1 million increase in agriculture production loans.

Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her income, and which are secured by real property with more easily ascertainable value, commercial business loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself. Furthermore, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. At December 31, 2023, $2.2 million of loans in the commercial business portfolio were non-performing, compared to $0.5 million at December 31, 2022.

Originations, Purchases and Sales of Loans and Mortgage-Backed and Related Securities

Real estate loans are generally originated by the Company's salaried loan officers. Mortgage and consumer loan officers may also receive a commission in addition to their base salary for meeting production and other branch goals. Loan applications are taken in all branch and loan production offices. The Company originates both fixed and adjustable rate loans, however, its ability to originate loans is dependent upon the relative client demand for loans in its markets. Demand for adjustable rate loans is affected by the interest rate environment. The amount of adjustable rate single family loans increased in 2023 due to an increase in longer term fixed rate mortgage interest rates which made adjustable rate mortgages a more affordable option for some borrowers to purchase a home. The Company originated $75.0 million of single family adjustable rate loans for its portfolio during 2023, an increase of $47.0 million from $28.0 million in 2022. The Company also originated $24.2 million of fixed rate single family loans for its portfolio during 2023, a decrease of $12.1 million from $36.3 million for 2022. The decrease in the amount of fixed rate single family loans that were placed into the loan portfolio during 2023 is primarily the result of selling almost all of the 15 year fixed rate mortgage loans, that were eligible for sale, into the secondary market and not placing them into the loan portfolio in order to manage the Company’s interest rate risk.

The Company typically focuses its portfolio loan origination efforts on commercial real estate, commercial business and consumer loans because these loans have terms to maturity and adjustable interest rate characteristics that are generally more beneficial to the Company in managing interest rate risk than traditional single family fixed rate conventional loans. The Company originated $87.6 million of multi-family and commercial real estate, commercial business and consumer loans (which excludes commercial real estate loans for construction and development) during 2023, a decrease of $162.3 million from originations of $249.9 million for 2022. The decrease in originations primarily reflects the $123.0 million decrease in originations of commercial real estate loans in 2023 compared to 2022. Commercial business loans originated in 2023 also decreased $29.9 million from 2022. The decrease in originated commercial real estate and commercial business loans was primarily because of the increase in interest rates that occurred between the periods which reduced demand for commercial real estate and commercial business loans between the periods.

In order to supplement loan demand in the Company's market area and geographically diversify its loan portfolio, the Company purchases participations in real estate loans from selected sellers, from time to time, with yields based upon then-current market rates. The Company reviews and underwrites all loans purchased to ensure that they meet the Company's underwriting standards, and the seller generally continues to service the loans. The Company has generally not experienced higher losses or credit quality issues with purchased participations than other loans originated by the Company. The Company purchased $3.3 million of loans during 2023, a decrease of $15.2 million from the $18.5 million purchased during 2022. All of the loans purchased have terms and interest rates that are similar in nature to the Company's originated single family, commercial real estate, construction and development and commercial business portfolios.

The Company has mortgage-backed and related securities that are held, based on investment intent, in the available for sale portfolio. The Company did not purchase any mortgage-backed securities in 2023 and purchased $15.0 million in 2022. The decrease in the amount of mortgage-backed securities purchased in 2023 is because of the reduced non-brokered deposit balances between the periods. The Company did not sell any mortgage-backed securities in 2023 or 2022. See “Investment Activities” section of this Annual Report on Form 10-K for further discussion of the Company’s investment activity.

The following table shows the loan and mortgage-backed and related securities origination, purchase, and sale and repayment activities of the Company for the periods indicated.

LOANS HELD FOR INVESTMENT

(Dollars in thousands)	Year Ended December 31, 2023	2022
Originations by type		
Adjustable rate:		
Real estate:		
Single family	$ 75,020	28,012
Multi-family	0	1,913
Commercial	11,736	43,277
Construction and development	41,716	53,247
Non-real estate:		
Consumer	10,972	16,704
Commercial business	16,460	32,839
Total adjustable rate	155,904	175,992
Fixed rate:		
Real estate:		
Single family	24,187	36,343
Multi-family	400	4,459
Commercial	10,300	101,802
Construction and development	3,351	19,006
Non-real estate:		
Consumer	14,155	11,901
Commercial business	23,527	37,033
Total fixed rate	75,920	210,544
Total loans originated	231,824	386,536
Purchases		
Real estate:		
Construction and development	0	15,400
Non-real estate:		
Commercial business	3,300	3,050
Total loans purchased	3,300	18,450
Sales, participations and repayments		
Real estate:		
Single family	427	0
Commercial	1,899	19,866
Construction and development	8,345	0
Non-real estate:		
Consumer	2,242	2,623
Commercial business	688	12,696
Total sales	13,601	35,185
Transfers to loans held for sale	4,215	14,899
Principal repayments	146,482	228,900
Total reductions	164,298	278,984
Decrease in other items, net	(605)	(115)
Net increase	$ 70,221	125,887

LOANS HELD FOR SALE

(Dollars in thousands)		Year Ended December 31, 2023	2022
Originations by type			
Fixed rate:			
Real estate:			
Single family	$	60,708	71,062
Total fixed rate loans originated		60,708	71,062
Sales and repayments			
Real estate:			
Single family		62,996	76,089
Total sales		62,996	76,089
Transfers from loans held for investment		(1,972)	(766)
Change in market value/deferred fees		(9)	(3)
Principal repayments		1	3
Total reductions		61,016	75,323
Net decrease	$	(308)	(4,261)

MORTGAGE-BACKED AND RELATED SECURITIES

(Dollars in thousands)		Year Ended December 31, 2023	2022
Purchases			
Fixed rate mortgage-backed securities	$	0	15,043
Total purchases		0	15,043
Decrease in other items, net		(31,274)	(67,752)
Net decrease	$	(31,274)	(52,709)

Classified Assets and Delinquencies

Classification of Assets. Federal regulations require that each savings institution evaluate and classify its assets on a regular basis. In addition, in connection with examinations of savings institutions, the OCC or the Federal Deposit Insurance Corporation (FDIC) examiners may identify problem assets and, if appropriate, require them to be classified with an adverse rating. There are three adverse classifications: substandard, doubtful, and loss. Assets classified as substandard have one or more defined weaknesses and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have the weaknesses of those classified as substandard, with additional characteristics that make collection in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified as loss is considered uncollectible and of such little value that continuance as an asset on the balance sheet of the institution is not warranted. Assets classified as substandard or doubtful require the institution to establish prudent specific allowances for credit losses. If an asset, or portion thereof, is classified as a loss, the institution generally charges off such amount. On the basis of management's review of its assets, at December 31, 2023, the Bank classified a total of $22.0 million of its loans and real estate as follows:

(Dollars in thousands)		Single Family	Construction or Development	Commercial and Multi-family	Consumer	Commercial Business	Total
Substandard	$	1,333	388	15,583	232	4,226	21,762
Doubtful		38	0	0	34	0	72
Loss		0	0	0	159	0	159
Total	$	1,371	388	15,583	425	4,226	21,993

The Bank's classified assets consist of non-performing loans and other assets discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of Part II of this Annual Report on Form 10-K. See *"Note 6 Allowance for Credit Losses and Credit Quality Information"* in Item 8 of Part II in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K for more information on classified assets.

Delinquency Procedures. Generally, the following procedures apply to delinquent single family real estate loans. When a borrower fails to make a required payment on a loan, the Company attempts to cure the delinquency by contacting the borrower. A late notice is sent on all loans over 16 days delinquent. Additional written and verbal contacts are made with the borrower between 30 and 60 days after the due date. If the loan is contractually delinquent 90 days, the Company sends a 30-day demand letter to the borrower and after the loan is contractually delinquent 120 days, institutes appropriate action to foreclose on the property. If foreclosed, the property is sold at a sheriff's sale and may be purchased by the Company. Delinquent commercial real estate and commercial business loans are generally handled in a similar manner. The Company's procedures for repossession and sale of consumer collateral are subject to various requirements under state consumer protection laws.

Real estate acquired by the Company as a result of foreclosure is typically classified as real estate in judgment for six to twelve months and thereafter as real estate owned until it is sold. When property is acquired by foreclosure or deed in lieu of foreclosure, it is recorded as real estate owned at the estimated fair value less the estimated cost of disposition. After acquisition, all costs incurred in maintaining the property are expensed. Costs relating to the development and improvement of the property, however, are capitalized to the extent of fair value less disposition cost.

The following table sets forth the Company's loan delinquencies by loan type, amount and percentage of loan category at December 31, 2023 for loans past due 60 days or more.

	Loans Delinquent For:								
	60-89 Days			90 Days and Over			Total		
(Dollars in thousands)	Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category
Single family	2	$ 71	0.03 %	4	$ 363	0.14 %	6	$ 434	0.17 %
Non-residential real estate	0	0	0.00	1	399	0.11	1	399	0.11
Consumer	6	92	0.22	4	57	0.13	10	149	0.35
Commercial business	2	309	0.51	2	812	1.33	4	1,121	1.84
Total	10	$ 472	0.06 %	11	$ 1,631	0.19 %	21	$ 2,103	0.25 %

Loans delinquent for 90 days and over are generally non-accruing and are included in the Company's non-performing asset total at December 31, 2023.

Investment Activities

The Company utilizes the available for sale securities portfolio in virtually all aspects of asset/liability management. In making investment decisions, the Investment-Asset/Liability Committee considers, among other things, the yield and interest rate objectives, the credit risk position and the Bank's liquidity and projected cash flow requirements.

Securities. Federally-chartered savings institutions have the authority to invest in various types of liquid assets, including United States Treasury obligations, securities of various federal agencies, certain certificates of deposit of insured banks and savings institutions, certain bankers' acceptances, repurchase agreements and federal funds. Subject to various restrictions, the holding company of a federally-chartered savings institution may also invest its assets in commercial paper, investment grade corporate debt securities and mutual funds whose assets conform to the investments that a federally chartered savings institution is otherwise authorized to make directly.

The investment strategy of the Company has been directed toward a mix of high-quality government agency obligations with short terms-to-maturity. At December 31, 2023, the Company did not own any investment securities of a single issuer that exceeded 10% of the Company's stockholders' equity other than U.S. government agency obligations.

The Bank invests a portion of its liquid assets in interest-earning overnight deposits of the FHLB of Des Moines and the Federal Reserve Bank of Minneapolis. Other investments may include high grade municipal bonds, corporate preferred stock, corporate equity securities and medium-term (up to five years) federal agency notes. HMN may invest in the same type of investment securities as the Bank. See *"Note 4 Securities Available For Sale"* in Item 8 Part II in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K for additional information regarding the Company's securities portfolio.

The following table sets forth the composition of the Company's securities portfolio, excluding mortgage-backed and related securities, at the dates indicated.

	December 31, 2023				December 31, 2022			
(Dollars in thousands)	Amortized Cost	Adjusted To	Fair Value	% of Total	Amortized Cost	Adjusted To	Fair Value	% of Total
Securities available for sale:								
U.S. Government agency obligations	$ 54,112	(432)	53,680	95.1 %	$ 54,998	(2,157)	52,841	67.7 %
Corporate preferred stock	0	0	0	0.0	700	(210)	490	0.6
Subtotal	$ 54,112	(432)	53,680	95.1	$ 55,698	(2,367)	53,331	68.3
Average remaining life of other marketable securities	0.91 years				1.39 years			
Other interest-earning assets:								
Cash equivalents	$ 2,770	0	2,770	4.9	$ 24,780	0	24,780	31.7
Total	$ 56,882	(432)	56,450	100.0 %	$ 80,478	(2,367)	78,111	100.0 %
Average remaining life or term to repricing of other marketable securities and cash equivalents	0.86 years				0.96 years			

The composition and maturities of the investment securities portfolio, excluding FHLB stock, equity securities, mortgage-backed and related securities, are indicated in the following table.

	December 31, 2023						
	1 Year or Less	After 1 through 5 Years	Over 5 Years	Total Securities		
(Dollars in thousands)	Amortized Cost	Amortized Cost	Amortized Cost	Amortized Cost	Adjusted To	Fair Value
Securities available for sale:						
U.S. government agency securities [(1)]	$ 25,000	29,112	0	54,112	(432)	53,680
Total	$ 25,000	29,112	0	54,112	(432)	53,680
Weighted average yield	1.40 %	4.22 %	0.00 %	2.92 %		

[(1)] Callable U.S. government agency securities maturity date based on first available call date that the security is anticipated to be called.

Mortgage-Backed and Related Securities. In order to supplement loan production and achieve its asset/liability management goals, the Company invests in mortgage-backed and related securities. All of the mortgage-backed and related securities owned by the Company are issued, insured or guaranteed either directly or indirectly by a U.S. government agency or are rated "AA" or higher. The Company had $161.4 million of mortgage-backed and related securities that were all classified as available for sale at December 31, 2023, compared to $192.7 million at December 31, 2022. No mortgage-backed securities were purchased in 2023 and $15.0 million were purchased in 2022.

The contractual maturities of the mortgage-backed and related securities portfolio without any prepayment assumptions at December 31, 2023 are as follows:

	December 31, 2023			
(Dollars in thousands)	5 Years or Less	5 to 10 Years	10 to 20 Years	Balance
Securities available for sale:				
Federal National Mortgage Association	$ 866	86,267	0	87,133
Federal Home Loan Mortgage Corporation	761	73,488	0	74,249
Collateralized Mortgage Obligations	0	0	32	32
Total	$ 1,627	159,755	32	161,414
Weighted average yield	2.46 %	0.85 %	3.11 %	0.87 %

At December 31, 2023, the Company did not have any non-agency mortgage-backed or related securities in excess of 10% of its stockholders' equity.

Mortgage-backed and related securities can serve as collateral for borrowings and, through sales and repayments, as a source of liquidity. In addition, mortgage-backed and related securities available for sale can be sold to respond to changes in economic conditions.

Sources of Funds

General. The Bank's primary sources of funds are retail, commercial, Internet and brokered deposits, payments of loan principal, interest earned on loans and securities, repayments and maturities of securities, borrowings and other funds provided from operations.

Deposits. The Bank offers a variety of deposit accounts to retail and commercial clients having a wide range of interest rates and terms. The Bank's deposits consist of savings, interest bearing checking, non-interest bearing checking, money market and certificate accounts (including individual retirement accounts). The Bank relies primarily on competitive pricing policies and client service to attract and retain these deposits.

The variety of deposit accounts offered by the Bank has allowed it to be competitive in obtaining funds and to respond with flexibility to changes in consumer demand. As clients become more interest rate conscious, the Bank may become more susceptible to short-term fluctuations in deposit flows. The Bank manages the pricing of its deposits in keeping with its asset/liability management, profitability and growth objectives. Based on its experience, the Bank believes that its savings and checking accounts are relatively stable sources of deposits. However, the ability of the Bank to attract and maintain certificates of deposit and money market accounts, and the rates paid on these deposits, has been and will likely continue to be significantly affected by market conditions. The increase in deposits in 2023 related primarily to the $102.8 million increase in certificates of deposit that was partially offset by the $88.1 decrease in checking accounts, the $15.5 million decrease in savings accounts, and the $4.3 million decrease in money market accounts between the periods. The decrease in these checking, savings, and money market accounts was the result of the increase in interest rates between the periods which resulted in many depositors seeking a higher interest rate for the funds held in these types of accounts.

The following table sets forth the deposit flows at the Bank during the periods indicated.

	Year Ended December 31,	
(Dollars in thousands)	2023	2022
Opening balance	$ 981,926	950,666
Deposits	7,339,754	6,709,342
Withdrawals	(7,347,234)	(6,678,641)
Interest credited	2,347	559
Ending balance	976,793	981,926
Net (decrease) increase	$ (5,133)	31,260
Percent change	(0.52) %	3.29 %

The following table shows rate and maturity information for the Bank's certificates of deposit as of December 31, 2023.

(Dollars in thousands)	0.00-0.99%	1.00-1.99%	2.00-2.99%	3.00-3.99%	4.00-4.99%	5.00-5.99%	Total	Percent of Total
Certificate accounts maturing in quarter ending:								
March 31, 2024	$ 4,090	91	776	5,976	9,456	457	20,846	8.88 %
June 30, 2024	5,088	502	481	4,959	26,530	19,803	57,363	24.44
September 30, 2024	3,558	685	971	2,819	12,362	42,981	63,376	27.00
December 31, 2024	1,314	1,738	83	1,124	25,810	16,019	46,088	19.65
March 31, 2025	890	591	180	430	4,895	3,751	10,737	4.57
June 30, 2025	773	292	0	178	800	0	2,043	0.87
September 30, 2025	352	442	10	1,298	482	12,198	14,782	6.30
December 31, 2025	370	87	0	348	6,200	0	7,005	2.98
March 31, 2026	222	0	0	31	1,511	0	1,764	0.75
June 30, 2026	200	63	0	0	249	0	512	0.22
September 30, 2026	108	101	0	0	8,511	0	8,720	3.72
December 31, 2026	262	247	0	0	0	0	509	0.22
Thereafter	472	325	151	0	0	0	948	0.40
Total	$ 17,699	5,164	2,652	17,163	96,806	95,209	234,693	100.00 %
Percent of total	7.54 %	2.20 %	1.13 %	7.31 %	41.25 %	40.57 %	100.00 %	

The following table indicates the amount of the Bank's certificates of deposit and other deposits by time remaining until maturity as of December 31, 2023.

	Maturity				
(Dollars in thousands)	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	Total
Certificates of deposit less than $250,000	$ 16,791	52,533	93,293	42,843	205,460
Certificates of deposit of $250,000 or more	3,880	3,591	13,763	4,227	25,461
Public funds less than $250,000[1]	175	1,239	1,063	265	2,742
Public funds of $250,000 or more[1]	0	0	0	1,030	1,030
Total certificates of deposit	$ 20,846	57,363	108,119	48,365	234,693
Other deposit accounts of $250,000 or more	$ 263,190	0	0	0	263,190
Deposit accounts of $250,000 or more	267,070	3,591	13,763	5,257	289,681
Uninsured deposits [2]	191,165	11,978	23,131	6,656	232,930

[1] Deposits from governmental and other public entities.
[2] Estimated amount of uninsured deposits based on customer relationships.

For additional information regarding the composition of the Bank's deposits, see "*Note 11 Deposits"* in Item 8 Part II in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K. For additional information on certificate maturities and the impact on the Company's liquidity see "Management's Discussion and Analysis of Financial Condition and Results of Operations - *Liquidity and Capital Resources*" in Item 7 of Part II of this Annual Report on Form 10-K.

Borrowings. The Bank's other available sources of funds include advances from the FHLB and borrowings from the Federal Reserve Bank of Minneapolis. As a member of the FHLB of Des Moines, the Bank is required to own capital stock in the FHLB and is authorized to apply for advances. Each FHLB credit program has its own interest rate, which may be fixed or variable, and range of maturities. The FHLB may prescribe the acceptable uses for these advances, as well as limitations on the size of the advances and repayment provisions. Consistent with its asset/liability management strategy, the Bank has utilized FHLB advances from time to time to fund loan growth and extend the term to maturity of its liabilities. The Bank may also use short-term FHLB and Federal Reserve Bank borrowings to offset short term cash needs due to deposit outflows or loan fundings. At December 31, 2023, the Bank had $13.2 million overnight FHLB advances and no Federal Reserve Bank borrowings outstanding. On such date, the Bank had a collateral pledge arrangement with the FHLB pursuant to which the Bank could borrow up to $283.5 million for liquidity purposes, subject to approval from the FHLB. The Bank also had the ability to borrow $87.3 million from the Federal Reserve Bank of Minneapolis based upon the loans that were pledged to it as collateral at December 31, 2023.

Refer to the "Management's Discussion and Analysis of Financial Condition and Results of Operations - *Liquidity and Capital Resources*" in Item 7 of Part II of this Annual Report on Form 10-K and *"Note 12 Federal Home Loan Bank (FHLB) Advances and Other Borrowings"* in Item 8 of Part II in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K for more information on FHLB advances and other borrowings.

Service Corporations of the Bank

As a federally chartered savings bank, the Bank is permitted by OCC regulations to invest up to 2% of its assets in the stock of, or loans to, service corporation subsidiaries, and may invest an additional 1% of its assets in service corporations where these additional funds are used for inner-city or community development purposes. In addition to investments in service corporations, federal institutions are permitted to invest an unlimited amount in operating subsidiaries engaged solely in activities in which a federal savings bank may engage directly.

OIA is one of two subsidiaries of the Bank. OIA is a Minnesota corporation that was organized in 1983 and operated as an insurance agency until 1986 when its assets were sold. OIA remained inactive until 1993 when it began offering credit life insurance, annuity and mutual fund products to the Bank's clients and others. OIA currently offers a variety of financial planning products and services. HPH is the Bank’s other subsidiary and was organized as a limited liability company in Minnesota in 2013. It was inactive in 2023 but has operated as an intermediary for the Bank in holding and operating certain foreclosed properties.

Competition

The Bank faces strong competition both in originating real estate, commercial and consumer loans and in attracting deposits. Competition in originating loans comes primarily from mortgage bankers, commercial banks, credit unions and other savings institutions which have offices in the Bank's market area and those that operate through Internet banking operations throughout the United States. The Bank competes for loans principally on the basis of the interest rates and loan fees it charges, the types of loans it originates and the quality of services it provides to borrowers.

Competition for deposits is principally from mutual funds, securities firms, commercial banks, credit unions and other savings institutions located in the same communities and those that operate through Internet banking operations throughout the United States. The ability of the Bank to attract and retain deposits depends on its ability to provide an investment opportunity that satisfies the requirements of investors as to rate of return, liquidity, risk, convenience and other factors. The Bank competes for these deposits by offering a variety of deposit accounts at competitive rates, convenient business hours and a client-oriented staff.

Other Corporations Owned by the Company

The Bank was HMN’s sole direct subsidiary at December 31, 2023.

Employees

At December 31, 2023, the Company had 161 full time employees. None of the employees of the Company are represented by any collective bargaining unit. Management considers its employee relations to be good.

Regulation and Supervision

The banking industry is highly regulated. As a savings and loan holding company (SLHC), HMN is subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve Bank (FRB). The Bank, a federally-chartered savings association, is also subject to regulation, supervision and examination by the OCC, which is the Bank’s primary federal regulator. The FDIC also has authority to regulate the Bank. Subsidiaries of HMN and the Bank may also be subject to state regulation and/or licensing in connection with certain insurance and investment activities. The Company is subject to numerous laws and regulations. These laws and regulations impose restrictions on activities, set minimum capital requirements, impose lending and deposit restrictions and establish other restrictions. References in this section to applicable statutes and regulations are brief and incomplete summaries only. The Company recommends consulting the statutes, regulations and related policies and interpretive guidance for a full understanding of the details of their operation. Changes in statutes, regulations or regulatory policies applicable to the Company, including interpretation or implementation thereof, could have a material effect on the Company's business.

Holding Company Regulation. As a savings and loan holding company, HMN is subject to regulation and supervision by the FRB. FRB regulations require holding companies to act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

<u>Acquisitions by Savings and Loan Holding Companies.</u> Acquisition of a savings association or a savings and loan holding company is generally subject to FRB approval and the public must have an opportunity to comment on the proposed acquisition. Without prior approval from the FRB, HMN may not acquire, directly or indirectly, control of another savings association.

<u>Examination and Reporting.</u> Under the Home Owners' Loan Act and FRB regulations, HMN, as a SLHC, must file periodic reports with the FRB. In addition, HMN must comply with FRB record keeping requirements and is subject to holding company supervision and examination by the FRB. The FRB may take enforcement action if the activities of a SLHC constitute a risk to the financial safety, soundness or stability of a subsidiary savings association.

<u>Affiliate Transactions.</u> The Bank, as a holding company subsidiary that is a depository institution, is subject to both qualitative and quantitative limitations on transactions with the Company. See the section "Bank Regulation - Transactions with Affiliates and Insiders".

<u>Capital Adequacy.</u> The Bank is subject to various regulatory capital requirements; however, the Company meets certain exemption requirements pursuant the FRB's Small Bank Holding Company Policy Statement, and therefore, is exempt from the consolidated capital requirements.

<u>Dividends.</u> Federal law limits the ability of a savings and loan holding company, such as HMN, to pay dividends or make other capital distributions. FRB guidance applicable to holding companies sets out factors that should be taken into account when considering dividends or distributions, including, among other things, current and prospective earnings and liquidity, and the holding company's ability to serve as an ongoing source of financial and managerial strength to insured depository institution subsidiaries such as the Bank.

Bank Regulation. As a federally-chartered savings association, the Bank is subject to regulation and supervision by the OCC. Federal law authorizes the Bank, as a federal savings association, to conduct, subject to various conditions and limitations, business activities that include: accepting deposits and paying interest on them; making and buying loans secured by residential and other real estate; making consumer loans; making commercial loans; investing in corporate obligations, government debt securities, and other securities; and offering various banking, trust, securities and insurance agency services to its clients.

Savings associations are expected to conduct lending activities in a prudent, safe and sound manner. The OCC regulates the safety and soundness of the Bank by enforcing statutory limits on the Bank's lending and investment powers. OCC regulations set aggregate limits on certain types of loans including commercial business, commercial real estate and consumer loans. OCC regulations also establish limits on loans to a single borrower. As of December 31, 2023, the Bank's lending limit to one borrower was approximately $17.1 million.

A federal savings association generally may not invest in noninvestment-grade debt securities. A federal savings association may establish subsidiaries to conduct any activity the association is authorized to conduct and may establish service corporation subsidiaries for limited preapproved activities.

Qualified Thrift Lender Test. Savings associations, including the Bank, must be qualified thrift lenders (QTLs). A savings association generally satisfies the QTL requirement if at least 65% of a specified asset base consists of assets such as loans to small businesses and loans to purchase or improve domestic residential real estate. Savings associations may qualify as QTLs in other ways. Savings associations that do not qualify as QTLs are subject to significant restrictions on their operations. If the Bank fails to meet QTL requirements, the Company would face certain limitations, including potential enforcement action by the OCC and a statutory bar to the payment by the Bank of dividends except under prescribed conditions including approval by the OCC. As of December 31, 2023, the Bank met the QTL test.

OCC Assessments. The OCC is authorized by statute to charge assessments to cover the costs of examining the financial institutions it regulates and to fund its operations. The Bank's OCC assessments for the year ended December 31, 2023 were approximately $0.2 million. The FRB does not currently assess HMN for examination fees.

Transactions with Affiliates and Insiders. Savings associations, like banks, are subject to affiliate and insider transaction restrictions. The restrictions prohibit or limit a savings association from extending credit to, or entering into certain covered transactions with, affiliates, principal stockholders, directors and executive officers of the savings association and its affiliates. The term "affiliate" generally includes a holding company, such as HMN, and any company under common control with the savings association. Federal law limits covered transactions between the Bank and any one affiliate to 10% of the Bank's capital and surplus and with all affiliates in the aggregate to 20%. In addition, the federal law governing unitary savings and loan holding companies prohibits the Bank from making any loan to any affiliate whose activity is not permitted for a subsidiary of a bank holding company. This law also prohibits the Bank from making any equity investment in any affiliate that is not its subsidiary. The Bank is currently in compliance with these requirements. Covered transactions also include derivatives and the borrowing and lending of securities, and repurchase agreements with affiliates are subject to collateralization requirements.

Dividend Restrictions. Federal law limits the ability of a depository institution, such as the Bank, to pay dividends or make other capital distributions. The Bank, as a subsidiary of a savings and loan holding company, must file a notice with the FRB before payment of a dividend or approval of a proposed capital distribution by its board of directors and must obtain prior approval from the FRB if it fails to meet certain regulatory conditions.

During 2023, the Bank paid dividends to HMN of $2.0 million, which were used to fund the ongoing operating expenses of the Company, purchase treasury stock, pay dividends, and improve its cash position. The improved cash position will potentially allow the Company to make a capital contribution into the Bank should the Bank need additional capital to support its operations. HMN distributed $1.3 million in dividends to its common shareholders in 2023. In January 2024, the Company's Board of Directors declared a quarterly dividend of $0.08 per share of common stock. See the "Management's Discussion and Analysis of Financial Condition and Results of Operations – *Dividends*" section of Part II, Item 7 of this Annual Report on Form 10-K for more information on the dividend that was declared in the first quarter of 2024.

Deposit Insurance. The FDIC insures the deposits of the Bank through the Deposit Insurance Fund (DIF). The DIF is funded by assessments of FDIC members such as the Bank. The FDIC applies a risk-based system for setting deposit insurance assessments. Under the risk-based assessment system, an institution's insurance assessments vary according to the level of capital the institution holds and the degree to which it is the subject of supervisory concern. During 2023, the Bank was assessed approximately $0.6 million for the DIF.

Capital Requirements and Prompt Corrective Action Requirements. The Bank is subject to various regulatory capital requirements administered by the federal banking agencies.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) established five capital categories: 1) well-capitalized; 2) adequately capitalized; 3) undercapitalized; 4) significantly undercapitalized; and 5) critically undercapitalized. The activities in which a depository institution may engage and regulatory responsibilities of federal bank regulatory agencies vary depending upon whether an institution is well-capitalized, adequately capitalized or undercapitalized. Undercapitalized institutions are subject to various restrictions such as limitations on dividends and growth. A depository institution's prompt corrective action capital category depends upon where its capital levels are in relation to relevant capital measures, which include risk-based capital measures and certain other factors.

Under applicable banking regulations, the failure to comply with capital rules or other applicable requirements as they arise, could subject HMN, the Bank and their directors and officers to such restrictions, legal actions or sanctions as the FRB or the OCC considers appropriate. Possible sanctions include, among others, (i) the imposition of one or more cease and desist orders requiring corrective action, which are enforceable directives that may address any aspect of the Company's management, operations or capital, including requirements to change management, raise equity capital, dispose of assets or effect a change of control; (ii) civil money penalties; and (iii) downgrades in the capital adequacy status of the Bank. These regulatory actions may significantly restrict the ability of the Company to take operating and strategic actions that may be in the best interests of stockholders or compel the Company to take operating and strategic actions that are not potentially in the best interests of stockholders. See "*Note 17 Regulatory Capital*" in Item 8 of Part II in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K for more information on Regulatory Capital.

Other Regulations and Examination Authority. The FDIC has adopted regulations to protect the DIF and depositors, including regulations governing the deposit insurance of various forms of accounts. Federal regulation of depository institutions is intended for the protection of depositors, and not for the protection of stockholders or other creditors. In addition, federal law requires that in any liquidation or other resolution of any FDIC-insured depository institution, claims for administrative expenses of the receiver and for deposits in U.S. branches (including claims of the FDIC as subrogee of the insured institution) shall have priority over the claims of general unsecured creditors.

The OCC may sanction any OCC-regulated bank that does not operate in accordance with OCC regulations, policies and directives. The FDIC has additional authority to terminate insurance of accounts, after a notice and hearing, upon a finding that the insured institution is or has engaged in any unsafe or unsound practice that has not been corrected, is operating in an unsafe or unsound condition, or has violated any applicable law, regulation, rule, or order of or condition imposed by the FDIC.

FHLB System. The Bank is a member of the FHLB of Des Moines, which is one of the 11 regional Federal Home Loan Banks (FHBs). The primary purpose of the FHBs is to provide funding to their financial institution members in support of the home financing credit function of the members. Each FHB serves as a reserve or central bank for its members within its assigned region. FHBs are funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. FHBs make loans or advances to members in accordance with policies and procedures established by the board of directors of the FHB. These policies and procedures are subject to the regulation and oversight of the Federal Housing Financing Board. All advances from a FHB are required to be fully secured by sufficient collateral as determined by the FHB. Long-term advances are required to be used for residential home financing and small business and agricultural loans.

As a member, the Bank is required to purchase and maintain stock in the FHLB of Des Moines. As of December 31, 2023, the Bank had $1.3 million in FHLB stock, which was in compliance with this requirement. The Bank receives dividends on its FHLB stock. The FHLB's dividend philosophy is to differentiate dividend rates between membership and activity-based capital stock. Based on the FHLB's most recent quarterly filing on Form 10-Q for the nine months ended September 30, 2023, the effective dividend rates paid on these subclasses of its capital stock at September 30, 2023 were 3.00% and 8.50%, respectively.

Other Regulation. Numerous other regulations promulgated by the FRB, the OCC, the Consumer Financial Protection Bureau (CFPB) and other agencies and other governmental authorities affect the business operations of the Bank. These include but are not limited to regulations relating to privacy, equal credit access, mortgage lending and foreclosure practices, electronic fund transfers, collection of checks, lending and savings disclosures and availability of funds. The CFPB has broad authority to develop new rules and interpretations with respect to consumer financial products and services, even though its examination and enforcement authority currently do not extend to the Bank.

Community Reinvestment Act. The Community Reinvestment Act (CRA) requires financial institutions regulated by the federal financial supervisory agencies to ascertain and help meet the credit needs of their delineated communities, including low to moderate income neighborhoods within those communities, while maintaining safe and sound banking practices. The regulatory agency assigns one of four possible ratings to an institution's CRA performance and is required to make public an institution's rating and written evaluation. The four possible ratings of meeting community credit needs are outstanding, satisfactory, needs improvement and substantial non-compliance. Under regulations that apply to all current CRA performance evaluations, many factors play a role in assessing a financial institution's CRA performance. The institution's regulator must consider its financial capacity and size, legal impediments, local economic conditions and demographics, including the competitive environment in which it operates. The evaluation does not rely on absolute standards, and the institutions are not required to perform specific activities or to provide specific amounts or types of credit. The Bank maintains a CRA statement for public viewing, as well as an annual CRA highlights document. These documents describe the Bank's credit programs and services, community outreach activities, public comments and other efforts to meet community credit needs. The Bank's last CRA exam was March 19, 2023 and the Bank received an "outstanding" rating under the Intermediate Small Savings Association criteria.

Bank Secrecy Act. The Bank Secrecy Act (BSA) requires financial institutions to verify the identity of clients, keep records and file reports that are determined to have a high degree of usefulness in criminal, tax and regulatory matters, and to implement anti-money laundering programs and compliance procedures. The impact on Bank operations from the BSA depends on the types of clients served by the Bank.

Available Information

The Company's website is www.hmnf.com. The Company makes available, free of charge, through its website its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act. These reports are available as soon as reasonably practicable after it electronically files these materials with, or furnishes them to, the Securities and Exchange Commission (SEC). Information contained on the Company's website is expressly not incorporated by reference into this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

Like all financial companies, the Company's business and results of operations are subject to a number of risks, many of which are outside of the Company's control. In addition to the other information in this report, readers should carefully consider that the following important factors, among others, could materially impact the Company's business and future results of operations.

Risks Related to our Business

Regional economic changes in the Company's markets have in the past adversely impacted, and may in the future adversely impact, results from operations.

Like all financial institutions, the Company is subject to the effects of any economic downturn, and in particular a significant decline in home values and reduced commercial development in the Company's markets has had a negative effect on results of operations in the past. The Company's success depends primarily on the general economic conditions in the counties in which the Company conducts business, and in the southern Minnesota, northern Iowa and eastern Wisconsin areas in general. Unlike larger financial institutions that are more geographically diversified, the Company provides banking and financial services to clients primarily in the Minnesota counties of Dakota, Dodge, Fillmore, Freeborn, Houston, Mower, Olmsted, Steele, and Winona and portions of Goodhue and Wabasha counties, as well as Marshall county in Iowa. The Bank also offers banking services to the Milwaukee, Wisconsin area through a branch location in Waukesha County in Wisconsin. The local economic conditions in these market areas have a significant impact on the Company's ability to originate loans, the ability of the borrowers to repay these loans, and the value of the collateral securing these loans. A significant decline in the general economic conditions caused by inflation, recession, unemployment or other factors beyond the Company's control can affect, and has in the past affected, these local economic conditions and can adversely affect, and has in the past adversely affected, the Company's financial condition and results of operations. The Company has a significant amount of commercial business and commercial real estate loans and decreases in tenant occupancy and development home sales can have, and in the past have had, a negative effect on the ability of many of the Company's borrowers to make timely repayments of their loans and the value of the collateral held as security for these loans, which can have, and in the past has had, an adverse impact on the Company's earnings.

During 2023, the U.S. economy continued to perform reasonably well despite the negative impact of higher interest rates and inflation. However, there are continuing concerns related to a potential slowdown in economic activity as the Federal Open Market Committee continues to maintain the federal funds rate at a higher level than what it has been over the past several years in an effort to reduce inflation and its effects on the financial markets and economic activity. There can be no assurance that current economic conditions will continue or improve, and economic conditions could worsen. Economic pressure on consumers and uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing and saving habits. A return of recessionary conditions and/or other negative developments in the domestic or international credit markets may significantly affect the markets in which we do business, the value of our loans and investments, and our ongoing operations, costs and profitability. Declines in real estate value and sales volumes and high unemployment may also result in higher than expected loan delinquencies and a decline in demand for our products and services. These negative events may cause us to incur losses and may adversely affect our capital, liquidity and financial condition.

The Bank may not be able to meet its cash flow needs on a timely basis at a reasonable cost, and its cost of funds for banking operations may significantly increase as a result of general economic conditions, interest rates and competitive pressures. HMN, on an unconsolidated basis, has limited capital resources and liquidity to assist the Bank with its liquidity and capital requirements.

Liquidity is the ability to meet cash flow needs on a timely basis and at a reasonable cost. The liquidity of the Bank is used to pay expenses, make loans and to repay deposit and borrowing liabilities as they become due or are demanded by clients and creditors. Many factors affect the Bank's ability to meet liquidity needs, including variations in the markets served by its network of offices, its composition of assets and liabilities, reputation and standing in the marketplace and general economic conditions.

The Bank's primary source of funding is retail and commercial deposits gathered through its network of fourteen banking offices. Wholesale funding sources principally consist of borrowing lines from the FHLB of Des Moines and the Federal Reserve Bank of Minneapolis and brokered and internet certificates of deposit obtained from the national market. Borrowings from the FHLB are subject to the FHLB's credit policies and procedures relating to the valuation of the loans securing advances as well as the amount of funds the FHLB will loan to the Bank. The current collateral pledged to secure advances may become unacceptable, the formulas for determining the excess pledged collateral may change or the Bank's credit rating with the FHLB could decrease. In these cases, the Bank may not have sufficient collateral to pledge or have the borrowing capacity to meet its funding needs and may be required to rely upon alternate funding sources, such as the Federal Reserve Bank, which typically bear higher borrowing costs. The Bank's securities and loan portfolios could also be pledged to the FHLB and Federal Reserve Bank to increase the amount of available borrowings.

Significant changes in general economic conditions, market interest rates, competitive pressures or otherwise, could cause the Bank's deposits to decrease relative to overall banking operations, and it would have to rely more heavily on brokered and Internet deposits or borrowings in the future, which are typically more expensive than retail deposits.

The Bank actively manages its liquidity position and monitors it using cash flow forecasts. Changes in economic conditions, including consumer savings habits and availability or access to borrowed funds and the brokered and Internet deposit markets could potentially have a significant impact on the Company's liquidity position, which in turn could materially impact its financial condition, results of operations and cash flows.

HMN's primary source of cash is dividends from the Bank, and the Bank is restricted from paying dividends to HMN unless certain conditions are met under bank regulatory requirements. At December 31, 2023, HMN had $16.3 million in cash balances. Primarily, HMN requires cash for the payment of holding company level expenses, including director and management fees, legal expenses and regulatory costs. HMN may also use cash for the repurchase of outstanding HMN stock and the payment of dividends. HMN does not anticipate that it will have, on an ongoing long term stand-alone basis, adequate liquid resources to make all of the required cash payments for these items in the future. To meet these payment requirements or other potential HMN liquidity or capital needs would require dividends from the Bank or external capital. Failure to meet regulatory requirements for any future dividends from the Bank to HMN, or to receive dividends in amounts deemed satisfactory by HMN, could cause HMN to require other sources of liquidity for its needs in 2024 and beyond. Further information about HMN's liquidity position is available in the "Management's Discussion and Analysis of Financial Condition and Results of Operations – *Liquidity and Capital Resources*" section in Part II, Item 7 of this Annual Report on Form 10-K.

Changes in interest rates could negatively impact the Company's results of operations.

The earnings of the Company are primarily dependent on net interest income, which is the difference between interest earned on loans and investments and interest paid on interest-bearing liabilities such as deposits and borrowings. Interest rates are highly sensitive to many factors, including government monetary and fiscal policies and domestic and international economic and political conditions. Conditions such as inflation, recession, unemployment, money supply, government borrowing and other factors beyond management's control may also affect interest rates. If the Company's interest-earning assets mature, reprice or prepay more quickly than interest-bearing liabilities in a given period, a decrease in market interest rates could adversely affect net interest income. Likewise, if interest-bearing liabilities mature or reprice, or, in the case of deposits, are withdrawn by the accountholder, more quickly than interest-earning assets in a given period, an increase in market interest rates could adversely affect net interest income. Given the Company's assets and liability composition as of December 31, 2023, a falling interest rate environment would negatively impact the Company's results of operations. The effect on our deposits of decreases in interest rates generally lags the effect on our assets. The lagging effect of deposit rate changes is primarily due to the Bank's deposits that are in the form of certificates of deposit, which do not re-price immediately when the federal funds rate changes.

Fixed rate loans increase the Company's exposure to interest rate risk in a rising rate environment because interest-bearing liabilities would be subject to repricing before assets become subject to repricing. Adjustable rate loans decrease the risks to a lender associated with changes in interest rates but involve other risks. As interest rates rise, the payment by the borrower rises to the extent permitted by the terms of the loan, and the increased payment increases the potential for default. At the same time, for secured loans, the marketability of the underlying collateral may be adversely affected by higher interest rates. In a declining interest rate environment, there is likely to be an increase in prepayment activity on loans as the borrowers refinance their loans at lower interest rates. Under these circumstances, the Company's results of operations could be negatively impacted.

Changes in interest rates also can affect the value of loans, investments and other interest-rate sensitive assets including mortgage servicing rights, and the Company's ability to realize gains on the sale or resolution of assets. This type of income can vary significantly from quarter-to-quarter and year-to-year based on a number of different factors, including the interest rate environment. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in non-performing assets and increased credit loss reserve requirements that could have a material adverse effect on the Company's results of operations.

Changes in interest rates could continue to negatively impact the fair market value of our available for sale securities portfolio.

The fair market value of our fixed rate available for sale securities portfolio has been negatively impacted over the past couple of years due to an increase in market interest rates. The result has been that the Company has recorded a $13.2 million accumulated other comprehensive loss (OCL) in equity as of December 31, 2023. Future increases in long term interest rates will likely continue to have a negative effect on the fair market value of our fixed rate securities portfolio and increases in OCL may occur in future periods. Furthermore, if we are forced to liquidate any of these investments prior to maturity, including because of a lack of liquidity, we would recognize as a charge to earnings the losses attributable to those securities.

Strong competition within the Company's market area may limit profitability or generate losses.

The Company faces significant competition both in attracting deposits and in the origination of loans. Mortgage brokers, commercial banks, credit unions and other savings institutions, which have offices in the Bank's market area have historically provided most of the Company's competition for deposits and loans; however, the Company also competes with financial institutions, mutual funds, and securities firms that operate through Internet banking operations throughout the United States. Many competitors have substantially greater financial and other resources than the Company. Finally, credit unions do not pay federal or state income taxes and are subject to fewer regulatory constraints than savings banks and as a result, they may enjoy a competitive advantage over the Company. The Bank competes for loans principally on the basis of the interest rates and loan fees it charges, the types of loans it originates and the quality of services it provides to borrowers. This competitive strategy places significant competitive pressure on the prices of loans and deposits.

Loss of large checking and money market deposit clients could increase cost of funds and have a negative effect on results of operations.

The Company has a number of large deposit clients that maintain balances in checking and money market accounts at the Bank. At December 31, 2023, there was $60.3 million in checking and money market accounts of clients in the alternative energy and other industries that have individual relationship balances greater than $5 million. The ability to attract and retain these types of deposits has a positive effect on the Company's net interest margin as they provide a relatively low cost of funds to the Company compared to certificates of deposits or advances. If these depositors were to withdraw these funds and the Bank was not able to replace them with similar types of deposits, the Banks cost of funds would increase and the Company's results of operation would be negatively impacted.

Because of the asset size of the Company, adverse performance affecting a few large loans or lending relationships can cause significant volatility in earnings.

Due to the Company's asset size, the provision for credit losses or charge-offs associated with individual loans can be large relative to the Company's earnings for a particular period. If one or a few relatively large loans become non-performing in a period and the Company is required to increase its loss reserves, or to write off principal or interest relative to such loans, the operating results for that period could be significantly adversely affected. The effect on results of operations for any given period from a change in the performance of a small number of loans may be disproportionately larger than the impact of such loans on the quality of the Company's overall loan portfolio. The Company generally limits its internal loan originations to loans less than $7.5 million with loans over that amount approved by its Executive Loan Committee. The Company's regulatory lending limit was $17.1 million at December 31, 2023. The Bank's largest borrowing relationship had outstanding loans totaling $15.4 million and was performing at December 31, 2023.

The Company has concentrations in commercial business and commercial real estate loans, increasing the risk in its loan portfolio.

In order to enhance the yield and shorten the term-to-maturity of its loan portfolio, the Company continues to maintain the balances of its commercial business and commercial real estate portfolios. These categories of loans represented approximately 64% of the total loans receivable at December 31, 2023. Some of the Company's commercial real estate portfolio is in land development loans, while many of the Company's commercial business loans are made to borrowers associated with the real estate industry. Commercial business and commercial real estate loans generally, and land development loans in particular, present a higher level of risk than loans secured by single family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans.

Furthermore, the repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed or properties intended for resale are not developed and sold), the borrower's ability to repay the loan and the underlying collateral may be impaired. Commercial business loans to businesses that are dependent on the cash flow generated by the sale or leasing of real estate are similarly impacted. At December 31, 2023, the Company had $3.8 million of non-performing loans, of which $2.7 million related to commercial business and commercial real estate loans. At December 31, 2023, total classified loans included $32.6 million of commercial business and commercial real estate loans. The Company may experience actual losses in respect of these classified loans and further increases in the level of classified loans in our loan portfolio that may require further increases in our provision for credit losses.

Our allowance for credit losses may prove to be insufficient to absorb losses or appropriately reflect, at any given time, the inherent risk of loss in our loan portfolio.

Our non-performing assets were at $3.8 million, or 0.34% of total assets, at December 31, 2023. Classified loans at December 31, 2023 were $34.9 million, or 4.1% of total loans. Classified loans represent special mention, performing substandard and non-performing loans. The low level of our classified loans is primarily due to the current economic environment. If the favorable economic environment does not continue these assets may not perform according to their terms and the value of the collateral may be insufficient to pay any remaining loan balance. If this occurs, we may experience losses or an increased risk of loss in our loan portfolio, which could have a negative effect on our results of operations. Like all financial institutions, we maintain an allowance for credit losses to provide for loans in our portfolio that may not be repaid in their entirety. Our allowance for credit losses may not be sufficient to cover actual credit losses or the inherent risk of loss in our loan portfolio, and future provision for credit losses could materially adversely affect our operating results.

In evaluating the appropriateness of our allowance for credit losses, we consider numerous factors, including but not limited to, specific occurrences of loan impairment, our historical charge-off experience, actual and anticipated changes in the size of the portfolios, national, regional and local economic conditions such as unemployment data, loan delinquencies, demand for single family homes, demand for commercial real estate and building lots, loan portfolio composition and observations made by the Company's ongoing internal audit and regulatory exam processes. In addition, we use information about specific borrower situations, including their financial position and estimated collateral values, to estimate the risk and amount of loss for those borrowers. Our estimates of the risk of loss and amount of loss on any loan are complicated by the significant uncertainties surrounding our borrowers' abilities to successfully execute their business models through changing economic environments, competitive challenges and other factors. Because of the degree of uncertainty and susceptibility of these factors to change, our actual losses and estimates of risk of loss inherent in our loan portfolio have varied and are likely to continue to vary from our current estimates. Such variances may materially and adversely affect our financial condition and results of operations.

Federal regulators, as an integral part of their examination process, periodically review our allowance for credit losses and may require us to increase our allowance for credit losses by recognizing additional provisions for credit losses charged to expense, or to decrease our allowance for credit losses by recognizing loan charge-offs. Any such additional provisions for credit losses or charge-offs, as required by these regulatory agencies, could have a material adverse effect on our financial condition and results of operations.

Our capital may not be adequate to meet all our needs and requirements in the future and we may need to take steps to meet our capital needs. These actions may reduce our base of earning assets and core deposits and may dilute our shareholders or result in a change of control of the Company. There can be no assurance that we will satisfactorily meet our required future capital needs.

We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations and protect depositors of the Bank. Depending upon the operating performance of the Bank and our other liquidity and capital needs, we may find it prudent, subject to prevailing market conditions and other factors, to raise additional capital through the issuance of additional shares of our common stock or other equity securities. Additional capital would potentially allow the Bank to grow its assets more aggressively. Depending on circumstances, if we were to raise capital, we may deploy it to the Bank for general banking purposes, or may retain some or all of such capital for use by the Company.

If the Company were to raise capital through the issuance of additional shares of common stock or other equity securities, it would dilute the ownership interests of existing stockholders, dilute the Company's earnings per share and could result in a change in control of the Company and the Bank. New investors may also have rights, preferences and privileges senior to our current stockholders which may adversely impact our current stockholders. Our ability to raise additional capital through the issuance of equity securities, if deemed prudent, would depend on conditions in the capital markets at that time, which are outside of our control, and on our financial performance. A significant investment by a person or group may also necessitate an amendment to our Certificate of Incorporation, which would require stockholder approval. Accordingly, we may not be able to raise additional capital, if needed, on favorable economic terms or other terms acceptable to us.

We may decide to grow our business through acquisitions, which may disrupt or harm our business and dilute stockholder value.

The Company continues to regularly monitor acquisition opportunities and from time to time conducts due diligence activities related to possible transactions with banks and other financial institutions. Negotiations may take place and future acquisitions may occur at any time. Our ability to grow through acquisitions will depend, in part, on the availability of suitable acquisition targets at acceptable prices, terms and conditions; our ability to compete effectively for these acquisition candidates; and the availability of capital and personnel to complete such acquisitions and run the acquired business effectively. These risks could be heightened if we complete a large acquisition or multiple acquisitions within a relatively short period of time.

The benefits of an acquisition may take more time than expected to develop or integrate into our operations and we cannot guarantee that any acquisition will ultimately produce any benefits. Acquiring other banks, businesses, or branches involves various risks, such as potential disruption of the Company's business, including diversion of management's attention; difficulty in valuing the target company; potential exposure to undisclosed, contingent, or other liabilities or problems, unanticipated costs associated with an acquisition, and an inability to recover or manage such liabilities and costs; exposure to potential asset quality issues of the target company; volatility in reported income as goodwill and other impairment losses could occur irregularly and in varying amounts; difficulty and expense of integrating the operations and personnel of the target company or in realizing projected efficiencies, revenue increases, cost savings, increased market presence, or other projected benefits; potential loss of key employees or clients of the Company or the target company; dilution to existing stockholders if securities are issued as part of transaction consideration or to fund transaction consideration; and potential changes in banking or tax laws or regulations that may affect the target company. Any of the foregoing factors could have a material adverse effect on the Company's financial condition and results of operations.

Risks related to the Regulation of Our Industry

The Company operates in a highly regulated environment and may be adversely affected by changes in federal and state laws and regulations.

The Company is and will continue to be subject to extensive examination, supervision and comprehensive regulation by federal bank regulatory agencies. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds, and the banking system and the financial system as a whole, and not holders of our common stock. These regulations affect our lending practices, capital structure, investment practices, dividend policy, and growth, among other things. See Item 1 "Business – Regulation and Supervision" of this Annual Report on Form 10-K for information regarding regulation affecting the Company.

Changes in the regulatory landscape may significantly impact the profitability of business activities, require material changes to certain business practices, impose more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business.

The FRB assesses the condition, performance and activities of savings and loan holding companies in a manner that is consistent with its established risk-based approach regarding bank holding company supervision to ensure that savings and loan holding companies are effectively supervised and can serve as a source of strength for, and do not threaten the soundness of, subsidiary depository institutions such as the Bank.

The CFPB has broad authority to develop new rules and interpretations with respect to consumer financial products and services even though its examination and enforcement authority do not currently extend to the Bank.

Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations, or regulatory policies, including changes in interpretation or implementation of statutes, regulations, or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer, restrict mergers and acquisitions, investments, access to capital, the location of banking offices, or increase the ability of non-banks to offer competing financial services and products, among other things. Failure, or alleged failure, to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil or criminal penalties or money damages in connection with actions or proceedings on behalf of regulators or consumers, and/or reputational damage, any of which could have a material adverse effect on our business, financial condition and results of operations. While we have policies and procedures designed to prevent any such violations and to reduce the likelihood of such actions or proceedings, there can be no assurance that such violations will not occur or that such actions or proceedings will not be brought.

Changes to laws and regulations, including changes in interpretation or implementation, may also limit the Bank's flexibility on financial products and fees which could result in additional operational costs and a reduction in our non-interest income.

Further, our regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws by financial institutions and holding companies in the performance of their supervisory and enforcement duties. Examples include limits on payment of dividends by banks and regulations governing compensation. Regulation of dividends may limit the liquidity of the Company and restrictions on compensation may adversely affect our ability to attract and retain employees.

We are subject to the CRA and fair lending laws, and failure to comply with these laws could lead to material penalties.

The CRA and fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Department of Justice, the CFPB and other federal agencies are responsible for enforcing these laws and regulations. A successful challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity, and restrictions on expansion activity. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. The Bank has implemented policies and procedures designed to ensure compliance with such laws and regulations, but any non-compliance could lead to regulatory actions that could result in material penalties or sanctions.

The USA PATRIOT Act and Bank Secrecy Act may subject us to large fines for non-compliance.

The USA PATRIOT Act and the Bank Secrecy Act require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If these activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury Department's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of clients seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions. In recent years, several banking institutions have received large fines for non-compliance with these laws and regulations. Although the Bank has developed policies and procedures designed to ensure compliance, regulators may take enforcement action against the Bank in the event of non-compliance.

Technology and Cybersecurity Risks

The extended disruption or compromise of vital infrastructure, including the Company's technology systems, could negatively impact the Company's results of operations and financial condition.

The Company's business depends on its ability to process, record and monitor a large number of transactions. The Company's technological and physical infrastructures, which include its financial, accounting and other data processing systems, are vital to its operation. Extended disruption or compromise of its vital infrastructure by fire, power loss, natural disaster, telecommunications failure, computer hacking and viruses, terrorist activity or the domestic and foreign response to such activity, or other events outside of the Company's control, could cause the Company to suffer regulatory consequences, reputational damage and financial losses, any of which could have a material adverse effect either on the financial services industry as a whole, or on the Company's business, financial condition and results of operations.

The Company faces cybersecurity and other external data security risks that could adversely affect the reputation of the Company and that could have a material adverse effect on the Company's financial condition and results of operations.

The Company's business is dependent upon the transmission and storage of confidential information in digital technologies, computer and email systems, software and networks. The Company has security systems in place and regularly monitors its computer systems and network infrastructure. The Company does not believe that it has experienced a material cybersecurity incident, but it has experienced immaterial threats to its data and systems, including computer virus and malware attacks and other attempted unauthorized access to our systems. Cybersecurity threats are rapidly evolving and the Company may not be able to anticipate or prevent all future attacks. Other financial institutions have been, and continue to be, the target of various evolving and adaptive cybersecurity threats, including malware and denial of service, as part of an effort to disrupt the operations of financial institutions, potentially test their cybersecurity capabilities, or obtain confidential, proprietary, or other information. As cybersecurity threats continue to evolve, the Company may incur increasing costs in an effort to minimize these risks. In addition, the Company could be held liable for, and could suffer reputational damage as a result of, any security breach or loss, which could have a material adverse effect on the Company's financial condition and results of operations.

Third parties with which the Company does business or that facilitate its business activities, including vendors and retailers, could also be sources of operational and information security risk to the Company. There have been increasingly sophisticated and large-scale efforts on the part of third parties to breach data security with respect to financial transactions, including intercepting account information at locations where clients make purchases, as well as the use of social engineering schemes such as "phishing." For example, large retailers have reported data breaches resulting in the loss of client information. In the event that third parties are able to misappropriate financial information of the Bank's clients, even if such breaches take place due to weaknesses in other parties' internal data security procedures, the Company could suffer reputational or financial losses which could have a material adverse effect on its financial condition and results of operations.

Risks related to our Common Stock

The price of our common stock has been volatile and could continue to fluctuate in the future.

During the year ended December 31, 2023, the price of our common stock on The Nasdaq Global Market ranged from $17.31 to $24.95 per share, and over the two-year period from January 1, 2022 to December 31, 2023 it ranged from $17.31 to $25.98. Our closing sale price on December 31, 2023 was $23.00 per share and on February 16, 2024 it was $20.22 per share. Our stock generally trades in relatively low volumes and its price may fluctuate in response to a number of events and factors, including, but not limited to, variations in operating results, litigation or governmental and regulatory proceedings, market perceptions of our financial reporting, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable to us, and news reports relating to trends in our markets or general economic conditions.

We may issue additional stock, or reissue shares of treasury stock, without shareholder consent.

We have authorized 16,000,000 shares of common stock. As of December 31, 2023, 9,128,662 shares were issued and outstanding (including 4,670,757 shares that were held as treasury stock) and 6,871,338 shares were unissued. The Company has also granted options to purchase 34,229 shares of common stock that are currently outstanding and has 318,040 shares that are available to be awarded pursuant to our current equity incentive plans. The board of directors has authority, without action or vote of the stockholders, to issue all or part of the authorized but unissued shares and to reissue all of the treasury shares. Additional shares may be issued, or treasury shares reissued, in connection with future financing, acquisitions, employee stock plans or otherwise. Any such issuance, or reissuance, will dilute the percentage ownership of existing stockholders. We are also currently authorized to issue up to 500,000 shares of preferred stock, however, as of December 31, 2023, there were no preferred stock shares issued and outstanding. Under our certificate of incorporation, our board of directors can issue additional preferred stock in one or more series and fix the terms of such stock without shareholder approval.

Preferred stock may include the right to vote as a series on particular matters, preferences as to dividends and liquidation, conversion and redemption rights and sinking fund provisions. The issuance of preferred stock could adversely affect the rights of the holders of common stock and reduce the value of the common stock. In addition, specific rights granted to holders of preferred stock could be used to restrict our ability to merge with or sell our assets to a third party.

Our ability to pay dividends on or repurchase our common stock is restricted.

We are a stock savings bank holding company and our operations are conducted primarily by the Bank. Since we receive substantially all of our revenue from dividends from the Bank, our ability to pay dividends on our common stock or repurchase common stock depends on our receipt of dividends from the Bank. Dividend payments from the Bank are subject to legal and regulatory limitations. The ability of the Bank to pay dividends to us is also subject to its profitability, financial condition, capital needs and other cash flow requirements. There is no assurance that the Bank will be able to pay dividends to us in the future or that we will be able to generate adequate cash flow to continue to pay dividends or repurchase our common stock in the future. The inability to receive dividends from the Bank could have an adverse effect on our business and financial condition.

Provisions of our certificate of incorporation and bylaws, as well as Delaware and federal law, may discourage, delay or prevent an acquisition of control of us, even in situations that may be viewed as desirable by our stockholders.

Provisions included in our certificate of incorporation and bylaws, as well as provisions of the Delaware General Corporation Law and federal law (including banking regulations), may discourage, delay or prevent potential acquisitions of control of us, particularly when attempted in a transaction that is not negotiated directly with and approved by our board of directors, despite perceived short-term benefits to our stockholders (such as an increase in the trading price of our common stock).

Specifically, our certificate of incorporation and bylaws include provisions that:

- limit the voting power of shares held by a stockholder beneficially owning in excess of 10% of the outstanding shares of our common stock;

- require that, with limited exceptions, business combinations between us and a stockholder beneficially owning in excess of 10% of the voting power of the outstanding shares of our stock entitled to vote in the election of directors, be approved by at least 80% of the total number of our outstanding voting shares;

- require that prior to acquiring publicly traded equity securities from a stockholder that owns 5% or more of our publicly traded voting stock, with limited exception, holders of 80% or more of our voting stock outstanding, other than shares held by the selling stockholder, must approve the transaction;

- divide our board of directors, other than directors who may be elected by a class or series of preferred stock, into three classes serving staggered three-year terms and provide that a director may only be removed prior to the expiration of a term for cause by the affirmative vote of the holders of at least 80% of the voting power of all of the outstanding shares of capital stock entitled to vote in an election of directors;

- require that a special meeting of stockholders be called pursuant to a resolution adopted by a majority of our board of directors;

- require advance notice of nominations of directors to be made, or business to be brought, by stockholders at our annual meetings;

- authorize the issuance of preferred stock with such designations, rights and preferences as may be determined from time to time by our board of directors; and

- require that amendments to (i) our certificate of incorporation be approved by a two-thirds vote of our board of directors and by a majority of the outstanding shares of our voting stock or, with respect to the amendment of certain provisions (regarding, among other things, provisions relating to number, classification, election and removal of directors, amendment of the bylaws, call of special stockholder meetings, acquisitions of control, director liability, and certain business combinations), by 80% of the outstanding shares of our voting stock, and (ii) our bylaws be approved by a majority vote of our board of directors or the affirmative vote of at least 80% of the total votes eligible to be voted at a duly constituted meeting of stockholders.

We are subject to the provisions of Section 203 of the Delaware General Corporation Law, which prohibits a publicly-held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. For purposes of Section 203, a “business combination” includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder, and an “interested stockholder” is a person who, either alone or together with affiliates and associates, owns (or within the past three years, did own) 15% or more of the corporation’s voting stock. For purposes of Section 203, “voting stock” means stock of any class or series entitled to vote generally in the election of directors. Furthermore, federal law requires FRB or OCC approval prior to any direct or indirect acquisition of control (as defined in regulations) of HMN or the Bank, respectively, including, with respect to the Bank, any indirect acquisition of control through an acquisition of control of HMN.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 1C. CYBERSECURITY

Cybersecurity Risk Management and Strategy
The Company recognizes the critical importance of developing, implementing, and maintaining robust cybersecurity measures to safeguard our information systems and protect the confidentiality, integrity, and availability of our data and has integrated cybersecurity risk management into our broader risk management framework to promote a company-wide culture of cybersecurity risk management. Our information technology department continuously evaluates and addresses cybersecurity risks in alignment with our business objectives and operational needs.

Because of the complexity and evolving nature of cybersecurity threats, the Company engages with a range of external experts, including cybersecurity consultants and auditors in evaluating and testing our risk management systems. These partnerships enable us to leverage their specialized knowledge and insights, ensuring our cybersecurity strategies and processes are appropriate. Our collaboration with these third parties includes ongoing system penetration testing, regular audits, threat assessments, and consultation on security enhancements.

Because the Company is aware of the risks associated with third-party service providers, management implements stringent processes to oversee and manage these risks. We conduct thorough security assessments of all third-party providers before engagement and maintain ongoing monitoring to ensure they meet our cybersecurity standards.

We are not aware of any previous cybersecurity incidents which have materially affected, or are reasonably likely to materially affect, us to date, including our business strategy, results of operations or financial condition. However, any future potential risks from cybersecurity threats, including but not limited to exploitation of vulnerabilities, ransomware, denial of service, or other similar threats may materially affect us, including our execution of business strategy, reputation, results of operations and/or financial condition.

Governance

The Board of Directors is aware of the critical nature of managing risks associated with cybersecurity threats and is composed of members with diverse expertise including, risk management, technology, and finance, allowing them to effectively oversee cybersecurity risks. The Director of Information Technology (DIT) plays a pivotal role in informing the Board on cybersecurity risks. He provides comprehensive briefings to the Board on a quarterly basis which include updates on the results of vulnerability testing, status of software patching installations, results of business continuity exercises, a summary of recent cybersecurity events/articles, and an update on third-party consultant activities. In addition, our external consultants meet with the Board on an annual basis to update them on the results of their reviews.

Risk Management Personnel

Primary responsibility for assessing, monitoring, and managing our cybersecurity risks rests with the DIT, Mr. Roberts Hoenisch. With over 30 years of experience in the information technology field, Mr. Hoenisch brings a wealth of expertise to his role. He, in conjunction with his staff and external consultants, oversees our governance programs, tests our compliance with standards, remediates known risks, and implements our employee training program.

Monitor Cybersecurity Incidents

The DIT is continually informed about the latest developments in cybersecurity, including potential threats and innovative risk management techniques. This ongoing knowledge acquisition is crucial for the effective prevention, detection, mitigation, and remediation of cybersecurity incidents. The DIT, along with his staff and third party consultants, implements and oversees processes for the regular monitoring of our information systems. This includes the deployment of advanced security measures and regular system audits to identify potential vulnerabilities. In the event of a cybersecurity incident, the DIT is equipped with a well-defined incident response plan. This plan includes immediate actions to mitigate the impact and long-term strategies for remediation and prevention of future incidents.

Reporting to Board of Directors

The DIT, in his capacity, regularly informs the Chief Financial Officer (CFO) and Chief Executive Officer (CEO) of all aspects related to cybersecurity risks and incidents. This ensures that the highest levels of management are kept abreast of the cybersecurity posture and potential risks facing the Company. Furthermore, any significant cybersecurity matters, and strategic risk management decisions would be escalated to the Board of Directors, ensuring that they have comprehensive oversight and can provide guidance on critical cybersecurity issues.

ITEM 2. PROPERTIES

The Company owns its corporate office in Rochester, Minnesota and the buildings and land for eleven of its fourteen full service branches. The remaining three full service branches and two loan production offices are leased. These leased branches are located at: 100 1st Ave Bldg., Suite 200, Rochester, Minnesota; 2805 Dodd Road, Suite 160, Eagan, Minnesota; and 1015 West Frontage Road, Suite 100, Owatonna, Minnesota. The leased loan production offices are located at: 50 14th Avenue East, Suite 100, Sartell, Minnesota and 700 North Third Street, North, Suite 204, La Crosse, Wisconsin. The Bank uses all properties and they are all located in Minnesota, except for one full service branch located in Iowa and the one full service branch and one loan production office that are located in Wisconsin.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company is party to legal proceedings arising out of its lending and deposit operations. See "*Note 18 Commitments and Contingencies"* in Item 8 of Part II in the Notes to the Consolidated Financial Statements of this Annual Report on Form 10-K for more information.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock Information
The common stock of the Company is listed on the Nasdaq Stock Market (Nasdaq) under the symbol "HMNF." As of December 31, 2023, the Company had 9,128,662 share of common stock issued and outstanding (including 4,670,757 shares that were held as treasury stock), and there were 374 stockholders of record and 901 estimated beneficial owners of common stock.

Dividends
The declaration of dividends is subject to, among other things, the Company's financial condition and results of operations, the Bank's compliance with regulatory capital requirements and other regulatory restrictions, tax considerations, industry standards, economic conditions, anticipated asset growth, general business practices and other factors. The Company made four quarterly dividend payments of 6 cents per share that totaled $1.0 million during 2022 and made one quarterly dividend payment of 6 cents per share and three quarterly dividend payments of 8 cents per share that totaled $1.3 million during 2023. The Company will continue to evaluate the best use of the Company's capital based on the factors identified above.

Under applicable federal banking laws and regulations, no dividends can be declared or paid by the Bank to the Company without notice to and non-objection from the applicable banking regulator. There is no assurance that the Bank would satisfy the applicable regulatory requirements necessary to effect any such dividends. The payment of dividends by the Company is dependent upon the Company having adequate cash or other assets that can be converted to cash to pay dividends to its stockholders and is subject to the discretion of the Board of Directors of both the Bank and the Company. The payment of dividends depends upon many factors, including the Company's results of operations, financial condition, capital requirements, regulatory and contractual restrictions, business strategy and other factors deemed relevant by the Board of Directors.

In January 2024, the Company's Board of Directors declared a quarterly dividend of 8 cents per share of common stock payable on March 6, 2024 to stockholders of record at the close of business on February 13, 2024. The declaration and amount of any future cash dividends remains subject to the sole discretion of the Board of Directors.

The following table provides information with respect to purchases made by the Company of its own stock during the fourth quarter of 2023:

Period	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)		Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased under the Plans or Programs (a)
October 1, 2023 to October 31, 2023	0	$	N/A	0	$	6,000,000
November 1, 2023 to November 30, 2023	1,414		18.25	1,414	$	5,974,198
December 1, 2023 to December 31, 2023	28,043		21.52	28,043	$	5,370,816
Total	29,457	$	21.36	29,457	$	5,370,816

(a) On March 1, 2023, the Company announced that the Board of Directors had increased the authorized repurchases to $6.0 million. Share repurchases may be executed through various means, including through open market transactions, privately negotiated transactions or otherwise. The repurchase program does not obligate the Company to purchase any shares and has no set expiration date.

ITEM 6. RESERVED

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and the notes to those financial statements included elsewhere in this annual report on Form 10-K. This discussion contains forward-looking statements, which are based on our assumptions about the future of our business. Our actual results will likely differ materially from those contained in the forward-looking statements. Please read the cautionary note under the heading "Forward-Looking Statements" included at the beginning of this Annual Report on Form 10-K for additional information.

Overview

HMN is the stock savings bank holding company for the Bank, which operates community banking and loan production offices in Minnesota, Iowa and Wisconsin. The earnings of the Company are primarily dependent on the Bank's net interest income, which is the difference between interest earned on loans and investments, and the interest paid on interest-bearing liabilities such as deposits and other borrowings. The difference between the average rate of interest earned on assets and the average rate paid on liabilities is the interest rate spread. Net interest income is produced when interest-earning assets equal or exceed interest-bearing liabilities and there is a positive interest rate spread. Net interest income and net interest rate spread are affected by changes in interest rates, the volume and composition of interest-earning assets and interest-bearing liabilities and non-interest bearing deposits, and the level of non-performing assets. The Company's net earnings are also affected by the generation of non-interest income, which consists primarily of gains from the sale of loans, fees for servicing loans, commissions on the sale of uninsured investment products, and service charges on deposit accounts. The Bank incurs expenses in addition to interest expense in the form of compensation and benefits, occupancy and equipment expenses, provisions for credit losses, data processing costs, professional services, deposit insurance, amortization expense on mortgage servicing assets, advertising expenses, and income taxes. The earnings of financial institutions, such as the Bank, are also significantly affected by prevailing economic and competitive conditions, particularly changes in interest rates, government monetary and fiscal policies, and regulations of various regulatory authorities. Lending activities are influenced by the demand for and supply of business credit, single family and commercial properties, competition among lenders, the level of interest rates and the availability of funds. Deposit balance fluctuations and costs of deposits are influenced by prevailing market rates of interest on competing investments, account maturities and the levels of personal income and savings.

Critical Accounting Estimates

While our significant accounting policies are described in the notes to our consolidated financial statements, we believe the following discussion addresses our most critical accounting estimates, which are those estimates made in accordance with U.S. generally accepted accounting principles (GAAP) that involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on our financial condition or results of operations. The Company has identified the following critical accounting estimates that management believes involve the most difficult, subjective, and/or complex judgments that are inherently uncertain. Therefore, actual financial results could differ significantly depending upon the estimates, assumptions and other factors used.

Allowance for Credit Losses and Related Provision

The determination of the allowance for credit losses (ACL) is considered a critical accounting estimate by management because it is inherently subjective and involves a high degree of judgement to determine the appropriateness of the ACL. The determination of the ACL requires management to select an appropriate ACL methodology, select and analyze various quantitative and qualitative loss factors, estimate maximum loss percentages, develop appropriate calculations to estimate the impact of the various loss factors on the required allowance, and use other material estimates, including forecasted economic data, to calculate the ACL and to evaluate it for appropriateness. All of the factors used to determine the ACL are subject to frequent adjustments that could result in material changes to the amount of the recorded ACL.

The Company adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* on January 1, 2023. Under ASU 2016-13, the allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluations. The collective reserve amount is assessed based on size and risk characteristics of the various portfolio segments, past loss history and other adjustments determined to have a potential impact on future credit losses. The methodology for establishing the allowance for credit losses takes into consideration probable losses that have been identified in connection with the loans individually reviewed, in accordance with ASU 2016-13, as well as the expected losses in each identified pool of loans that have not been individually reviewed. Although management believes that based on current conditions the allowance for credit losses is maintained at an appropriate amount to provide for the expected credit losses in the portfolio as of the balance sheet dates, future conditions may differ substantially from those anticipated in determining the ACL and adjustments may be required in the future. See *"Note 1 Description of the Business and Summary of Significant Accounting Policies – New Accounting Pronouncements"* and *"Note 6 Allowance for Credit Losses and Credit Quality Information"* in the Notes to Consolidated Financial Statements for further disclosures and information on the impact on the Company when it adopted ASU 2016-13 on January 1, 2023.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. These calculations are based on many complex factors including estimates of the timing of reversals of temporary differences, the interpretation of federal and state income tax laws, and a determination of the differences between the tax and the financial reporting basis of assets and liabilities. Actual results could differ significantly from the estimates and interpretations used in determining the current and deferred income tax assets and liabilities.

The Company maintains significant net deferred tax assets for deductible temporary differences, the two largest relating to the net unrealized losses on securities available for sale and the allowance for credit losses. For tax purposes, the net unrealized losses on securities available for sale are not recognized unless the securities are sold and the loss becomes realized. For book purposes, the unrealized losses, net of income taxes, are reported as a separate component of stockholders' equity until realized. For the allowance for credit losses, only the net charge-offs are deductible for taxes, while the entire provision for credit losses is used to determine book income. A deferred tax asset for both of these items is created because of the timing difference of when the expense is recognized for book and tax purposes. Under GAAP, a valuation allowance is required to be recognized if it is "more likely than not" that the deferred tax asset will not be realized. The determination of the realizability of the deferred tax assets is highly subjective and dependent upon management's judgment and evaluation of both positive and negative evidence, including the forecasts of future income, tax planning strategies, and assessments of the current and future economic and business conditions. The positive evidence considered includes the Company's cumulative net income in the prior three-year period, the ability to implement tax planning strategies to accelerate taxable income recognition, and the probability that taxable income will be generated in future periods. The only negative evidence that the Company identified was related to a change in Wisconsin state tax law that was enacted in 2023. The law change allows financial institutions to claim an exemption from state taxation loan income from loans of $5 million or less where the borrower resides or is located in Wisconsin. The law change is anticipated to substantially reduce the Company's effective state income tax rate in Wisconsin, which is expected to reduce the Company's Wisconsin state income tax expense in future periods. A valuation allowance has been recorded to reflect the anticipated reduction in the Company's ability to recognize future Wisconsin state tax benefits when the timing differences reverse on the previously recorded deferred tax assets. It is possible that future conditions may differ substantially from those anticipated in determining that a valuation allowance is required on deferred tax assets and adjustments may be required in the future.

Determining the ultimate settlement of any tax position requires significant estimates and judgments in arriving at the amount of tax benefits to be recognized in the financial statements. It is possible that the tax benefits realized upon the ultimate resolution of a tax position may result in tax benefits that are significantly different from those estimated.

Results of Operations

Comparison of 2023 with 2022

Net income was $6.0 million for 2023, a decrease of $2.0 million, or 25.4%, compared to net income of $8.0 million for 2022. Diluted earnings per share for the year ended December 31, 2023 was $1.37, a decrease of $0.46 per share, compared to diluted earnings per share of $1.83 for the year ended December 31, 2022. The decrease in net income between the periods was due primarily to a $1.5 million decrease in net interest income primarily because of a decrease in the net interest margin as a result of increased funding costs. Gain on sales of loans decreased $0.9 million between the periods because of a decrease in mortgage loan sales. Compensation expense increased $0.9 million due primarily to annual salary increases between the periods. These decreases in net income were partially offset by a $0.4 decrease in the provision for credit losses between the periods. Other non-interest income increased $0.2 million primarily because of an increase in the commissions earned on the sale of uninsured investment products between the periods.

Net Interest Income

Net interest income was $30.8 million for 2023, a decrease of $1.5 million, or 4.6%, from $32.3 million for 2022. Interest income was $43.5 million for 2023, an increase of $9.2 million, or 26.9%, from $34.3 million for 2022. Interest income increased because of the $54.1 million increase in the average interest-earning assets between the periods and also because of the increase in the average yield earned on interest-earning assets between the periods. The average yield earned on interest-earning assets was 4.02% for 2023, an increase of 69 basis points from 3.33% for 2022. The increase in the average yield was primarily related to the increase in market interest rates as a result of the 5.25% increase in the prime interest rate over the past two years.

Interest expense was $12.7 million for 2023, an increase of $10.7 million, or 536.3%, compared to $2.0 million for 2022. Interest expense increased primarily because of the increase in the average interest rate paid on interest-bearing liabilities between the periods. Interest expense also increased because of the $46.5 million increase in the average interest-bearing liabilities and non-interest bearing deposits between the periods. The average interest rate paid on interest-bearing liabilities and non-interest bearing deposits was 1.28% for 2023, an increase of 107 basis points from 0.21% for 2022. The increase in the average rate paid was primarily related to the change in the types of funding sources used between the periods as more brokered deposits, certificates of deposits, and Federal Home Loan Bank (FHLB) advances were used in 2023 than in 2022. These funding sources generally have interest rates that are higher than traditional checking and money market accounts. The increase in market interest rates as a result of the

5.25% increase in the federal funds rate over the past two years also contributed to the higher funding costs in 2023 when compared to 2022.

The following table presents the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities and non-interest bearing deposits, expressed both in dollars and rates. Non-accruing loans have been included in the average outstanding loan balance in the table as loans carrying a zero yield.

	Year Ended December 31,					
	2023			2022		
(Dollars in thousands)	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
Interest-earning assets**:**						
Securities available for sale[1]:						
Mortgage-backed and related securities	$ 198,649	2,362	1.19%	$ 238,128	2,801	1.18%
Other marketable securities	55,501	966	1.74	52,161	428	0.82
Loans held for sale	2,174	140	6.42	2,418	115	4.75
Loans receivable, net[1] [2]	816,156	39,506	4.84	699,365	30,333	4.34
Cash equivalents and other earning assets	10,351	503	4.86	36,692	578	1.58
Total interest-earning assets	$ 1,082,831	43,477	4.02	$ 1,028,764	34,255	3.33
Interest-bearing liabilities:						
Checking accounts	$ 162,685	1,037	0.64%	$ 159,509	220	0.14%
Savings accounts	114,074	110	0.10	123,786	75	0.06
Money market accounts	267,939	4,577	1.71	271,750	882	0.32
Certificate accounts	179,546	6,566	3.66	81,528	555	0.68
Customer escrows	2,923	59	2.00	803	16	2.00
FHLB advances and other borrowings	6,807	371	5.45	6,665	251	3.77
Total interest-bearing liabilities	$ 733,974			$ 644,041		
Noninterest checking	256,294			300,394		
Other noninterest-bearing liabilities	3,170			2,455		
Total interest-bearing liabilities and noninterest-bearing deposits	$ 993,438	12,720	1.28%	$ 946,890	1,999	0.21%
Net interest income		30,757			$ 32,256	
Net interest rate spread			2.74%			3.12%
Net earning assets	$ 89,393			$ 81,874		
Net interest margin			2.84%			3.14%
Average interest-earning assets to average interest-bearing liabilities and noninterest-bearing deposits		109.00%			108.65%	

(1) Tax exempt income was not material; therefore, the yield was not presented on a tax equivalent basis for any of the years presented.
(2) Calculated net of deferred loan costs, loan discounts, loans in process and loss reserves.

Net interest margin (net interest income divided by average interest-earning assets) for 2023 was 2.84%, a decrease of 30 basis points, compared to 3.14% for 2022. The decrease in the net interest margin was primarily because the increase in the average rate paid on interest-bearing liabilities and non-interest bearing deposits exceeded the increase in the average yield earned on interest-earning assets between the periods.

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It quantifies the changes in interest income and interest expense related to changes in the average outstanding balances (volume) and those changes caused by fluctuating interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (i.e. changes in volume multiplied by old rate) and (ii) changes in rate (i.e. changes in rate multiplied by current volume).

	Year Ended December 31, 2023 vs. 2022		
	Increase (Decrease) Due to		
(Dollars in thousands)	Volume (1)	Rate(1)	Total Increase (Decrease)
Interest-earning assets:			
Securities available for sale:			
Mortgage-backed and related securities	$ (465)	26	(439)
Other marketable securities	27	511	538
Loans held for sale	(12)	37	25
Loans receivable, net	5,183	3,990	9,173
Cash equivalents and other earning assets	(389)	314	(75)
Total interest-earning assets	$ 4,344	4,878	9,222
Interest-bearing liabilities:			
Checking accounts	$ 3	814	817
Savings accounts	(6)	41	35
Money market accounts	(28)	3,723	3,695
Certificate accounts	3,688	2,323	6,011
Customer escrows	(1)	44	43
FHLB advances and other borrowings	5	115	120
Total interest-bearing liabilities	$ 3,661	7,060	10,721
Increase (decrease) in net interest income	$ 683	(2,182)	(1,499)

(1) For purposes of this table, changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

The following table sets forth the weighted average yields on the Company's interest-earning assets, the weighted average interest rates on interest-bearing liabilities and the interest rate spread between the weighted average yields and rates as of the date indicated. Non-accruing loans have been included in the average outstanding loan balances in the table as loans carrying a zero yield.

At December 31, 2023			
Weighted average yield on:		Weighted average rate on:	
Securities available for sale:			
Mortgage-backed and related securities	1.16 %	Checking accounts	0.85 %
Other marketable securities	2.86	Savings accounts	0.11
Loans held for sale	6.60	Money market accounts	2.16
Loans receivable, net	4.97	Certificate accounts	4.43
Cash equivalents and other earning assets	4.61	FHLB advances and other borrowings	5.64
Combined weighted average yield on interest-earning assets	4.29	Combined weighted average rate on interest-bearing liabilities	1.80
		Interest rate spread	2.49

Provision for Credit Losses

The provision for credit losses was $0.7 million for 2023, a decrease of $0.4 million from the $1.1 million provision for credit losses for 2022. The provision for credit losses decreased between the periods primarily because the increase in the provision due to loan growth was less in 2023 than for 2022. The decrease in the provision because of loan growth was partially offset by an increase in the provision due to increased charge-offs and specific reserves in 2023. The provision for credit losses also includes an amount for unfunded commitments that decreased $0.1 million during 2023.

Non-Interest Income
Non-interest income was $8.3 million for 2023, a decrease of $0.6 million, or 6.8%, from $8.9 million for the 2022.

The following table presents the components of non-interest income:

	Year Ended December 31,		Percentage
(Dollars in thousands)	2023	2022	Change
Fees and service charges	$ 3,352	3,222	4.0 %
Loan servicing fees	1,575	1,590	(0.9)
Gain on sales of loans	1,494	2,393	(37.6)
Other non-interest income	1,860	1,682	10.6
Total non-interest income	$ 8,281	8,887	(6.8)

Gain on sales of loans decreased $0.9 million between the periods because of a decrease in single family loan originations that were saleable into the secondary market due primarily to an increase in mortgage interest rates between the periods. Loan servicing fees decreased slightly between the periods due to a decrease in the aggregate balances of single family mortgage loans that were being serviced for others. These decreases were partially offset by a $0.1 million increase in fees and service charges between the periods due primarily to an increase in the commitment fees earned on unused commercial lines of credit. Other non-interest income increased $0.2 million primarily because of an increase in the commissions earned on the sale of uninsured investment products between the periods.

Non-Interest Expense
Non-interest expense was $29.8 million for 2023, an increase of $1.0 million, or 3.4%, from $28.8 million for 2022. The following table presents the components of non-interest expense:

	Year Ended December 31,		Percentage
(Dollars in thousands)	2023	2022	Change
Compensation and benefits	$ 18,113	17,211	5.2 %
Occupancy and equipment	3,626	3,812	(4.9)
Data processing	2,187	1,948	12.3
Professional services	1,051	1,386	(24.2)
Other	4,795	4,444	7.9
Total non-interest expense	$ 29,772	28,801	3.4

Compensation and benefits expense increased $0.9 million primarily because of annual salary increases. Other non-interest expense increased $0.4 million between the periods primarily because of an increase in FDIC insurance expense due to an increase in assessment rates. Data processing expenses increased $0.2 million due to an increase in system processing and mobile banking charges between the periods. These increases in non-interest expense were partially offset by a $0.3 million decrease in professional services because of a decrease in legal expenses between the periods. Occupancy and equipment expense decreased $0.2 million between the periods due to a decrease in building maintenance expenses.

Income Taxes
The Company considers the calculation of current and deferred income taxes to be a critical accounting policy that is subject to significant estimates. Income tax expense was $2.5 million for 2023, a decrease of $0.7 million from $3.2 million for 2022. The decrease in income tax expense was primarily the result of a decrease in pre-tax income between the periods.

Financial Condition

Loans Receivable, Net

The following table sets forth the information on the Company's loan portfolio in dollar amounts and percentages before deductions for net deferred loan fees and discounts and the allowance for credit losses as of the dates indicated:

	December 31,			
	2023		2022	
(Dollars in thousands)	Amount	Percent	Amount	Percent
Real Estate Loans:				
Single family	$ 264,303	30.80 %	$ 205,890	26.13 %
Multi-family	60,613	7.07	53,885	6.84
Commercial	362,839	42.28	370,915	47.08
Construction and development	66,501	7.75	46,545	5.91
Total real estate loans	754,256	87.90	677,235	85.96
Other Loans:				
Consumer Loans:				
Home equity line	13,962	1.63	17,551	2.23
Home equity	12,090	1.41	10,865	1.38
Recreational vehicles	5,965	0.69	7,870	1.00
Other	10,717	1.25	8,531	1.08
Total consumer loans	42,734	4.98	44,817	5.69
Commercial business loans	61,118	7.12	65,835	8.35
Total other loans	103,852	12.10	110,652	14.04
Total loans	$ 858,108	100.00 %	$ 787,887	100.00 %
Less:				
Unamortized discounts	15		13	
Net deferred loan fees	577		519	
Allowance for credit losses	11,824		10,277	
Total loans receivable, net	$ 845,692		$ 777,078	

The growth in the overall loan portfolio in 2023 was primarily because of the growth experienced in single family, multi-family, and construction and development loans. The growth in these loan categories was partially offset by a decrease in commercial real estate loans, consumer loans, and commercial business loans. Based on current economic conditions and the projected loan origination and prepayment amounts, it is anticipated that the growth in the overall loan portfolio will be limited in 2024.

Single family real estate loans were $264.3 million at December 31, 2023, an increase of $58.4 million, compared to $205.9 million at December 31, 2022. The single family loan portfolio increased in 2023 primarily because a higher percentage of our originated single family loans were placed into the loan portfolio. The majority of the $74.3 million in single family loans that were placed into the loan portfolio were originated in non-salable loan products specific to our executive banking initiative targeting high net worth individuals and medical professionals.

Multi-family real estate loans were $60.6 million at December 31, 2023, an increase of $6.7 million, compared to $53.9 million at December 31, 2022. The increase in multi-family real estate loans in 2023 was primarily the result of the $11.1 million of multi-family construction loans that were completed during the year and transferred into this loan classification. This increase was partially offset by regular loan principal payments and loan payoffs during the year.

Commercial real estate loans were $362.8 million at December 31, 2023, a decrease of $8.1 million, compared to $370.9 million at December 31, 2022. The outstanding commercial real estate loans decreased primarily because loan payoffs were more than the new loans originated during 2023. The new loan originations in 2023 were less than those originated in 2022, primarily due to an increase in interest rates between the periods.

Construction and development loans were $66.5 million at December 31, 2023, an increase of $20.0 million, compared to $46.5 million at December 31, 2022. The increase in construction and development loans was primarily the result of the $21.8 million in new construction loans that were originated and funded during the year and the $36.8 million in advances on previously originated construction loans. These increases in outstanding construction and development loans were partially offset by $16.8 million of loan payoffs and $21.8 million of loans where the projects were completed and the loans were moved to other permanent loan classifications.

Home equity lines of credit were $14.0 million at December 31, 2023, a decrease of $3.6 million, compared to $17.6 million at December 31, 2022. The open-end home equity lines are generally written with an adjustable rate and a two-to-ten-year draw period which requires interest only payments followed by a ten year repayment period which fully amortizes the outstanding balance. Home equity loans were $12.1 million at December 31, 2023, an increase of $1.2 million, compared to $10.9 million at December 31, 2022. Closed-end home equity loans are written with fixed or adjustable rates with terms up to fifteen years. The overall decrease in the open-end equity lines and closed-end equity loans is related primarily to an increase in loan repayments and lower originations due to the increase in interest rates.

Recreational vehicle loans were $6.0 million at December 31, 2023, a decrease of $1.9 million, compared to $7.9 million at December 31, 2022. These loans were made primarily to finance the recreational vehicle sales of a single dealer within the Bank's market area. The decrease in the outstanding balance between the periods was primarily due to existing loans being paid off, as the recreational vehicle loan program was discontinued in 2021 and no new recreational vehicle loans are being originated.

Commercial business loans were $61.1 million at December 31, 2023, a decrease of $4.7 million, compared to $65.8 million at December 31, 2022. The decrease in commercial business loans was primarily because of a decrease in new loan originations in 2023 compared to 2022, primarily due to an increase in interest rates between the periods.

Allowance for Credit Losses

The allowance for credit losses and the related provision is a critical accounting policy of the Company that is subject to significant estimates. The Company adopted ASU 2016-13 on January 1, 2023, and uses a standardized process to determine the appropriateness of the allowance for credit losses (ACL). Under ASU 2016-13, the allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluations. The collective reserve amount is assessed based on size and risk characteristics of the various portfolio segments, past loss history and other adjustments determined to have a potential impact on future credit losses. Management conducts quarterly reviews of the entire loan portfolio and evaluates the need to adjust the allowance balance on the basis of these reviews. See *"Note 1 Description of the Business and Summary of Significant Accounting Policies – New Accounting Pronouncements"* and *"Note 6 Allowance for Credit Losses and Credit Quality Information"* in the Notes to Consolidated Financial Statements for further disclosures and information on the process used to determine the ACL and the impact on the Company when it adopted ASU 2016-13 on January 1, 2023.

Management actively monitors asset quality and, when appropriate, charges off loans against the allowance for credit losses. Although management believes it uses the best information available to make determinations with respect to the allowance for credit losses, future adjustments may be necessary if economic conditions differ substantially from the economic conditions in the assumptions used to determine the size of the allowance for credit losses.

The allowance for credit losses was $11.8 million, or 1.38% of gross loans at December 31, 2023, compared to $10.3 million, or 1.30% of gross loans at December 31, 2022. The allowance for credit losses increased in 2023 primarily because of the adoption of ASU 2016-13 on January 1, 2023.

The following table reflects the activity in the allowance for credit losses and selected statistics:

	December 31,	
(Dollars in thousands)	2023	2022
Balance at beginning of year	$ 10,277	9,279
January 1 adjustment for the adoption of ASU 2016-13	1,070	0
Provision for credit losses	795	1,071
Charge-offs:		
Commercial real estate	0	(91)
Consumer	(50)	(24)
Commercial business	(334)	0
Recoveries	66	42
Net charge-offs	(318)	(73)
Balance at end of year	$ 11,824	10,277
Year-end allowance for credit losses as a percent of year end gross loan balance	1.38 %	1.30 %
Ratio of net loan charge-offs to average loans outstanding	(0.04)	(0.01)
Allowance as a percent of total assets at year end	1.07	0.94

The following table presents information related to net (charge-offs) recoveries by loan category:

	2023		2022	
(Dollars in thousands)	Net (Charge-offs) Recoveries	Ratio of Net (Charge-offs) Recoveries to Average Loans Outstanding	Net (Charge-offs) Recoveries	Ratio of Net (Charge-offs) Recoveries to Average Loans Outstanding
Single family	$ 21	0.01 %	$ 1	0.00 %
Commercial real estate	0	0.00	(91)	(0.02)
Consumer	(43)	(0.10)	(17)	(0.04)
Commercial business	(296)	(0.47)	34	0.05
Total	$ (318)	(0.04)	$ (73)	(0.01)

The following table reflects the allocation of the allowance for credit losses by loan category:

	December 31,			
	2023		2022	
(Dollars in thousands)	Allocated Allowance as a % of Loan Category	Percent of Loans in Each Category to Total Loans	Allocated Allowance as a % of Loan Category[(1)]	Percent of Loans in Each Category to Total Loans[(1)]
Single family	0.54 %	30.80 %	0.61 %	26.13 %
Commercial real estate	1.53	57.10	1.49	59.83
Consumer	1.42	4.98	2.36	5.69
Commercial business	3.72	7.12	1.41	8.35
Total	1.38	100.00 %	1.30	100.00 %

[(1)]The Company adopted ASU 2016-13 as of January 1, 2023. The 2022 amounts presented are calculated under the prior accounting standard.

The changes in the allocation of the allowance between the periods was primarily due to the adoption of ASU 2016-13 on January 1, 2023.

Allowance for Real Estate Losses

Real estate properties acquired, or expected to be acquired, through loan foreclosures are initially recorded at fair value less estimated selling costs. Management periodically performs valuations and an allowance for losses is established if the carrying value of a property exceeds its fair value less estimated selling costs. There was no allowance for real estate losses at December 31, 2023 or 2022.

Non-performing Assets

Loans are reviewed at least quarterly and if the collectability of any loan is doubtful, it is placed on non-accrual status. Loans are placed on non-accrual status when either principal or interest is 90 days or more past due, unless, in the judgment of management, the loan is well collateralized and in the process of collection. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectability of the loan.

The Company adopted ASU 2022-02, *Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* on January 1, 2023. The amendments in this ASU were applied prospectively, and therefore, loan modification and charge off information is provided for only those items occurring after the January 1, 2023 adoption date. See *"Note 1 Description of the Business and Summary of Significant Accounting Policies – New Accounting Pronouncements"* and *"Note 6 Allowance for Credit Losses and Credit Quality Information"* in the Notes to Consolidated Financial Statements for further information on the impact on the Company when it adopted ASU 2022-02 on January 1, 2023, the required disclosures relating to modified loans upon adoption.

Total non-performing assets were $3.8 million at December 31, 2023, an increase of $1.9 million, or 103.3%, from $1.9 million at December 31, 2022. The increase was primarily related to a $2.6 million commercial loan relationship in the agriculture industry that was classified as non-performing during 2023.

The following table sets forth the amounts and categories of non-performing assets in the Company's portfolio:

	December 31,	
(Dollars in thousands)	2023	2022
Non-performing loans:		
Single family	$ 762	908
Commercial real estate	493	0
Consumer	376	441
Commercial business	2,187	529
Total non-performing assets	$ 3,818	1,878
Total as a percentage of total assets	0.34 %	0.17 %
Total as a percentage of total loans receivable	0.44 %	0.24 %
Allowance for credit losses to non-performing loans	309.69 %	547.24 %

Liquidity and Capital Resources

The Company manages its liquidity position so that the funding needs of borrowers and depositors are met in a timely and cost-effective manner. Asset liquidity is the ability to convert assets to cash through the maturity or sale of the asset. Liability liquidity is the ability of the Bank to obtain retail, commercial, internet, and brokered deposits or to borrow funds from third parties such as the FHLB or the Federal Reserve Bank of Minneapolis.

The primary investing activities are the origination of loans and the purchase of securities. Principal and interest payments on loans and securities, along with the proceeds from the sale of loans held for sale, are the primary sources of cash for the Bank. Additional cash can be obtained by selling securities from the available for sale portfolio or by selling loans or mortgage servicing rights.

The primary financing activity is the attraction of retail, commercial, internet, and brokered deposits. The Bank also has the ability to borrow funds from the FHLB or Federal Reserve Bank of Minneapolis based on the collateral value of the loans pledged, subject to applicable borrowing base and collateral requirements. See *"Note 12 Federal Home Loan Bank (FHLB) Advances and Other Borrowings"* in the Notes to Consolidated Financial Statements for more information on the advances that could be drawn based upon existing collateral levels with the FHLB and the Federal Reserve Bank of Minneapolis. Unpledged securities could also be pledged and used as collateral for additional borrowings with the FHLB or Federal Reserve Bank of Minneapolis.

The Bank's most liquid assets are cash and cash equivalents, which consist of short-term highly liquid investments with original maturities of less than three months that are readily convertible to known amounts of cash, and interest-bearing deposits. The level of these assets is dependent on the operating, financing and investing activities during any given period.

Cash and cash equivalents for the Company at December 31, 2023 were $11.2 million, a decrease of $25.1 million, compared to $36.3 million at December 31, 2022. Net cash provided by operating activities during 2023 was $13.7 million. The Company conducted the following major investing activities during 2023: purchases of securities available for sale and FHLB stock were $29.2 million; principal payments and maturity and redemption proceeds received on securities available for sale and FHLB stock were $67.4 million; and the proceeds from the sale of premises and other real estate were $0.3 million. Net loans receivable increased $74.8 million and the Company purchased premises and equipment of $0.7 million. Net cash used by investing activities during 2023 was $37.0 million. The Company conducted the following major financing activities during 2023: deposits decreased $5.1 million; received proceeds from borrowings of $251.1 million, repaid borrowings of $237.9 million, purchased treasury stock of $0.6 million; received partial stock awards for tax withholding of $0.1 million, paid dividends to stockholders of $1.3 million, and customer escrows decreased $7.9 million. Net cash used by financing activities was $1.8 million for 2023.

The Bank has certificates of deposits from customers with outstanding balances of $186.3 million that mature during 2024 which includes $86.3 in wholesale certificates. Based upon past experience, management anticipates that the majority of the deposits will renew for another term. The Company believes that deposits that do not renew will be replaced with deposits from other customers, brokers, or FHLB advances. Proceeds from the sale of securities could also be used to fund unanticipated outflows of deposits. FRB borrowings could also be used to replace unanticipated outflows of non-renewing certificates of deposits.

The Bank has deposits of $60.3 million in checking and money market accounts of five customers that have individual relationship balances greater than $5.0 million. These funds may be withdrawn at any time, however, management anticipates that the majority of these deposits will remain on deposit with the Bank over the next twelve months. If these deposits are withdrawn, it is anticipated that they would be funded with available cash, replaced with deposits from other customers, brokers, or with advances from the FHLB. Proceeds from the sale of securities could also be used to fund unanticipated outflows of deposits. FRB borrowings could also be used to replace unanticipated outflows of large checking and money market deposits.

The Company estimates that approximately 23.8% of total deposits exceeded the Federal Deposit Insurance limit of $250,000 at December 31, 2023. While these funds may be withdrawn at any time, management anticipates that the majority of these deposits will not be withdrawn from the Bank over the next twelve months. If these deposits were to be withdrawn, it is anticipated that they would be replaced with deposits from other customers, brokered deposits, or with FHLB advances. FRB borrowings could also be used to replace unanticipated outflows of large checking and money market deposits.

The Company had the ability to borrow $283.5 million from the FHLB at December 31, 2023 based on the collateral value of the loans pledged. The credit policy of the FHLB relating to the collateral value of the loans collateralizing the available line of credit with the FHLB may change such that the current collateral pledged to secure future advances is no longer acceptable or the formulas for determining the excess pledged collateral may change. The FHLB could also reduce the amount of funds it will lend to the Bank. It is not anticipated that the Bank will need to find alternative funding sources in the next twelve months to replace the available borrowings from the FHLB. However, if needed, the Bank could borrow an additional $87.3 million from the Federal Reserve Bank of Minneapolis based on the collateral value of the loans pledged at December 31, 2023. The Company also has the ability to pledge securities as collateral to increase the borrowing capacity of the Company by $119.1 million.

Dividends from the Bank have been the Company's primary source of cash. The Bank is restricted under applicable federal banking law from paying dividends to the Company without prior notice to and non-objection of the applicable regulator. During 2023, the Bank paid dividends to the Company of $2.0 million and at December 31, 2023, the Company had an available cash balance of $16.3 million.

The Company's primary use of cash is the payment of holding company level expenses including the payment of director and management fees, legal expenses and regulatory costs. The Company also uses cash to repurchase stock and pay any declared dividends. The Company plans to continue to fund its liquidity needs through dividends from the Bank, or if deemed prudent, by obtaining external capital.

Contractual Obligations and Commercial Commitments
The Company has no off-balance sheet arrangements other than commitments to originate and sell loans in the ordinary course of business. The Company does have certain obligations and commitments to make future payments under existing contracts. See "*Note 18 Commitments and Contingencies"* in the Notes to Consolidated Financial Statements for further information on the outstanding contractual obligations and commercial commitments at December 31, 2023.

Regulatory Capital Requirements
The Bank is subject to the Basel III regulatory capital requirements. The Basel III requirements, among other things, (i) apply a set of capital requirements to the Bank, including requirements relating to common equity as a component of core capital, (ii) implement a "capital conservation buffer" against risk and a higher minimum Tier 1 capital requirement, and (iii) set forth rules for calculating risk-weighted assets for purposes of such requirements. The rules also made corresponding revisions to the prompt corrective action framework and include capital ratios and buffer requirements. 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 Company'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 its 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.

The Board of Governors of the Federal Reserve Bank in its Small Bank Holding Company Policy Statement (Policy Statement) has exempted small bank holding companies with assets less than $3 billion from the above capital requirements. The Policy Statement also includes savings and loan holding companies that meet the Policy Statement's qualitative requirements for exemption. The Company currently meets the qualitative exemption requirements, and therefore, is exempt from the above capital requirements.

Quantitative measures established by regulations to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table and defined in the regulation) of common equity Tier 1 capital to risk-weighted assets, Tier 1 capital to adjusted total assets, Tier 1 capital to risk-weighted assets and total capital to risk-weighted assets.

The Bank must maintain a capital conservation buffer of at least 2.50% composed of common equity Tier 1 capital above its minimum risk-based capital requirements in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. Management believes that, as of December 31, 2023, the Bank's capital ratios were in excess of those quantitative capital ratio standards set forth under the current prompt corrective action regulations, including the capital conservation buffer described above. However, there can be no assurance that the Bank will continue to maintain such status in the future. The OCC has extensive discretion in its supervisory and enforcement activities and can adjust the requirement to be well-capitalized in the future. See *"Note 17 Regulatory Capital"* in the Notes to Consolidated Financial Statements for a table that reflects the Bank's capital compared to these capital requirements.

Dividends
The declaration of dividends is subject to, among other things, the Company's financial condition and results of operations, the Bank's compliance with regulatory capital requirements and other regulatory restrictions, tax considerations, industry standards, economic conditions, anticipated asset growth, general business practices and other factors. The Company paid four quarterly dividend payments that totaled $0.30 per share with total distributions of $1.3 million in 2023. In 2022, the Company paid four quarterly dividend payments that totaled $0.24 per share with total distributions of $1.0 million. The Company will continue to evaluate the best use of the Company's capital based on the factors identified above.

Under applicable federal banking laws and regulations, no dividends can be declared or paid by the Bank to the Company without notice to, and non-objection from, the applicable banking regulator. There is no assurance that the Bank would satisfy the applicable regulatory requirements necessary to effect any such dividends. The payment of dividends by the Company is dependent upon the Company having adequate cash or other assets that can be converted to cash to pay dividends to its stockholders and is subject to the discretion of the Board of Directors of both the Bank and the Company. The payment of dividends depends upon many factors, including the Company's results of operations, financial condition, capital requirements, regulatory and contractual restrictions, business strategy and other factors deemed relevant by the Board of Directors.

In January 2024, the Company's Board of Directors declared a quarterly dividend of 8 cents per share of common stock payable on March 6, 2024 to stockholders of record at the close of business on February 13, 2024. The declaration and amount of any future cash dividends remains subject to the sole discretion of the Board of Directors.

New Accounting Pronouncements
"Note 1 Description of the Business and Summary of Significant Accounting Policies – New Accounting Pronouncements" in the Notes to Consolidated Financial Statements discusses recently issued accounting pronouncements that the Company has or will be required to adopt. Also discussed is management's

expectation of the impact these new accounting pronouncements had or will have on the Company's consolidated financial statements.

Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. The Company's market risk arises primarily from interest rate risk inherent in its investing, lending and deposit taking activities. Management actively monitors and manages its interest rate risk exposure.

The Company's profitability is affected by fluctuations in interest rates. A sudden and substantial change in interest rates may adversely impact the Company's earnings to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent, or on the same basis. The Company monitors the projected changes in net interest income that occur if interest rates were to suddenly change up or down. The *Rate Shock Table* located in the following Asset/Liability Management section of this Management's Discussion and Analysis discloses the Company's projected changes in net interest income based upon immediate interest rate changes called rate shocks. The Company utilizes a model that uses the discounted cash flows from its interest-earning assets and its interest-bearing liabilities to calculate the current market value of those assets and liabilities. The model also calculates the changes in market value of the interest-earning assets and interest-bearing liabilities under different interest rate changes.

The following table discloses the projected changes in the market value of the Company's interest-earning assets and interest-bearing liabilities based upon incremental 100 basis-point changes in interest rates from interest rates in effect on December 31, 2023.

(Dollars in thousands)	Market Value				
Basis point change in interest rates	-200	-100	0	+100	+200
Total market-risk sensitive assets	$ 1,073,493	1,046,560	1,023,419	1,000,054	976,380
Total market-risk sensitive liabilities	946,469	897,261	857,772	825,493	798,102
Off-balance sheet financial instruments	29	17	0	64	121
Net market risk	$ 126,995	149,282	165,647	174,497	178,157
Percentage change from current market value	(23.33) %	(9.88) %	0.00 %	5.34 %	7.55 %

The preceding table was prepared utilizing a model using the following assumptions (the Model Assumptions) regarding prepayment and decay ratios that were determined by management based upon their review of historical prepayment speeds and future prepayment projections. Fixed rate loans were assumed to prepay at annual rates of between 4% and 58%, depending on the note rate and the period to maturity. Adjustable rate mortgages (ARMs) were assumed to prepay at annual rates of between 7% and 45%, depending on the note rate and the period to maturity. Mortgage-backed securities were projected to have prepayments based upon the underlying collateral securing the instrument. Certificate accounts were assumed not to be withdrawn until maturity. Savings accounts and money market accounts were assumed to decay at an annual rate of 1% and 46%, respectively. Retail checking accounts, commercial checking accounts and commercial money market accounts were assumed to decay at annual rates of 5%, 39% and 13%, respectively. Callable investments were projected to be called at the first call date where the projected interest rate on similar remaining term instruments was less than the interest rate on the callable investment.

Certain shortcomings are inherent in the method of analysis presented in the above table. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. The model assumes that the difference between the current interest rate being earned or paid compared to a treasury instrument or other interest index with a similar term to maturity (the Interest Spread) will remain constant over the interest changes disclosed in the table. Changes in Interest Spread could impact projected market value changes. Certain assets, such as ARMs, have features which restrict changes in interest rates on a short-term basis and over the life of the assets. The market value of the interest-bearing assets that are approaching their lifetime interest rate caps could be different from the values disclosed in the table. Certain liabilities, such as certificates of deposit, have fixed rates that restrict interest rate changes until maturity. In the event of a change in interest rates, prepayment and early withdrawal levels may deviate significantly from those assumed in calculating the preceeding table. The ability of many borrowers to service their debt may also decrease in the event of a substantial sustained increase in interest rates.

Asset/Liability Management

The Company's management reviews the impact that changing interest rates will have on the net interest income projected for the twelve months following December 31, 2023 to determine if its current level of interest rate risk is acceptable. The following table projects the estimated impact on net interest income during the twelve month period ending December 31, 2024 of immediate interest rate changes called rate shocks:

(Dollars in thousands)		
Rate Shock in Basis Points	Net Interest Change	Percent Change
+200	$ (35)	(0.11) %
+100	11	0.03
0	0	0.00
-100	(53)	(0.17)
-200	(697)	(2.20)

The preceding table was prepared utilizing the Model Assumptions. Certain shortcomings are inherent in the method of analysis presented in the preceding table. In the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the preceding table. The ability of many borrowers to service their debt may decrease in the event of a substantial increase in interest rates and could impact net interest income. The decrease in interest income in a declining rate environment was primarily because there are more loans and investments that would reprice to lower interest rates than there are deposits that would be able to be repriced lower to the same extent in the next twelve months.

In an attempt to manage the Bank’s exposure to changes in interest rates, management closely monitors interest rate risk. The Bank has an Asset/Liability Committee that meets frequently to discuss changes in the interest rate risk position and projected profitability. This Committee makes adjustments to the asset/liability position of the Bank that are reviewed by the Board of Directors of the Bank. This Committee also reviews the Bank's portfolio, formulates investment strategies and oversees the timing and implementation of transactions as intended to assure attainment of the Bank's objectives in an effective manner. In addition, each quarter the Board reviews the Bank's asset/liability position, including simulations of the effect on the Bank's capital of various interest rate scenarios.

In managing its asset/liability composition, the Bank may, at times, depending on the relationship between long-term and short-term interest rates, market conditions and consumer preference, place more emphasis on managing net interest margin than on better matching the interest rate sensitivity of its assets and liabilities in an effort to enhance net interest income. Management believes that the increased net interest income resulting from a mismatch in the maturity of its asset and liability portfolios can, in certain situations, provide high enough returns to justify the increased exposure to sudden and unexpected changes in interest rates.

To the extent consistent with its interest rate spread objectives, the Bank attempts to manage its interest rate risk and has taken a number of steps to structure its balance sheet to better match the maturities of its assets and liabilities. The Bank sells almost all of its originated 30-year fixed rate single family residential loans that are saleable to third parties and generally places only adjustable rate or shorter-term fixed rate loans that meet certain risk characteristics into its loan portfolio. In addition, a significant portion of the Bank's commercial loans that are placed into the portfolio are adjustable rate loans or fixed rate loans that reprice in five years or less.

Other Financial Data
The following tables set forth certain information as to the Bank's FHLB advances and other borrowings.

	Year Ended December 31,	
(Dollars in thousands)	2023	2022
Maximum Balance:		
FHLB advances and other borrowings	$ 54,100	72,500
FHLB short-term advances and other borrowings	54,100	72,500
Average Balance:		
FHLB advances and other borrowings	6,859	6,762
FHLB short-term advances and other borrowings	6,859	6,762

See *"Note 12 Federal Home Loan Bank (FHLB) Advances and Other Borrowings"* in the Notes to Consolidated Financial Statements for more information on FHLB advances and other borrowings.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of
HMN Financial, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of HMN Financial, Inc. and subsidiaries (the "Company") as of December 31, 2023, the related consolidated statements of comprehensive income (loss), stockholders' equity, and cash flows for the year ended December 31, 2023, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and the results of its operations and its cash flows for the year ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses as of January 1, 2023 due to the adoption of ASC Topic 326, *Financial Instruments – Credit Losses*. Our opinion is not modified with respect to this matter.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

<u>Allowance for Credit Losses (“ACL”) - Loans – Qualitative Factors</u>

<u>Critical Audit Matter Description</u>

As described in Notes 1 and 6 to the financial statements, the Company accounts for credit losses under ASC 326, Financial Instruments – Credit Losses. ASC 326 requires the measurement of expected lifetime credit losses for financial assets measured at amortized cost at the reporting date.

Management employs a process and methodology to estimate the ACL on loans that evaluates both quantitative and qualitative factors. The methodology for evaluating quantitative factors involves pooling loans into portfolio segments for loans that share similar risk characteristics. Pooled loan portfolio segments include single-family, commercial real estate, consumer, and commercial business loans.

For pooled loans, the Company utilizes a vintage loss analysis (vintage) methodology to estimate credit losses over the expected life of the loan. The vintage methodology analyzes prior year losses over a full credit cycle and applies historical loss factors to the loans in the current portfolio. The loss rates are adjusted by current and forecasted macroeconomic assumptions (qualitative factors). The qualitative factors reflect management's view of how losses may vary from those represented by quantitative loss rates. Qualitative factors are applied to each portfolio segment with the amounts determined by correlation of credit stress to the maximum loss factors determined based on historical data. Changes in these assumptions could have a material effect on the Company’s financial results.

We identified auditing the qualitative component of the ACL on pooled loans as a critical audit matter because the methodology to determine the estimate of credit losses uses subjective judgments by management and is subject to material variability. Performing audit procedures to evaluate the qualitative factors involved a high degree of auditor judgment and required significant effort, including the need to involve more experienced audit personnel.

<u>How We Addressed the Matter in Our Audit</u>

The primary procedures we performed to address this critical audit matter included, among others:

- Substantively testing management’s process, including evaluating their judgments and assumptions, for developing the ACL on loans collectively evaluated for impairment, which included:
    - Evaluation of the appropriateness of the Company’s methodology and accounting policies involved in the application of ASC 326.
    - Testing the mathematical accuracy of the calculation.
    - Testing the completeness and accuracy of data used in the calculation.

- Evaluation of the reasonableness of management’s judgments related to qualitative factors to determine if they are calculated to conform with management’s policies and were consistently applied period over period. Our evaluation considered evidence from internal and external sources and loan portfolio composition and performance.

/s/ Baker Tilly US, LLP

We have served as the Company's auditor since 2022.

Milwaukee, Wisconsin

March 15, 2024

CliftonLarsonAllen LLP
CLAconnect.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of HMN Financial, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of HMN Financial, Inc. and Subsidiaries (the Company) as of December 31, 2022, the related consolidated statements of comprehensive loss, stockholders' equity, and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provide a reasonable basis for our opinion.

/s/ CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

We have served as the Company's auditor from 2014 through 2022.
Minneapolis, Minnesota
March 3, 2023

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value)	December 31, 2023	December 31, 2022
ASSETS		
Cash and cash equivalents	$ 11,151	36,259
Securities available for sale:		
Mortgage-backed and related securities (amortized cost $179,366 and $216,621)	161,414	192,688
Other marketable securities (amortized cost $54,112 and $55,698)	53,680	53,331
Total securities available for sale	215,094	246,019
Loans held for sale	1,006	1,314
Loans receivable, net	845,692	777,078
Accrued interest receivable	3,553	3,003
Mortgage servicing rights, net	2,709	2,986
Premises and equipment, net	15,995	16,492
Goodwill	802	802
Prepaid expenses and other assets	3,962	3,902
Deferred tax asset, net	7,171	8,347
Total assets	$ 1,107,135	1,096,202
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$ 976,793	981,926
Federal Home Loan Bank advances and other borrowings	13,200	0
Accrued interest payable	2,399	298
Customer escrows	2,246	10,122
Accrued expenses and other liabilities	4,790	6,520
Total liabilities	999,428	998,866
Commitments and contingencies		
Stockholders' equity:		
Serial-preferred stock: ($.01 par value) authorized 500,000 shares; issued 0	0	0
Common stock ($.01 par value): authorized 16,000,000 shares; issued 9,128,662; outstanding 4,457,905 and 4,480,976	91	91
Additional paid-in capital	41,235	41,013
Retained earnings, subject to certain restrictions	142,278	138,409
Accumulated other comprehensive loss	(13,191)	(19,761)
Unearned employee stock ownership plan shares	(870)	(1,063)
Treasury stock, at cost 4,670,757 and 4,647,686 shares	(61,836)	(61,353)
Total stockholders' equity	107,707	97,336
Total liabilities and stockholders' equity	$ 1,107,135	1,096,202

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31 *(Dollars in thousands, except per share amounts)*		2023	2022
Interest income:			
Loans receivable	$	39,646	30,448
Securities available for sale:			
Mortgage-backed and related		2,362	2,801
Other marketable		966	428
Other		503	578
Total interest income		43,477	34,255
Interest expense:			
Deposits		12,290	1,732
Customer escrows		59	16
Advances and other borrowings		371	251
Total interest expense		12,720	1,999
Net interest income		30,757	32,256
Provision for credit losses (1)		713	1,071
Net interest income after provision for credit losses		30,044	31,185
Non-interest income:			
Fees and service charges		3,352	3,222
Loan servicing fees		1,575	1,590
Gain on sales of loans		1,494	2,393
Other		1,860	1,682
Total non-interest income		8,281	8,887
Non-interest expense:			
Compensation and benefits		18,113	17,211
Occupancy and equipment		3,626	3,812
Data processing		2,187	1,948
Professional services		1,051	1,386
Other		4,795	4,444
Total non-interest expense		29,772	28,801
Income before income tax expense		8,553	11,271
Income tax expense		2,548	3,226
Net income		6,005	8,045
Other comprehensive income (loss), net of tax		6,570	(18,178)
Comprehensive income (loss) available to common stockholders	$	12,575	(10,133)
Basic earnings per share	$	1.38	1.85
Diluted earnings per share	$	1.37	1.83

(1) The Company adopted Accounting Standards Update 2016-13 as of January 1, 2023. The 2022 amounts presented are calculated under the prior accounting standard.

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Unearned Employee Stock Ownership Plan	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2021	$ 91	40,740	131,413	(1,583)	(1,256)	(59,374)	110,031
Net income			8,045				8,045
Other comprehensive loss, net of tax				(18,178)			(18,178)
Dividends paid to stockholders ($0.24 per share)			(1,049)				(1,049)
Stock repurchases						(2,134)	(2,134)
Restricted stock awards		(225)				225	0
Stock awards withheld for tax withholding						(70)	(70)
Amortization of restricted stock awards		227					227
Earned employee stock ownership plan shares		271			193		464
Balance, December 31, 2022	$ 91	41,013	138,409	(19,761)	(1,063)	(61,353)	97,336
Net income			6,005				6,005
Other comprehensive income, net of tax				6,570			6,570
Adoption of ASU 2016-13 (see Note 1)			(830)				(830)
Dividends paid to stockholders ($0.30 per share)			(1,306)				(1,306)
Stock repurchases						(629)	(629)
Restricted stock awards		(210)				210	0
Stock awards withheld for tax withholding						(64)	(64)
Amortization of restricted stock awards		225					225
Earned employee stock ownership plan shares		207			193		400
Balance, December 31, 2023	$ 91	41,235	142,278	(13,191)	(870)	(61,836)	107,707

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 *(Dollars in thousands)*	2023	2022
Cash flows from operating activities:		
Net income	$ 6,005	8,045
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	713	1,071
Depreciation	1,120	1,219
Amortization of premiums, net	720	993
Amortization of deferred loan fees	(147)	(831)
Amortization of core deposit intangible	0	10
Amortization of mortgage servicing rights and servicing costs	832	909
Capitalized mortgage servicing rights	(555)	(615)
Deferred income tax expense	157	103
(Gains) losses recognized on equity securities, net	(157)	22
Gains on sale of premises and equipment	(18)	(6)
Gains on sale of real estate	(17)	(113)
Gain on sales of loans	(1,494)	(2,393)
Proceeds from sales of loans held for sale	66,714	92,669
Disbursements on loans held for sale	(60,708)	(71,062)
Amortization of restricted stock awards	225	227
Amortization of unearned ESOP shares	193	193
Earned ESOP shares priced above original cost	207	271
Increase in accrued interest receivable	(550)	(871)
Increase in accrued interest payable	2,101	235
Decrease in other assets	94	1,346
Decrease in other liabilities	(1,750)	(115)
Other, net	1	4
Net cash provided by operating activities	13,686	31,311
Cash flows from investing activities:		
Principal collected on securities available for sale	36,464	44,698
Proceeds collected on maturity of securities available for sale	20,700	5,000
Purchases of securities available for sale	(19,043)	(35,043)
Purchase of Federal Home Loan Bank stock	(10,158)	(6,819)
Redemption of Federal Home Loan Bank stock	10,189	6,628
Proceeds from sales of real estate	237	403
Net increase in loans receivable	(74,769)	(139,715)
Proceeds from sale of premises and equipment	85	9
Purchases of premises and equipment	(691)	(342)
Net cash used by investing activities	(36,986)	(125,181)
Cash flows from financing activities:		
(Decrease) increase in deposits	(5,133)	31,260
Treasury stock purchased	(629)	(2,134)
Stock awards withheld for tax withholding	(64)	(70)
Dividends to stockholders	(1,306)	(1,049)
Proceeds from borrowings	251,121	158,900
Repayment of borrowings	(237,921)	(158,900)
(Decrease) increase in customer escrows	(7,876)	7,979
Net cash (used) provided by financing activities	(1,808)	35,986
Decrease in cash and cash equivalents	(25,108)	(57,884)
Cash and cash equivalents, beginning of year	36,259	94,143
Cash and cash equivalents, end of year	$ 11,151	36,259
Supplemental cash flow disclosures:		
Cash paid for interest	$ 10,620	1,764
Cash paid for income taxes	2,394	2,000
Supplemental noncash flow disclosures:		
Loans transferred to loans held for sale	4,215	14,899
Transfer of loans to real estate	220	0
Right to use assets obtained in exchange for lease obligations	0	394

See accompanying notes to consolidated financial statements.

NOTE 1 Description of the Business and Summary of Significant Accounting Policies

HMN Financial, Inc. (HMN or the Company) is a stock savings bank holding company that owns 100 percent of Home Federal Savings Bank (the Bank). The Bank has a community banking philosophy and operates retail banking and loan production facilities in Minnesota, Iowa and Wisconsin. The Bank has two wholly owned subsidiaries, Osterud Insurance Agency, Inc. (OIA), which does business as Home Federal Investment Services and offers financial planning products and services, and HFSB Property Holdings, LLC (HPH), which is currently inactive, but has acted in the past as an intermediary for the Bank in holding and operating certain foreclosed properties.

The consolidated financial statements included herein are for HMN, the Bank, OIA and HPH. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company evaluated subsequent events through the filing date of this Annual Report on Form 10-K with the Securities and Exchange Commission (SEC) on March 7, 2024.

Use of Estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates.

An estimate that is particularly susceptible to change relates to the determination of the allowance for credit losses. Management believes that the allowance for credit losses is appropriate to cover probable losses that have been identified in connection with the loans individually reviewed as well as the expected losses in each identified pool of loans that have not been individually reviewed at the date of the balance sheet. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions and other factors. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for credit losses. Such agencies may require changes to the allowance based on their judgment about information available to them at the time of their examination.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. These calculations are based on many complex factors including estimates of the timing of reversals of temporary differences, the interpretation of federal and state income tax laws, and a determination of the differences between the tax and the financial reporting basis of assets and liabilities. Actual results could differ significantly from the estimates and interpretations used in determining the current and deferred income tax assets and liabilities.

Cash and Cash Equivalents

The Company considers highly liquid investments with original maturities of three months or less to be cash equivalents.

Securities

Securities are accounted for according to their purpose and holding period. The Company classifies its debt securities in one of three categories:

Trading Securities
Securities held principally for resale in the near term are classified as trading securities and are recorded at their fair values. Unrealized gains and losses on trading securities are included in other income.

Securities Held to Maturity
Securities that the Company has the positive intent and ability to hold to maturity are reported at cost and adjusted for premiums and discounts that are recognized in interest income using the interest method with discounts amortized over the period to maturity and premiums amortized to the earliest call date. The expected credit losses on held to maturity debt securities is measured on a collective basis by major security type and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

Securities Available for Sale
Securities available for sale consist of securities not classified as trading securities or as securities held to maturity. They include securities that management intends to use as part of its asset/liability strategy or that may be sold in response to changes in interest rates, changes in prepayment risk, or similar factors. Unrealized gains and losses, net of income taxes, are reported as a separate component of stockholders' equity until realized. Gains and losses on the sale of securities available for sale are determined using the specific identification method and recognized on the trade date. Premiums and discounts are recognized in interest income using the interest method with discounts amortized over the period to maturity and premiums amortized to the earliest call date. Any unrealized credit losses on securities available for sale that are determined to be impaired as a result of the impairment review procedures noted below will result in the securities amortized cost basis being written down to fair value through income.

Effective January 1, 2023, the Company adopted the provisions of ASC 326 and modified its accounting policy for the assessment of available for sale securities for impairment and reviews its investment portfolio on a quarterly basis for indication of impairment due to credit and noncredit related factors. Under ASC 326, for available for sale securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more than likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For securities available for sale that do not meet the above criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, any changes to the rating by a rating agency, and adverse conditions related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of tax. The Company elected the practical expedient of zero loss estimates for securities issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rate by major agencies and have a long history of no credit losses.

Under ASC 326, changes in the allowance for credit losses are recorded as provision for, or reversal of, credit loss expense. Losses are charged against the allowance when management believes the uncollectibility of an available for sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

The Company made an accounting policy election to exclude accrued interest receivable from the amortized cost basis of securities available for sale. Accrued interest receivable on securities available for sale is reported as a component of accrued interest receivable on the consolidated balance sheet, totaled $0.5 million at December 31, 2023, and is excluded from the estimated credit losses.

Equity Securities
Equity securities are carried at their fair market value and are included in the prepaid expenses and other assets line on the consolidated balance sheet. Any changes during the period recognized in other income on the consolidated statements of comprehensive income (loss).

Loans Held for Sale
Mortgage loans originated which are intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net fees and costs associated with originating loans held for sale are deferred and included in the basis of the loan in determining the gain or loss on the sale of the loans. Gains on the sale of loans are recognized on the settlement date. Net unrealized losses are recognized through a valuation allowance by charges to income.

Loans Receivable, net
Loans receivable, net, are carried at amortized cost. Loan origination fees received, net of certain loan origination costs, are deferred as an adjustment to the carrying value of the related loan and are amortized into interest income using the interest method over the estimated life of the loans.

Premiums and discounts on purchased loans are amortized into interest income using the interest method over the period to contractual maturity, adjusted for estimated prepayments.

The Company adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* on January 1, 2023, and uses a standardized process to determine the appropriateness of the allowance for credit losses (ACL) for the commercial real estate, commercial business, single family, and consumer loan portfolios. The determination of the ACL for each of these portfolios is calculated on a pooled basis when similar risk characteristics exist and on an individual basis when loans do not share risk characteristics such as all non-performing loans. The determination of the quantitative pooled loan reserves for the commercial real estate and commercial business loan portfolios involves analyzing prior year losses over a full credit cycle by their assigned standardized risk ratings and applying these historic loss factors to loans in the current portfolio with similar risk ratings. This process is referred to as a vintage loss analysis. The determination of the quantitative pooled loan reserves for the single family and consumer loan portfolios involves analyzing prior year losses over a full credit cycle based on certain loan and borrower risk characteristics when the loans were originated and applying these historic loss factors to loans with similar risk ratings in the current portfolio. Qualitative reserves are also established and reflect management's overall estimate of the extent to which current expected credit losses on collectively evaluated loans will differ from historical loss experience. The determination of the qualitative reserves for all of the loan categories involves an analysis and consideration of certain factors that are anticipated to have an impact on future credit losses including, but not limited to: actual and anticipated changes in the size, composition, and concentrations of the loan portfolios; national, regional, and local economic conditions including inflation and unemployment data; loan delinquencies, the level of non-accrual loans, and risk rating trends; lending policies, procedures, and staffing; the scope and results of loan quality reviews; and the demand for single family homes, commercial real estate, and building lots.

Collateral dependent loans are those for which the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. These loans do not typically share similar risk characteristics with other loans and expected credit losses are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. Estimates of expected credit losses for collateral dependent loans, whether or not foreclosure is probable, are based on the fair value of the collateral, adjusted for selling costs when repayment depends on the sale of the collateral. The appropriateness of the ACL on individually reviewed collateral dependent loans is dependent upon management's estimates of variables affecting valuation, appraisals of collateral, evaluations of performance and status and the amounts and timing of future cash flows expected to be received on these loans. Such estimates, appraisals, evaluations, and cash flows may be subject to adjustments due to changing economic prospects of borrowers or properties. The estimates are reviewed periodically, and any adjustments are recorded in the provision for credit losses in the periods in which the adjustments become known and loans are charged off to the extent they are deemed to be uncollectible. Because of the size of some loans, changes in estimates can have a significant impact on the credit loss provision. The Company increases its allowance for credit losses by charging the provision for credit losses against income and by receiving recoveries of previously charged off loans. The Company decreases its allowance by crediting the provision for credit losses and recording loan charge-offs. The methodology for establishing the allowance for credit losses takes into consideration probable losses that have been identified in connection with the loans individually reviewed as well as the expected losses in each identified pool of loans that have not been individually reviewed. Collateral dependent loans include all loans which are on non-accrual or delinquent as to principal and interest for 90 days or more.

The Company's total expected loss estimate is based, in part, on the maximum historical credit loss experience of each pool of loans over a full credit cycle and all available portfolio data is considered in the analysis. When historical credit loss experience is not sufficient for a specific portfolio, the Company may supplement its own portfolio data with external data. Assessing these numerous factors involves significant judgement.

The Company made an accounting policy election to exclude accrued interest receivable from the amortized cost basis of loans. Accrued interest receivable on loans is reported as a component of accrued interest receivable on the consolidated balance sheet and totaled $3.0 million at December 31, 2023 and is excluded from the estimated credit losses.

See the "*New Accounting Pronouncements"* section later in this Note 1 of the Consolidated Financial Statements and *"Note 6 Allowance for Credit Losses and Credit Quality Information"* in the Notes to Consolidated Financial Statements for further disclosures, information on the process used to determine the ACL, and the impact on the Company when it adopted ASU 2016-13 on January 1, 2023.

Interest income is recognized on an accrual basis except when collectability is in doubt. When loans are placed on a non-accrual basis, generally when the loan is 90 days past due, previously accrued but unpaid interest is reversed from income. If the ultimate collectability of a loan is in doubt and the loan is placed in non-accrual status, the cost recovery method is used and cash collected is applied to first reduce the principal outstanding. Generally, the Company returns a loan to accrual status when all delinquent interest and principal becomes current under the terms of the loan agreement, the borrower has consistently made the required payments for a period of six months, and the collectability of remaining principal and interest is no longer doubtful. Previously collected interest payments that were applied to principal when the loan was classified as non-accrual are recorded as interest income using the effective yield method over the estimated life of the loan, including expected renewal terms.

The Company adopted ASU 2022-02, *Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* on January 1, 2023. Based on the guidance in this ASU, a loan modification or refinancing results in a new loan if the terms of the new loan are at least as favorable to the lender as the terms with customers with similar collection risks that are not refinancing or restructuring their loans and the modification to the terms of the loan are more than minor. If a loan modification or refinancing does not result in a new loan, it is classified as a loan modification. The amendments in this ASU were applied prospectively, and therefore, loan modification and vintage charge off information is provided for only those items occurring after the January 1, 2023 adoption date. See the "*New Accounting Pronouncements"* section later in this Note 1 of the Consolidated Financial Statements and *"Note 6 Allowance for Credit Losses and Credit Quality Information"* in the Notes to Consolidated Financial Statements for further disclosures and information on the impact on the Company when it adopted ASU 2022-02 on January 1, 2023.

Transfers of Financial Assets and Participating Interests
Transfers of an entire financial asset or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share of ownership, (3) the rights of each participating interest holder must have the same priority, and (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Real Estate, net
Real estate acquired through loan foreclosure or deed in lieu of foreclosure is initially recorded at its fair value less estimated selling costs. Third party appraisals are obtained as soon as it is practical after obtaining possession of the property. Valuations are reviewed quarterly by management and an allowance for losses is established if the carrying value of a property exceeds its fair value less estimated selling costs.

Mortgage Servicing Rights, net
Mortgage servicing rights are capitalized at their fair value and amortized in proportion to, and over the period of, estimated net servicing income. The Company evaluates its capitalized mortgage servicing rights for impairment each quarter. Loan type and note rate are the predominant risk characteristics of the underlying loans used to stratify capitalized mortgage servicing rights for purposes of measuring impairment. Any impairment is recognized through a valuation allowance.

Premises and Equipment, net
Land is carried at cost. Office buildings, improvements, and furniture and equipment are carried at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over their estimated useful lives of 5 to 40 years for office buildings and improvements and 3 to 10 years for furniture and equipment.

Goodwill
The Company records goodwill for acquisition amounts paid in excess of the net assets purchased. Goodwill is tested for impairment annually at December 31st or when circumstances arise indicating impairment may have occurred. In making this assessment that impairment may have occurred, management considers a number of factors including, but not limited to, operating results, business plans, economic projections, anticipated future cash flows, and current market data. There are inherent

uncertainties related to these factors and management's judgment in applying them to the analysis of impairment. Changes in economic and operating conditions, as well as other factors, could result in impairment in future periods. Any impairment losses arising from such testing would be reported in the consolidated statement of comprehensive income (loss) as a separate line item within operations. There were no impairment losses recognized as a result of periodic impairment testing at December 31, 2023 or 2022.

Core Deposit Intangible, net
The Company records the estimated fair value of the deposit base acquired in an acquisition as a core deposit intangible asset. The recorded amount is amortized on a straight line basis over the estimated life of the deposits acquired.

Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of
The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Stock Based Compensation
The Company recognizes the grant-date fair value of stock options and restricted stock awards issued as compensation expense, amortized over the vesting period.

Employee Stock Ownership Plan (ESOP)
The Company has an ESOP that borrowed funds from the Company and purchased shares of HMN common stock. The Company makes quarterly principal and interest payments on the ESOP loan. As the debt is repaid, ESOP shares that were pledged as collateral for the debt are released from collateral based on the proportion of debt service paid in the year and then allocated to eligible employees. The Company accounts for its ESOP in accordance with Accounting Standards Codification (ASC) 718, *Employers' Accounting for Employee Stock Ownership Plans*. Accordingly, the shares pledged as collateral are reported as unearned ESOP shares in stockholders' equity. As shares are determined to be ratably released from collateral, the Company reports compensation expense equal to the current market price of the shares, and the shares become outstanding for earnings per share computations.

Income Taxes
Deferred tax assets and liabilities are recognized for future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. A valuation allowance is required to be recognized if it is more-likely-than-not that the deferred tax asset will not be realized. The determination of the realizability of the deferred tax asset is subjective and dependent upon judgment concerning management's evaluation of both positive and negative evidence regarding the ultimate realizability of deferred tax assets. The Company is no longer subject to federal or state income tax examinations by tax authorities for years before 2020.

Earnings per Common Share
Basic earnings per common share excludes dilution and is computed by dividing the income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that shared in the earnings of the entity.

Comprehensive Income (Loss)
Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events from non-owner sources. Comprehensive income (loss) is the total of net income and other comprehensive income (loss), which for the Company is comprised of unrealized gains and losses on securities available for sale.

Segment Information
The amount of each segment item reported is the measure reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing an enterprise's general-purpose financial statements and allocations of revenues, expenses, and gains or losses are included in determining reported segment profit or loss if they are included in the measure of the segment's profit or loss that is used by the chief operating decision maker. Similarly, only those assets that are included in the measure of the segment's assets that are used by the chief operating decision maker are reported for that segment.

New Accounting Pronouncements
In December 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures.* The amendments in the ASU address investor requests for more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The amendments in this ASU apply to all entities that are subject to *Topic 740, Income Taxes* with certain disclosures only required by public business entities. For public business entities, such as the Company, the amendments in this ASU are effective for annual periods beginning after December 15, 2024, with early adoption permitted. Management is currently in the process of reviewing how the Company's income tax disclosure will be impacted by the additional guidance when this ASU is required to be adopted on December 31, 2025.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. The amendments in the ASU address investor requests for additional, more detailed information about a reportable segment's expenses. The amendments in the ASU apply to all public entities, such as the Company, that are required to report segment information in accordance with *Topic 280, Segment Reporting.* The amendments in the ASU do not change the current disclosure requirements or how a public entity identifies its operating segments. The amendments in the ASU are effective for fiscal years beginning after December 15, 2023, and interim periods with fiscal years beginning after December 15, 2024, with early adoption permitted. Management is currently in the process of reviewing how the Company's segment reporting will be impacted by the additional guidance when this ASU is required to be adopted on December 31, 2024.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.* The amendments in this ASU eliminate the guidance for TDRs by creditors in Subtopic 310-40, *Receivables-Troubled Debt Restructurings by Creditors,* while enhancing disclosure requirements for certain loan refinancing and restructures by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan. For public business entities, such as the Company, the amendments in this ASU require that an entity disclose current period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, *Financial Instruments-Credit Losses-Measured at Amortized Cost* in the vintage disclosures required by paragraph 326-20-50-6. The amendments in the ASU became effective for the Company when ASU 2016-13 was adopted on January 1, 2023 and the required disclosures were applied prospectively. See "*Note 6 Allowance for Credit Losses and Credit Quality Information*" for additional disclosures for charge offs and loan modifications to borrowers experiencing financial difficulties in 2023.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The amendments in this ASU affect all entities that measure credit losses on financial instruments including loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial asset that has a contractual right to receive cash that is not specifically excluded. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this ASU replace the incurred loss impairment methodology that was previously required by Generally Accepted Accounting Principles (GAAP) with a methodology that reflects expected credit losses that requires consideration of a broader range of reasonable and supportable information to estimate credit losses. The amendments in this ASU affected entities to varying degrees depending on the credit quality of the assets held by the entity, the duration of the assets held, and how the entity applied the previously used incurred loss methodology. The amendments in this ASU, for public business entities that are filers with the Securities and Exchange Commission (SEC), were originally effective for fiscal years beginning after December 15, 2019, including interim periods within those annual periods. On November 26, 2019, the FASB issued ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses,* which delayed the implementation date of ASU 2016-13 for SEC smaller reporting companies, such as HMN, from the first quarter of 2020 to the first quarter of 2023. Amendments were applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of January 1, 2023 when the guidance was adopted. The transition to the new ASU resulted in a cumulative-effect adjustment to the allowance for credit losses of $1.1 million, an increase in deferred tax assets of $0.3 million, and a decrease in retained earnings of $0.8 million as of the adoption date. In addition, a liability for $0.1 million was established for unfunded loan commitments as of the adoption date. The Company did not record an allowance for available for sale securities on January 1, 2023 as the investment portfolio consists almost entirely of debt securities implicitly backed by the U.S. Government for which credit risk is deemed negligible. The impact of this ASU could change in the future depending on the composition, characteristics, and credit quality of the securities portfolio as well as the economic conditions at future reporting periods. See "*Note 4 Securities Available For Sale*" and "*Note 6 Allowance for Credit Losses and Credit Quality Information*" for additional information and disclosures relating to the adoption of ASU 2016-13.

On February 6, 2020, the FASB issued ASU 2020-02, *Financial Instruments-Credit Losses (Topic 326) and Leases (Topic 842)-Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842).* The amendments in this ASU related to *Leases (Topic 842)* did not have any impact on the Company. The amendments in this ASU related to Topic 326 add additional guidance related to the SEC's expectations for the documentation of the measurement, review process, and the systematic methodology used by entities to determine the current credit losses under FASB ASC Topic 326. This additional guidance requires enhanced review documentation and periodic reviews of the Company's calculation of the allowance for credit losses by a third party.

Derivative Financial Instruments

The Company uses derivative financial instruments in order to manage the interest rate risk on residential loans held for sale and its commitments to extend credit for residential loans. The Company may also from time to time use interest rate swaps to manage interest rate risk. Derivative financial instruments include commitments to extend credit and forward mortgage loan sales commitments.

Reclassifications
Certain amounts in the consolidated financial statements for the prior year have been reclassified to conform to the current year presentation.

NOTE 2 Revenue Recognition
The Company recognizes revenue in accordance with ASC 606, *Revenue from Contracts with Customers*. The Company's services that fall within the scope of ASC 606 are presented on the income statement within non-interest income and are recognized as revenue as the Company satisfies its performance obligation to the customer. Services within the scope of ASC 606 include fees and service charges on deposit accounts, ATM and debit card interchange income, safe deposit box rental fees, check printing charges, income earned on the sale of uninsured investment products, and gains or losses recognized on the sale of real estate owned.

The following table presents the Company's sources of non-interest income for the years ended December 31, 2023 and 2022. Sources of revenue outside the scope of ASC 606 are noted as such.

	Year Ended December 31,	
(Dollars in thousands)	2023	2022
Non-interest income:		
Fees and service charges on deposit accounts	$ 1,099	1,095
Other fees and service charges	528	416
Debit card interchange fees	1,725	1,711
Gain on sale of loans [(1)]	1,494	2,393
Loan servicing fees [(1)]	1,575	1,590
Uninsured investment product sales	1,505	1,396
Other	355	286
Total non-interest income	$ 8,281	8,887

(1) Not within the scope of ASC 606.

A description of the Company's revenue categories that are accounted for under ASC 606 is as follows:

Fees and Service Charges on Deposit Accounts
The Company earns fees from deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, wire transfer fees, check cashing fees, stop payment charges, statement rendering charges, ACH fees, and other deposit related fees, are recognized at the time the transaction is executed or when the Company fulfills the customer's request. Account maintenance fees, which relate 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 deposit accounts are recognized when they are withdrawn from the customer's account balance.

Other Fees and Service Charges
Other fees and service charges consist of revenues that are both within the scope of and outside the scope of ASC 606. Other fees and service charges within the scope of ASC 606 consist of fees for the rental of safe deposit boxes and check printing charges. Revenues for these fees are recognized over the period the service is provided or the fee is incurred by the customer. Other fees and service charges outside the scope of ASC 606 consist of loan commitment fees and late charges on loans.

Debit Card Interchange Fees
The Company earns interchange fees from debit card holder transactions conducted through various payment networks. Interchange fees from cardholder transactions are recognized daily, concurrently with the transaction processing services provided by an outsourced technology solution and are presented on a net basis.

Uninsured Investment Product Sales

Commission revenues on the sale of uninsured investment products may be recognized up front on the sale date of the investment or monthly over a period of years depending on the product being sold. The commissions on investment sales are recognized when the product sale is completed or monthly for trailer fees in accordance with the customer agreement. Any subsequent commission adjustments are recognized upon our receipt of notification from the investment companies concerning matters necessitating such adjustments. Profit-sharing contingent commissions are recognized when determinable, which is generally when such commissions are received from the investment companies.

Other

Other non-interest income consists of revenues that are both within the scope of and outside the scope of ASC 606. Other income within the scope of ASC 606 consists of gains and losses on asset sales and gains and losses on the sale of real estate owned which are recognized when the asset or real estate is sold. Other income outside the scope of ASC 606 consists of gains and losses on equity securities and rental income on buildings.

NOTE 3 Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) and the related tax effects were as follows:

	For the Years Ended December 31, 2023			2022		
(Dollars in thousands)	Before Tax	Tax Effect [1]	Net of Tax	Before Tax	Tax Effect	Net of Tax
Securities available for sale:						
Unrealized gains (losses) arising during the period	$ 7,916	1,346	6,570	(24,098)	(5,920)	(18,178)
Other comprehensive income (loss)	$ 7,916	1,346	6,570	(24,098)	(5,920)	(18,178)

[1] The tax effect on gross unrealized gains (losses) was impacted by a change in the effective tax rate used in 2023 to allocate the total unrealized gains on securities between the deferred tax asset and other comprehensive income.

NOTE 4 Securities Available for Sale

A summary of securities available for sale at December 31, 2023 and 2022 is as follows:

(Dollars in thousands)		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2023					
Mortgage-backed securities:					
Federal National Mortgage Association (FNMA)	$	96,837	0	(9,704)	87,133
Federal Home Loan Mortgage Corporation (FHLMC)		82,495	0	(8,246)	74,249
Collateralized mortgage obligations:					
FNMA		34	0	(2)	32
		179,366	0	(17,952)	161,414
Other marketable securities:					
U.S. Government agency obligations		54,112	120	(552)	53,680
		54,112	120	(552)	53,680
	$	233,478	120	(18,504)	215,094
December 31, 2022					
Mortgage-backed securities:					
FNMA	$	117,690	0	(12,754)	104,936
FHLMC		98,893	0	(11,177)	87,716
Collateralized mortgage obligations:					
FNMA		38	0	(2)	36
		216,621	0	(23,933)	192,688
Other marketable securities:					
U.S. Government agency obligations		54,998	0	(2,157)	52,841
Corporate preferred stock		700	0	(210)	490
		55,698	0	(2,367)	53,331
	$	272,319	0	(26,300)	246,019

The Company did not sell any available for sale securities and did not recognize any gains or losses on securities available for sale in 2023 or 2022. The Company had available for sale securities pledged as collateral for customer deposits in excess of the $250,000 insurance limit of the Federal Deposit Insurance Corporation. The securities pledged had a fair market value of $41.6 million and $45.9 million at December 31, 2023 and 2022, respectively.

The following table presents the amortized cost and estimated fair value of securities available for sale at December 31, 2023, based upon contractual maturity adjusted for scheduled repayments of principal and projected prepayments of principal based upon current economic conditions and interest rates. Actual maturities may differ from the maturities in the following table because obligors may have the right to call or prepay obligations with or without call or prepayment penalties:

(Dollars in thousands)		Amortized Cost	Fair Value
Due one year or less	$	64,814	60,590
Due after one year through five years		134,875	124,096
Due after five years through fifteen years		33,786	30,405
Due after fifteen years		3	3
Total	$	233,478	215,094

The allocation of mortgage-backed securities in the table above is based upon the anticipated future cash flow of the securities using estimated mortgage prepayment speeds. The allocation of other marketable securities that have call features is based on the anticipated cash flows to the expected call date if it is anticipated that the security will be called, or to the maturity date if it is not anticipated to be called.

The following table shows the gross unrealized losses and fair values for the securities available for sale portfolio aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2023 and 2022:

	Less Than Twelve Months			Twelve Months or More			Total	
(Dollars in thousands)	# of Investments	Fair Value	Unrealized Losses	# of Investments	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2023								
Mortgage backed securities:								
FNMA	0	$ 0	0	34	$ 87,133	(9,704)	$ 87,133	(9,704)
FHLMC	0	0	0	24	74,249	(8,246)	74,249	(8,246)
Collateralized mortgage obligations:								
FNMA	0	0	0	1	32	(2)	32	(2)
Other marketable securities:								
U.S. government and agency obligations	1	5,000	(9)	7	34,456	(543)	39,456	(552)
Total	1	$ 5,000	(9)	66	$ 195,870	(18,495)	$ 200,870	(18,504)
December 31, 2022								
Mortgage backed securities:								
FNMA	12	$ 19,337	(1,629)	22	$ 85,599	(11,125)	$ 104,936	(12,754)
FHLMC	4	10,542	(1,214)	20	77,174	(9,963)	87,716	(11,177)
Collateralized mortgage obligations:								
FNMA	1	36	(2)	0	0	0	36	(2)
Other marketable securities:								
U.S. government and agency obligations	4	19,334	(667)	7	33,507	(1,490)	52,841	(2,157)
Corporate preferred stock	0	0	0	1	490	(210)	490	(210)
Total	21	$ 49,249	(3,512)	50	$ 196,770	(22,788)	$ 246,019	(26,300)

The Company reviews its investment portfolio on a quarterly basis for indications of impairment due to credit and noncredit-related factors. This review includes analyzing the extent to which the fair value has been lower than the cost, the market liquidity for the investment, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

As of December 31, 2023, the Company did not consider the unrealized losses on its securities available for sale to be attributable to credit-related factors. All of the Company's investments are issued by U.S. government agencies, are implicitly guaranteed by the U.S. government, and have a long history of no credit losses. The unrealized losses on impaired securities are the result of changes in interest rates. As a result, there was no allowance for credit losses required on available for sale debt securities in an unrealized loss position at December 31, 2023.

For the year ended December 31, 2022, the Company did not believe any other-than-temporary impairments existed and therefore did not recognize any losses on its investment securities.

NOTE 5 Loans Receivable, Net

A summary of loans receivable at December 31, 2023 and 2022, is as follows:

(Dollars in thousands)		2023	2022
Single family real estate	$	264,303	205,890
Commercial real estate:			
Construction:			
Single family		23,305	28,425
Multi-family		23,484	1,699
Commercial real estate		19,712	16,421
Churches/community service		14,650	11,933
Commercial buildings/storage facilities		10,243	12,705
Land developments		25,362	30,230
Lodging		65,432	59,762
Manufacturing		21,043	23,478
Movie theaters		8,360	8,861
Multi-family		60,613	53,885
Nursing home/healthcare		24,391	24,528
Office		60,099	59,262
Restaurant/bar/cafe		7,941	8,622
Retail		45,859	47,959
Warehouse		48,833	51,002
Other (1)		30,626	32,573
		489,953	471,345
Consumer:			
Home equity line		13,962	17,551
Home equity		12,090	10,865
Land/lot		5,077	4,146
Recreational vehicles		5,965	7,870
Other (1)		5,640	4,385
		42,734	44,817
Commercial business		61,118	65,835
Total loans		858,108	787,887
Less:			
Unamortized discounts		15	13
Net deferred loan fees		577	519
Allowance for credit losses (2)		11,824	10,277
Total loans receivable, net	$	845,692	777,078
Commitments to originate or purchase loans	$	7,268	24,493
Commitments to deliver loans to secondary market	$	3,078	6,575
Weighted average contractual rate of loans in portfolio		4.88 %	4.51 %

(1) Amounts under four million dollars in both years are included in "Other".

(2) The Company adopted Accounting Standards Update 2016-13 as of January 1, 2023. The 2022 amounts presented are calculated under the prior accounting standard.

Included in total commitments to originate or purchase loans are fixed rate loans aggregating $7.3 million and $5.3 million as of December 31, 2023 and 2022, respectively. The interest rates on these loan commitments ranged from 5.88% to 7.79% at December 31, 2023 and from 5.75% to 6.50% at December 31, 2022.

There were no loans to executive officers and directors of the Company as of December 31, 2023 or 2022. During 2023, there were no new loans to executive officers and directors and no loans were paid off or closed. Any loans to executive officers and directors are made in the ordinary course of business on normal credit terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties.

At December 31, 2023 and 2022, the Company was servicing loans for others with aggregate unpaid principal balances of $588.0 million and $587.6 million, respectively.

The Company originates residential, commercial real estate and other loans primarily in Minnesota, Wisconsin and Iowa. At December 31, 2023 and 2022, the Company had in its portfolio single family residential loans located in the following states:

	2023		2022	
(Dollars in thousands)	Amount	Percent of Total	Amount	Percent of Total
Minnesota	$ 233,026	88.2 %	$ 177,139	86.0 %
Wisconsin	23,880	9.0	23,030	11.2
Other states [1]	7,397	2.8	5,721	2.8
Total	$ 264,303	100.0 %	$ 205,890	100.0 %

[1] *Amounts under four million dollars in both years are included in "Other states".*

At December 31, 2023 and 2022, the Company had in its portfolio commercial real estate loans located in the following states:

	2023		2022	
(Dollars in thousands)	Amount	Percent of Total	Amount	Percent of Total
Colorado	$ 5,865	1.2 %	$ 6,031	1.3 %
Florida	6,797	1.4	7,049	1.5
Idaho	4,718	1.0	4,712	1.0
Iowa	10,011	2.0	10,440	2.2
Minnesota	285,886	58.3	284,841	60.4
North Carolina	3,973	0.8	4,211	0.9
Wisconsin	162,456	33.2	143,076	30.4
Other states [1]	10,247	2.1	10,985	2.3
Total	$ 489,953	100.0 %	$ 471,345	100.0 %

[1] *Amounts under four million dollars in both years are included in "Other states".*

NOTE 6 Allowance for Credit Losses and Credit Quality Information
The allowance for credit losses is summarized as follows:

(Dollars in thousands)		Single Family	Commercial Real Estate	Consumer	Commercial Business	Total
Balance, December 31, 2021	$	974	6,388	981	936	9,279
Provision for losses	$	286	729	94	(38)	1,071
Charge-offs		0	(91)	(24)	0	(115)
Recoveries		1	0	7	34	42
Balance, December 31, 2022	$	1,261	7,026	1,058	932	10,277
January 1, 2023 adoption of ASU 2016-13	$	(259)	512	(485)	1,302	1,070
Provision for losses		403	(24)	77	339	795
Charge-offs		0	0	(50)	(334)	(384)
Recoveries		21	0	7	38	66
December 31, 2023	$	1,426	7,514	607	2,277	11,824
Allocated to:						
Individual reserves	$	33	0	112	17	162
Collective reserves		1,228	7,026	946	915	10,115
Balance, December 31, 2022	$	1,261	7,026	1,058	932	10,277
Allocated to:						
Individual reserves	$	28	0	103	297	428
Collective reserves		1,398	7,514	504	1,980	11,396
Balance, December 31, 2023	$	1,426	7,514	607	2,277	11,824
Loans receivable at December 31, 2022:						
Individually reviewed for impairment	$	908	179	492	561	2,140
Collectively reviewed for impairment		204,982	471,166	44,325	65,274	785,747
Ending balance	$	205,890	471,345	44,817	65,835	787,887
Loans receivable at December 31, 2023:						
Individually reviewed for impairment	$	979	668	425	2,212	4,284
Collectively reviewed for impairment		263,324	489,285	42,309	58,906	853,824
Ending balance	$	264,303	489,953	42,734	61,118	858,108

In addition to the ACL on loans, the Company has established an ACL on unfunded commitments that is included in other liabilities on the consolidated balance sheets. This amount is determined based on an estimate of outstanding commitments that are anticipated to be funded as of the balance sheet date and multiplying those amounts by the loss rate for their loan category. The allowance for unfunded commitments at December 31, 2023 was not material.

The provision for credit losses is determined by the Company as the amount to be added to the ACL for various types of financial instruments including loans, investment securities, and off-balance sheet credit exposures after net charge-offs have been deducted to bring the ACL to a level that, in management's judgment, is necessary to absorb expected credit losses over the lives of the respective financial instruments. No provision for credit losses was recorded on available-for-sale investment securities at December 31, 2023.

The following table presents the components of the provision for credit losses for the years ended December 31, 2023 and December 31, 2022.

(Dollars in thousands)		2023	2022
Provision for credit losses on:			
Loans [(1)]	$	795	1,071
Unfunded commitments[(1)]		(82)	0
Total	$	713	1,071

[(1)]The Company adopted ASU 2016-13 as of January 1, 2023. The 2022 amounts presented are calculated under the prior accounting standard.

The following table presents total loans by risk categories and year of origination as of December 31, 2023:

(Dollars in thousands)	2023	2022	2021	2020	2019	Prior	Revolving	Total
Single family								
Unclassified $	81,070	59,474	62,690	33,637	10,915	14,635	0	262,421
Special Mention	0	511	0	0	0	0	0	511
Substandard	64	546	0	79	182	462	0	1,333
Doubtful	0	0	0	0	24	14	0	38
Loss	0	0	0	0	0	0	0	0
	81,134	60,531	62,690	33,716	11,121	15,111	0	264,303
Commercial Real Estate								
Unclassified	64,688	187,320	109,729	75,754	14,531	9,603	0	461,625
Special Mention	1,026	7,756	2,188	371	0	1,016	0	12,357
Substandard	2,225	388	292	10,867	637	1,562	0	15,971
Doubtful	0	0	0	0	0	0	0	0
Loss	0	0	0	0	0	0	0	0
	67,939	195,464	112,209	86,992	15,168	12,181	0	489,953
Consumer								
Unclassified	9,913	7,583	1,606	1,870	2,369	4,778	14,170	42,289
Special Mention	20	0	0	0	0	0	0	20
Substandard	8	26	52	0	3	113	30	232
Doubtful	15	0	0	0	0	0	19	34
Loss	3	0	116	0	0	0	40	159
	9,959	7,609	1,774	1,870	2,372	4,891	14,259	42,734
Current period gross write offs	0	1	0	0	0	49	0	50
Commercial Business								
Unclassified	12,404	6,967	3,539	3,317	217	288	30,160	56,892
Special Mention	0	0	0	0	0	0	0	0
Substandard	1,703	483	152	104	11	31	1,742	4,226
Doubtful	0	0	0	0	0	0	0	0
Loss	0	0	0	0	0	0	0	0
	14,107	7,450	3,691	3,421	228	319	31,902	61,118
Current period gross write offs	174	0	0	0	0	0	160	334
Total Loans $	173,139	271,054	180,364	125,999	28,889	32,502	46,161	858,108

The following table summarizes the amount of classified and unclassified loans at December 31, 2022:

	December 31, 2022						
	Classified					Unclassified	
(Dollars in thousands)	Special Mention	Substandard	Doubtful	Loss	Total	Total	Total Loans
Single family $	882	2,067	47	0	2,996	202,894	205,890
Commercial real estate:							
Real estate rental and leasing	9,529	2,241	0	0	11,770	238,013	249,783
Other	11,273	8,592	0	0	19,865	201,697	221,562
Consumer	0	387	20	86	493	44,324	44,817
Commercial business	1,000	1,803	0	0	2,803	63,032	65,835
Total $	22,684	15,090	67	86	37,927	749,960	787,887

Credit Quality Indicators

The Company categorized loans into risk categories based on relevant information about the ability of borrowers to service their debt. The information considered includes information, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company established a risk rating at origination for all commercial real estate and commercial business loans and management monitors the loans on an ongoing basis for any changes in the borrower's ability to service their debt. Management also affirms the risk ratings for these loans on an annual basis.

The Company uses the following definitions for classifying loans:

Special Mention - Loans classified as special mention are loans that have potential weaknesses that, if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date.

Substandard - Loans classified as substandard are loans that are generally inadequately protected by the current net worth and paying capacity of the obligor, or by the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified as doubtful have the weaknesses of those classified as substandard, with additional characteristics that make collection in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss.

Loss - Loans classified as loss are essentially uncollateralized and/or considered uncollectible and of such little value that continuance as an asset on the balance sheet may not be warranted.

Classified loans are categorized as special mention, substandard, doubtful, and loss. Loans classified as substandard, doubtful, or loss require the Bank to perform an analysis of the individual loan and charge off any loans, or portion thereof, that are deemed uncollectible. Loans not meeting the criteria above to require an individual analysis that are not classified as special mention are considered to be unclassified or pass-rated loans.

The aging of past due loans at December 31, 2023 and 2022 is summarized as follows:

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current Loans	Total Loans	Loans 90 Days or More Past Due and Still Accruing
December 31, 2023							
Single family	$ 453	71	363	887	263,416	264,303	0
Commercial real estate:							
Real estate rental and leasing	0	0	0	0	271,531	271,531	0
Other	0	0	399	399	218,023	218,422	0
Consumer	361	92	57	510	42,224	42,734	0
Commercial business	0	309	812	1,121	59,997	61,118	0
Total	$ 814	472	1,631	2,917	855,191	858,108	0
December 31, 2022							
Single family	$ 380	145	481	1,006	204,884	205,890	0
Commercial real estate:							
Real estate rental and leasing	0	0	0	0	249,783	249,783	0
Other	578	0	0	578	220,984	221,562	0
Consumer	394	123	88	605	44,212	44,817	0
Commercial business	0	0	0	0	65,835	65,835	0
Total	$ 1,352	268	569	2,189	785,698	787,887	0

The Company considers a loan to have defaulted when it becomes 90 or more days past due and the loan is classified as non-accruing. When a loan is classified as non-accruing, any accrued interest on the loan is reversed from interest income and any subsequent interest on the loan is recognized using the cash basis method of income recognition. A non-accruing loan may be reclassified as an accruing loan after the loan becomes current.

The following table presents the carrying value of collateral dependent individually analyzed loans and the related allowances for the year ended December 31, 2023:

	December 31, 2023		
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
Loans with no related allowance recorded:			
Single family	$ 758	758	0
Commercial real estate:			
Other	668	668	0
Consumer	306	306	0
Loans with an allowance recorded:			
Single family	221	221	28
Consumer	119	119	103
Commercial business	2,212	2,546	297
Total:			
Single family	979	979	28
Commercial real estate:			
Other [1]	668	668	0
Consumer [2]	425	425	103
Commercial business [3]	2,212	2,546	297
Total	$ 4,284	4,618	428

[1] Secured by commercial land.
[2] Secured by second mortgages on single family housing, recreational vehicles, and autos.
[3] Secured by business equipment.

The following table presents, under previously applicable GAAP, loans individually evaluated for impairment by portfolio segment as of December 31, 2022:

	December 31, 2022				
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded:					
Single family	$ 667	685	0	496	8
Commercial real estate:					
Other	179	179	0	182	11
Consumer	338	338	0	345	13
Loans with an allowance recorded:					
Single family	241	241	33	108	4
Commercial real estate:					
Other	0	0	0	2,044	0
Consumer	154	154	112	152	2
Commercial business	561	561	17	244	2
Total:					
Single family	908	926	33	604	12
Commercial real estate:					
Other [1]	179	179	0	2,226	11
Consumer [2]	492	492	112	497	15
Commercial business [3]	561	561	17	244	2
Total	$ 2,140	2,158	162	3,571	40

[1] Secured by commercial land.
[2] Secured by second mortgages on single family housing, recreational vehicles, and autos.
[3] Secured by business equipment primarily related to the farming and trucking industries.

At December 31, 2023 and 2022, non-accruing loans totaled $3.8 million and $1.9 million, respectively, for which the related allowance for credit losses was $0.4 million and $0.2 million, respectively. Non-accruing loans for which no specific allowance has been recorded because management determined that the value of the collateral was sufficient to repay the loan totaled $1.3 million and $1.0 million at December 31, 2023 and 2022, respectively. Had the non-accruing loans performed in accordance with their original terms, the Company would have recorded gross interest income on the loans of $0.5 million and $0.1 million in 2023 and 2022, respectively. The amount that was included in interest income on a cash basis for 2023 was $0.1 million, and for 2022 the amount included in interest income was not material. All of the interest income that was recognized for non-accruing loans was recognized using the cash basis method of income recognition. Non-accrual loans also include loans that have had terms modified for borrowers experiencing financial difficulty.

The following table summarizes non-accrual loans at December 31, 2023 and 2022:

(Dollars in thousands)	2023	2022
Single family	$ 762	908
Commercial real estate:		
Other	493	0
Consumer	376	441
Commercial business	2,187	529
Total	$ 3,818	1,878

Occasionally, the Company provides modifications of loans to borrowers experiencing financial difficulty that result in a direct change in the timing or amount of contractual cash flows. Additional disclosures are applicable to situations where there is principal forgiveness, interest rate reductions, other-than-insignificant payment delays, term extensions, or a combination of any of these items. If the Company modifies any loans to borrowers in financial distress that involves principal forgiveness, the amount of principal that is forgiven is charged off against the ACL. During the year ended December 31, 2023, the Company made six loan modifications to borrowers experiencing financial difficulty. These modifications involved payment deferral, interest rate reduction and extending the loans for periods longer than our loan policy dictates. There was no principal forgiveness for any of these modifications. The Company has no commitments to lend additional funds to borrowers that had any loan terms modified in 2023. The modifications outstanding at December 31, 2023 totaled $0.4 million.

The following table summarizes the modification outstanding at December 31, 2023.

(Dollars in thousands)	Number of Loans	Outstanding Balance December 31, 2023	Concessions Granted	Number of Loans
Single family	1	217	Rate reduction	1
			Term extension	1
Commercial real estate	1	93	Payment deferral	1
Consumer	4	$ 54	Rate reduction	1
			Term extension	3
			Payment deferral	1
		$ 364		

NOTE 7 Accrued Interest Receivable

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

(Dollars in thousands)		2023	2022
Securities available for sale	$	521	418
Loans receivable		3,032	2,585
Total	$	3,553	3,003

NOTE 8 Intangible Assets

The Company's intangible assets consist of core deposit intangibles, goodwill and mortgage servicing rights. A summary of mortgage servicing rights activity for 2023 and 2022 is as follows:

(Dollars in thousands)		2023	2022
Mortgage servicing rights, net:			
Balance, beginning of year	$	2,986	3,280
Originations		555	615
Amortization		(832)	(909)
Balance, end of year	$	2,709	2,986
Fair value of mortgage servicing rights	$	6,539	6,344

All of the single family loans sold where the Company continues to service the loans are serviced for FNMA under the individual loan sale program. The following is a summary of the risk characteristics of the loans being serviced for FNMA at December 31, 2023:

(Dollars in thousands)		Loan Principal Balance	Weighted Average Interest Rate	Weighted Average Remaining Term (months)	Number of Loans
Original term:					
15 year fixed rate	$	92,569	2.92 %	127	948
30 year fixed rate		441,889	3.87	303	2,721

The gross carrying amount of intangible assets and the associated accumulated amortization at December 31, 2023 and 2022 are presented in the following table. Amortization expense for intangible assets was \$0.8 million and \$0.9 million for the years ended December 31, 2023 and 2022, respectively. The gross carrying amount of intangible assets and the associated accumulated amortization at December 31, 2023 and 2022 is presented in the following table.

(Dollars in thousands)		Gross Carrying Amount	Accumulated Amortization	Unamortized Intangible Assets
December 31, 2023				
Mortgage servicing rights	$	6,226	(3,517)	2,709
Goodwill		802	0	802
Total	$	7,028	(3,517)	3,511
December 31, 2022				
Mortgage servicing rights	$	5,995	(3,009)	2,986
Core deposit intangible		574	(574)	0
Goodwill		802	0	802
Total	$	7,371	(3,583)	3,788

The following table indicates the estimated future amortization expense for mortgage servicing rights:

(Dollars in thousands)		Mortgage Servicing Rights
Year ended December 31,		
2024	$	726
2025		658
2026		565
2027		396
2028		218
Thereafter		146
Total	$	2,709

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

No amortization expense relating to goodwill is recorded as GAAP does not allow goodwill to be amortized but requires that it be tested for impairment at least annually, or sooner, if there are indications that an impairment may exist. Goodwill was tested for impairment at December 31, 2023 and the Company determined that it was not permanently impaired and no write down was required.

NOTE 9 Premises and Equipment

A summary of premises and equipment at December 31, 2023 and 2022 is as follows:

(Dollars in thousands)		2023	2022
Land	$	5,156	5,156
Office buildings and improvements		17,623	17,514
Furniture and equipment		12,055	12,684
		34,834	35,354
Accumulated depreciation		(18,839)	(18,862)
Total	$	15,995	16,492

NOTE 10 Leases

The Company accounts for its leases in accordance with *ASC Topic 842.* Operating lease right-of-use assets represent the Company's right to use an underlying asset during the lease term and operating lease liabilities represent its obligation to make lease payments arising from the lease. Right-of-use assets and operating lease liabilities are recognized at lease commencement based on the present value of the remaining lease payments using a discount rate that represents the Company's incremental borrowing rate at the lease commencement date. Because the Company only has operating leases and the right-of-use asset is offset by a lease payment obligation liability, the lease payments are the only amount that is recorded in occupancy expense in the consolidated statements of comprehensive income (loss).

The Company's leases relate to office space and bank branches with remaining lease terms between eight and forty-seven months. Certain leases contain extension options which typically range from three to ten years. Because these extension options are not considered reasonably certain of exercise, they are not included in the lease term. As of December 31, 2023 a $0.3 million right-of-use asset and an offsetting lease payment obligation liability were recorded on the consolidated balance sheet in other assets and other liabilities, respectively. Operating lease costs were $0.2 for both years ended December 31, 2023 and 2022.

The table below summarizes other information related to our operating leases for the years ended December 31, 2023 and 2022.

(Dollars in thousands)		2023	2022
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	$	223	226
Weighted-average remaining lease term – operating leases, in years		2.0	2.8
Weighted-average discount rate – operating leases		2.71 %	2.64 %

The table below summarizes the maturity of remaining lease liabilities:

(Dollars in thousands)		December 31, 2023
2024	$	212
2025		58
2026		27
2027		25
2028 and thereafter		0
Total lease payments		322
Less: Interest		(9)
Present value of lease liabilities	$	313

NOTE 11 Deposits

Deposits and their weighted average interest rates at December 31, 2023 and 2022 are summarized as follows:

	2023			2022		
(Dollars in thousands)	Weighted Average Rate	Amount	Percent of Total	Weighted Average Rate	Amount	Percent of Total
Noninterest checking	0.00 %	$ 244,015	25.0 %	0.00 %	$ 325,603	33.2 %
Interest checking	0.85	140,975	14.4	0.38	147,497	15.0
Savings accounts	0.11	107,864	11.1	0.08	123,389	12.6
Money market accounts	2.16	249,246	25.5	0.73	253,498	25.8
		742,100	76.0		849,987	86.6
Certificates by rate:						
0-0.99%		17,699	1.8		53,645	5.4
1-1.99%		5,164	0.5		8,049	0.8
2-2.99%		2,652	0.3		3,521	0.4
3-3.99%		17,163	1.8		5,493	0.6
4-4.99%		96,806	9.9		61,231	6.2
5-5.99%		95,209	9.7		0	0.0
Total certificates	4.43	234,693	24.0	2.59	131,939	13.4
Total deposits	1.75	$ 976,793	100.0 %	0.60	$ 981,926	100.0 %

At December 31, 2023 and 2022 the Company had $414.5 million and $373.9 million, respectively, of deposit accounts with balances of $250,000 or more. The Company had $107.0 million and $55.1 million of certificate accounts that had been acquired through a broker at December 31, 2023 and 2022, respectively.

Certificates had the following maturities at December 31, 2023 and 2022:

	2023			2022	
(Dollars in thousands)	Amount	Weighted Average Rate		Amount	Weighted Average Rate
Remaining term to maturity					
2024	$ 187,673	4.46 %	2023	$ 72,737	1.86 %
2025	34,567	4.40	2024	47,563	3.60
2026	11,505	4.36	2025	10,101	3.32
2027	639	0.63	2026	747	0.45
2028	309	1.62	2027	777	0.73
2029 and hereafter	0	0.00	2028 and hereafter	15	0.28
Total	$ 234,693	4.43		$ 131,939	2.59

At December 31, 2023 and 2022, the Company had pledged mortgage-backed and related securities with a fair market value of approximately $41.6 million and $45.9 million, respectively, as collateral for certain deposits.

Deposits from directors, executive officers and their related parties held by the Company at December 31, 2023 and 2022 amount to $1.2 million and $0.7 million, respectively.

Interest expense on deposits is summarized as follows for the years ended December 31, 2023 and 2022:

(Dollars in thousands)	2023	2022
Checking accounts	$ 1,037	220
Savings accounts	110	75
Money market accounts	4,577	882
Certificate accounts	6,566	555
Total	$ 12,290	1,732

NOTE 12 Federal Home Loan Bank (FHLB) Advances and Other Borrowings

The Bank had $13.2 million in overnight advances from the FHLB at a rate of 5.64% at December 31, 2023 and no outstanding advances from the FHLB or other borrowings as of December 31, 2022. At December 31, 2023 and 2022 the Bank had collateral pledged to the FHLB consisting of FHLB stock and mortgage loans with a total borrowing capacity available of approximately $283.5 million and $230.1 million, respectively, subject to a requirement to purchase FHLB stock. The Bank also had the ability to borrow $87.3 million and $86.6 million, respectively, from the Federal Reserve Bank of Minneapolis based upon the loans that were pledged to them as of December 31, 2023 and 2022, subject to approval from the FRB.

NOTE 13 Income Taxes

Income tax expense for the years ended December 31, 2023 and 2022 was as follows:

(Dollars in thousands)	2023	2022
Current:		
Federal	$ 2,143	2,123
State	815	1,000
Total current	2,958	3,123
Deferred:		
Federal	(81)	2
State	(329)	101
Total deferred	(410)	103
Income tax expense	$ 2,548	3,226

The reasons for the difference between the expected income tax expense utilizing the federal corporate tax rate of 21% and the actual income tax expense were as follows:

(Dollars in thousands)		2023	2022
Expected federal income tax expense	$	1,796	2,367
Items affecting federal income tax:			
State income taxes, net of federal income tax deduction		557	899
Other, net		195	(40)
Income tax expense	$	2,548	3,226

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities are as follows at December 31:

(Dollars in thousands)		2023	2022
Deferred tax assets:			
Allowances for credit losses	$	3,337	2,899
Deferred compensation costs		144	120
Deferred ESOP loan asset		315	361
Non-accruing loan interest		163	179
Net unrealized loss on securities available for sale		5,149	6,539
State net operating loss carry-forward		39	0
Other		101	110
Total gross deferred tax assets		9,248	10,208
Valuation allowance		(283)	0
Deferred tax assets, net of valuation allowance		8,965	10,208
Deferred tax liabilities:			
Deferred loan costs		241	243
Premises and equipment basis difference		570	618
Originated mortgage servicing rights		764	843
Other		219	157
Total gross deferred tax liabilities		1,794	1,861
Net deferred tax assets	$	7,171	8,347

The Company has no federal net operating loss carryforwards at December 31, 2023.

Retained earnings at December 31, 2023 included approximately $8.8 million for which no provision for income taxes was made. This amount represents allocations of income to bad debt deductions for tax purposes. Reduction of amounts allocated for purposes other than absorbing losses will create income for tax purposes, which will be subject to the then-current corporate income tax rate.

The Company considers the determination of the deferred tax asset amount and the need for any valuation reserve to be a critical accounting policy that requires significant judgment. A valuation allowance is required to be recognized, under GAAP, if it is "more likely than not" that the deferred tax asset will not be realized. The determination of the realizability of the deferred tax assets is highly subjective and dependent upon management's judgment and evaluation of both positive and negative evidence, including the forecasts of future income, tax planning strategies, and assessments of the current and future economic and business conditions. The positive evidence considered includes the Company's cumulative net income in the prior three-year period, the ability to implement tax planning strategies to accelerate taxable income recognition, and the probability that taxable income will be generated in future periods. The only negative evidence the Company identified was related to a change in Wisconsin state tax law that was enacted in 2023. The law change allows financial institutions to exempt from state taxation loan income from loans of $5 million or less where the borrower resides or is located in Wisconsin. The law change substantially reduced the Company's effective state income tax rate in Wisconsin. A valuation allowance was recorded at December 31, 2023 to reflect the anticipated reduction in the Company's ability to recognize future Wisconsin state tax benefits when the timing differences reverse on the previously recorded deferred tax assets. It is possible that future conditions may differ substantially from those anticipated in determining that a valuation allowance was required on deferred tax assets and adjustments may be required in the future.

NOTE 14 Employee Benefits

The Company participates in the Pentegra Defined Benefit Plan for Financial Institutions (Pentegra DB Plan), a noncontributory multi-employer defined benefit pension plan covering Bank employees who were hired prior to 2002 that met minimum service requirements. Effective September 1, 2002, this plan was frozen and closed to new participants but employees that were already in the plan at the time it was frozen continue to accrue benefits. The Pentegra DB Plan's Employer Identification Number is 13-5645888 and the Plan number is 333. There are no collective bargaining agreements that require contributions to the Pentegra DB Plan, and there is no funding improvement or rehabilitation plan as part of the Pentegra DB Plan. The Company's policy is to fund accrued pension costs and the employer contributions paid and expensed for each of the years ended December 31, 2023 and 2022 were $0.3 million. The Company's contributions to the Pentegra DB Plan were not more than 5% of total contributions to the Plan in either of those years. Funded status (market value of plan assets divided by the funding target) as of July 1 for the 2023 and 2022 plan years were 78.4% and 80.0%, respectively.

The Company has a qualified, tax-exempt savings plan with a deferred feature qualifying under Section 401(k) of the Internal Revenue Code (the 401(k) Plan). All employees who have attained 18 years of age are eligible to participate in the 401(k) Plan. Participants are permitted to make contributions to the 401(k) Plan equal to the lesser of 50% of their annual salary or the maximum allowed by law, which was $22,500 for 2023 and $20,500 for 2022, with additional catch-up contributions allowed for employees over 50 years of age. The Company matches 25% of each participant's contributions up to a maximum of 8% of their annual salary. Participant contributions and earnings are fully and immediately vested. The Company's contributions are vested on a three year cliff basis, are expensed annually and were $0.2 million in 2023 and 2022.

The Company has adopted an Employee Stock Ownership Plan (the ESOP) that meets the requirements of Section 4975(e)(7) of the Internal Revenue Code and Section 407(d)(6) of ERISA and, as such, the ESOP is empowered to borrow in order to finance purchases of the common stock of HMN. The ESOP borrowed $6.1 million from the Company to purchase 912,866 shares of common stock in the initial public offering of HMN in 1994. As a result of a merger with Marshalltown Financial Corporation, the ESOP borrowed $1.5 million in 1998 to purchase an additional 76,933 shares of HMN common stock to account for the additional employees and to avoid dilution of the benefit provided by the ESOP. The ESOP debt requires quarterly payments of principal plus interest at 7.52%. The Company has committed to make quarterly contributions to the ESOP necessary to repay the loans including interest. The Company contributed $0.5 million in 2023 and 2022.

As the debt is repaid, ESOP shares that were pledged as collateral for the debt are released from collateral based on the proportion of debt service paid in the year and then allocated to eligible employees. The Company accounts for its ESOP in accordance with ASC 718, *Employers' Accounting for Employee Stock Ownership Plans*. Accordingly, the shares pledged as collateral are reported as unearned ESOP shares in stockholders' equity. As shares are determined to be ratably released from collateral, the Company reports compensation expense equal to the current market price of the shares and the shares become outstanding for earnings per common share computations. ESOP compensation expense was $0.5 million for 2023 and $0.6 million for 2022.

All employees of the Bank are eligible to participate in the ESOP after they attain age 18 and complete one year of service during which they worked at least 1,000 hours. A summary of the ESOP share allocation is as follows for the years ended December 31:

	2023	2022
Shares held by participants beginning of the year	361,069	353,677
Shares allocated to participants	24,318	24,318
Shares purchased with dividends received on allocated shares	7,005	3,540
Shares distributed to participants	(19,849)	(20,466)
Shares held by participants end of year	372,543	361,069
Unreleased shares beginning of the year	133,782	158,100
Shares released during year	(24,318)	(24,318)
Unreleased shares end of year	109,464	133,782
Total ESOP shares end of year	482,007	494,851
Fair value of unreleased shares at December 31	$ 2,517,672	2,854,908

The Company maintains two equity incentive plans, the HMN Financial, Inc. 2009 Equity and Incentive Plan (2009 Plan) and the HMN Financial, Inc. 2017 Equity Incentive Plan (2017 Plan). The purposes of the Company's equity incentive plans are to attract and retain the best available personnel for positions of responsibility with the Company, to provide additional incentives to them and align their interests with those of the Company's stockholders, and to thereby promote the company's long-term business success.

The 2009 Plan was superseded in April 2017 by the 2017 Plan and options or restricted shares were no longer awarded from the 2009 Plan. As of December 31, 2023 there were 34,229 shares reserved for issuance pursuant to options outstanding under the 2009 Plan. These options expire 10 years from the date of grant, have an average exercise price of $11.21 and had a grant date fair value of $4.04.

Initially there were 375,000 shares of HMN common stock available for issuance pursuant to awards under the 2017 Plan, subject to adjustment for future stock splits, stock dividends and similar changes to the capitalization of the Company. Additionally, shares of restricted stock that are awarded are counted as 1.5 shares for purposes of determining the total shares available for issuance under the 2017 Plan. As of December 31, 2023, there were no options outstanding under the 2017 Plan. There were 18,035 shares of restricted stock previously granted to employees and directors under the 2017 Plan that remained unvested at December 31, 2023.

A summary of activities under all plans for the past two years is as follows:

	Shares Available For Grant	Unvested Restricted Shares Outstanding	Options Outstanding	Award Value/ Weighted Average Exercise Price	Vesting Period (in years)
2009 Plan					
December 31, 2021	0	0	34,229	$ 11.21	
December 31, 2022	0	0	34,229	$ 11.21	
December 31, 2023	0	0	34,229	$ 11.21	
2017 Plan					
December 31, 2021	345,907	22,841	0	N/A	
Granted February 1, 2022	(11,286)	7,524	0		3
Granted April 26, 2022	(2,616)	1,744	0		1
Vested	0	(13,055)	0		
December 31, 2022	332,005	19,054	0	N/A	
Granted January 24, 2023	(9,843)	6,562	0		3
Granted April 25, 2023	(4,122)	2,748	0		1
Vested	0	(10,329)	0		
December 31, 2023	318,040	18,035	0	N/A	
Total all plans	318,040	18,035	34,229	$ 11.21	

There were 34,229 vested and exercisable options outstanding at December 31, 2023. These options were granted on January 26, 2016, have an exercise price of $11.21, and have an average remaining life of 2.1 years. The Company will issue shares from treasury stock upon the exercise of the outstanding options.

In accordance with ASC 718, the Company recognizes compensation expense relating to stock options over the vesting period. The amount of the expense was determined under the fair value method. The fair value for each option grant is estimated on the date of the grant using the Black Scholes option valuation method. There were no options granted in 2023 or 2022.

NOTE 15 Earnings per Common Share

The following table reconciles the weighted average shares outstanding and income for basic and diluted earnings per common share:

(Dollars in thousands, except per share data)	Year ended December 31, 2023	2022
Weighted average number of common shares outstanding used in basic earnings per common share calculation	4,350,215	4,358,022
Net dilutive effect of:		
Options	14,807	17,847
Restricted stock awards	12,066	13,601
Weighted average number of common shares outstanding adjusted for effect of dilutive securities	4,377,088	4,389,470
Income available to common shareholders	$ 6,005	8,045
Basic earnings per common share	1.38	1.85
Diluted earnings per common share	1.37	1.83

NOTE 16 Stockholders' Equity
In February 2023, the Company’s Board of Directors increased the aggregate purchase price of shares eligible to be repurchased to $6.0 million. The share repurchase program does not obligate the Company to purchase any shares and has no set expiration date. The Company repurchased 29,457 shares in the open market for $0.6 million in 2023 and 90,000 shares in the open market for $2.1 million in 2022. At December 31, 2023 there was $5.4 million authorized for repurchase in the share repurchase program. The Company paid dividends on its common stock of $0.30 per share, or $1.3 million, in 2023 and paid dividends on its common stock of $0.24 per share, or $1.0 million in 2022.

In January 2024, the Company’s Board of Directors declared a quarterly dividend of $0.08 per share of common stock payable on March 6, 2024 to stockholders of record at the close of business on February 13, 2024. The declaration and amount of any future cash dividends remains subject to the sole discretion of the Board of Directors and will depend upon many factors, including the Company’s results of operations, financial condition, capital requirements, regulatory and contractual restrictions, business strategy and other factors deemed relevant by the Board of Directors.

In order to grant a priority to eligible accountholders in the event of future liquidation, the Bank, at the time of conversion to a stock savings bank, established a liquidation account equal to its regulatory capital as of September 30, 1993. In the event of future liquidation of the Bank, an eligible accountholder who continues to maintain their deposit account shall be entitled to receive a distribution from the liquidation account. The total amount of the liquidation account will decrease as the balance of eligible accountholders is reduced subsequent to the conversion, based on an annual determination of such balance.

NOTE 17 Regulatory Capital
The Bank is subject to the Basel III regulatory capital requirements. The Basel III requirements, among other things, (i) apply a set of capital requirements to the Bank, including requirements relating to common equity as a component of core capital, (ii) implement a “capital conservation buffer” against risk and a higher minimum Tier 1 capital requirement, and (iii) set forth rules for calculating risk-weighted assets for purposes of such requirements. The rules also made corresponding revisions to the prompt corrective action framework and include capital ratios and buffer requirements. 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 Company'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 its 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.

The Board of Governors of the Federal Reserve Bank in its Small Bank Holding Company Policy Statement (Policy Statement) has exempted small bank holding companies with assets less than $3 billion from the above capital requirements. The Policy Statement also includes savings and loan holding companies that meet the Policy Statement’s qualitative requirements for exemption. The Company currently meets the qualitative exemption requirements, and therefore, is exempt from the above capital requirements.

Quantitative measures established by regulations to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table and defined in the regulation) of common equity Tier 1 capital to risk-weighted assets, Tier 1 capital to adjusted total assets, Tier 1 capital to risk-weighted assets and total capital to risk-weighted assets.

At December 31, 2023 and 2022, the Bank's capital amounts and ratios are presented for actual capital, required capital and excess capital including amounts and ratios in order to qualify as being well capitalized under the prompt corrective action regulations:

	Actual		Required to be Adequately Capitalized		Capital in Excess of Minimum Requirements		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Percent of Assets[(1)]	Amount	Percent of Assets[(1)]	Amount	Percent of Assets[(1)]	Amount	Percent of Assets[(1)]
December 31, 2023								
Common equity Tier 1 capital	$ 104,005	11.54 %	$ 40,542	4.50 %	$ 63,463	7.04 %	$ 58,560	6.50 %
Tier 1 leverage	104,005	9.08	45,823	4.00	58,182	5.08	57,279	5.00
Tier 1 risk-based capital	104,005	11.54	54,056	6.00	49,949	5.54	72,074	8.00
Total risk-based capital	115,274	12.80	72,074	8.00	43,200	4.80	90,093	10.00
December 31, 2022								
Common equity Tier 1 capital	$ 100,250	11.48 %	$ 39,312	4.50 %	$ 60,938	6.98 %	$ 56,784	6.50 %
Tier 1 leverage	100,250	9.14	43,883	4.00	56,367	5.14	54,854	5.00
Tier 1 risk-based capital	100,250	11.48	52,416	6.00	47,834	5.48	69,888	8.00
Total risk-based capital	110,527	12.65	69,888	8.00	40,639	4.65	87,360	10.00

(1) Based upon the Bank’s adjusted total assets for the purpose of the Tier 1 leverage capital ratio and risk-weighted assets for the purpose of the risk-based capital ratios.

The Bank must maintain a capital conservation buffer of 2.50% composed of common equity Tier 1 capital above its minimum risk-based capital requirements in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. Management believes that, as of December 31, 2023, the Bank’s capital ratios were in excess of those quantitative capital ratio standards set forth under the current prompt corrective action regulations, including the capital conservation buffer described above. However, there can be no assurance that the Bank will continue to maintain such status in the future. The OCC has extensive discretion in its supervisory and enforcement activities and can adjust the requirement to be well-capitalized in the future. In addition, the Company must adhere to various U.S. Department of Housing and Urban Development (HUD) regulatory guidelines including required minimum capital and liquidity amounts to maintain their Federal Housing Administration approved status. Failure to comply with the HUD guidelines could result in withdrawal of this certification. As of December 31, 2023, the Company was in compliance with HUD guidelines.

NOTE 18 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 all commitments to extend credit. These commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheet. 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 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.

A summary of the Company's commitments to extend credit and sell loans as of December 31, 2023 and 2022 were as follows:

	Contract Amount December 31,	
(Dollars in thousands)	2023	2022
Financial instruments whose contract amount represents credit risk:		
Commitments to originate, fund or purchase loans:		
Single family	$ 2,072	6,220
Commercial real estate	5,196	17,656
Commercial business	0	617
Undisbursed balance of loans closed	61,681	92,774
Unused lines of credit	90,940	103,841
Letters of credit	7,558	11,832
Total commitments to extend credit	$ 167,447	232,940
Forward commitments	$ 3,078	6,575

Commitments to extend credit are agreements to lend to a customer, at the customer's request, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since a portion of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on the loan type and on management's credit evaluation of the borrower. Collateral consists primarily of residential and commercial real estate and personal property. Forward commitments represent commitments to sell loans to a third party following the closing of the loan and are entered into in the normal course of business by the Bank.

The Bank issued standby letters of credit which guarantee the performance of customers to third parties. The standby letters of credit outstanding expire over the next 24 months and totaled $6.9 million at December 31, 2023 and $11.4 million at December 31, 2022. The letters of credit are collateralized primarily with commercial real estate mortgages. Draws on standby letters of credit would be initiated by the secured party under the terms of the underlying obligation. Since the conditions under which the Bank is required to fund the standby letters of credit may not materialize, the cash requirements are expected to be less than the total outstanding commitments.

The Company has certain obligations and commitments to make future payments under existing contracts. At December 31, 2023, the aggregate contractual obligations (excluding bank deposits) and commercial commitments were as follows:

	Payments Due by Period				
(Dollars in thousands)	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
Contractual Obligations:					
Annual rental commitments under non-cancellable operating leases	$ 322	212	110	0	0
Total contractual obligations	$ 322	212	110	0	0
	Amount of Commitments Expiring by Period				
Other Commercial Commitments:					
Commercial lines of credit	$ 62,225	39,582	22,643	0	0
Commitments to lend	52,319	14,485	9,342	5,729	22,763
Standby letters of credit	7,558	6,951	607	0	0
Total other commercial commitments	$ 122,102	61,018	32,592	5,729	22,763

From time to time, the Company is party to legal proceedings arising out of its lending and deposit operations. The Company is, and expects to become, engaged in foreclosure proceedings, collection actions, and other litigation as part of its normal banking activities. The Company examines each legal matter, and, in those situations where it determines that a particular legal matter presents loss contingencies that are both probable and reasonably estimable, establishes an appropriate accrual. In many situations, the Company is not able to estimate reasonably possible losses due to the preliminary nature of the legal matter, as well as a variety of other factors and uncertainties. Based on the Company's current understanding of all of the outstanding legal matters, management does not believe that judgments or settlements arising from any pending or threatened litigation, individually or in the aggregate, would have a material adverse effect on the consolidated financial condition or results of operations.

NOTE 19 Derivative Instruments and Hedging Activities

The Company originates single family residential loans for sale into the secondary market and enters into commitments to sell those loans in order to mitigate the interest rate risk associated with holding the loans until they are sold. The Company accounts for its commitments in accordance with ASC 815, *Accounting for Derivative Instruments and Hedging Activities*.

The Company had commitments outstanding to extend credit to future borrowers that had not closed prior to the end of the year, which is referred to as its mortgage pipeline. As commitments to originate loans enter the mortgage pipeline, the Company generally enters into commitments to sell the loans into the secondary market. The commitments to originate and sell loans are derivatives that are recorded at fair value. The marking of these derivatives to fair value for the periods ended December 31, 2023 and 2022 did not have a material impact on the Company's consolidated financial statements.

As of December 31, 2023 and 2022, the current commitments to sell loans held for sale are derivatives that do not qualify for hedge accounting. The loans held for sale that are not hedged are recorded at the lower of cost or market. The marking of these loans for the periods ended December 31, 2023 and 2022 did not have a material impact on the Company's consolidated financial statements.

NOTE 20 Fair Value Measurement

ASC 820, *Fair Value Measurements*, establishes a framework for measuring the fair value of assets and liabilities using a hierarchy system consisting of three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets that the Company has the ability to access.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use significant assumptions not observable in the market and are used only to the extent that observable inputs are not available. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

The following table summarizes the assets of the Company for which fair values are determined on a recurring basis as of December 31, 2023 and 2022.

	Carrying Value at December 31, 2023			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Securities available for sale	$ 215,094	0	215,094	0
Equity securities	382	0	382	0
Mortgage loan commitments	7	0	7	0
Total	$ 215,483	0	215,483	0

	Carrying Value at December 31, 2022			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Securities available for sale	$ 246,019	0	246,019	0
Equity securities	225	0	225	0
Mortgage loan commitments	(28)	0	(28)	0
Total	$ 246,216	0	246,216	0

The Company may also be required, from time to time, to measure certain other financial assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of the lower-of-cost-or-market accounting or write downs of individual assets. For assets measured at fair value on a nonrecurring basis in 2023 and 2022 that were still held at December 31, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios at December 31, 2023 and 2022.

	Carrying Value at December 31, 2023				
(Dollars in thousands)	Total	Level 1	Level 2	Level 3	Year Ended December 31, 2023 Total Gains (Losses)
Loans held for sale	$ 1,006	0	1,006	0	26
Mortgage servicing rights, net	2,709	0	0	2,709	0
Collateral dependent loans	3,856	0	3,856	0	(287)
Total	$ 7,571	0	4,862	2,709	(261)

	Carrying Value at December 31, 2022				
(Dollars in thousands)	Total	Level 1	Level 2	Level 3	Year Ended December 31, 2022 Total Gains (Losses)
Loans held for sale	$ 1,314	0	1,314	0	3
Mortgage servicing rights, net	2,986	0	0	2,986	0
Collateral dependent loans	1,978	0	1,978	0	(46)
Total	$ 6,278	0	3,292	2,986	(43)

NOTE 21 Fair Value of Financial Instruments

ASC 825, *Disclosures about Fair Values of Financial Instruments* requires disclosure of the estimated fair values of the Company's financial instruments, including assets, liabilities and off-balance sheet items for which it is practicable to estimate fair value. The fair value estimates are made as of December 31, 2023 and December 31, 2022 based upon relevant market information, if available, and upon the characteristics of the financial instruments themselves. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based upon judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. The estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based only on existing financial instruments without attempting to estimate the value of anticipated future business or the value of assets and liabilities that are not considered financial instruments. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on the fair value estimates and have not been considered in any of the estimates.

The estimated fair value of the Company's financial instruments is shown below. Following the table, there is an explanation of the methods and assumptions used to estimate the fair value of each class of financial instruments.

	December 31, 2023						December 31, 2022		
			Fair Value Hierarchy						
(Dollars in thousands)	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3	Contract Amount	Carrying Amount	Estimated Fair Value	Contract Amount
Financial assets:									
Cash and cash equivalents .... $	11,151	11,151	11,151				36,259	36,259	
Securities available for sale	215,094	215,094		215,094			246,019	246,019	
Equity securities..........................	382	382		382			225	225	
Loans held for sale	1,006	1,006		1,006			1,314	1,314	
Loans receivable, net	845,692	778,952		778,952			777,078	724,497	
FHLB stock	1,252	1,252		1,252			1,283	1,283	
Accrued interest receivable.........	3,553	3,553		3,553			3,003	3,003	
Mortgage servicing assets...........	2,709	6,539			6,539		2,986	6,344	
Financial liabilities:									
Deposits.......................................	976,793	975,963		975,963			981,926	983,420	
FHLB advances and other borrowings	13,200	13,200		13,200			0	0	
Accrued interest payable.............	2,399	2,399		2,399			298	298	
Off-balance sheet financial instruments:									
Commitments to extend credit....	7	7				167,447	(28)	(28)	232,940
Commitments to sell loans..........	(17)	(17)				3,078	8	8	6,575

Cash and Cash Equivalents

The carrying amount of cash and cash equivalents approximates their fair value.

Securities Available for Sale
The fair values of securities were determined by a third-party pricing service based upon quoted market prices for similar securities. The fair values measurements are subject to independent verification by another pricing source on a quarterly basis to review for reasonableness.

Equity Securities
The fair values of equity securities were based upon quoted market prices for similar securities.

Loans Held for Sale
The fair values of loans held for sale were based upon quoted market prices for loans with similar interest rates and terms to maturity.

Loans Receivable
The fair value of the loan portfolio, with the exception of the adjustable rate portfolio, was calculated by discounting the scheduled cash flows through the estimated maturity using anticipated prepayment speeds and using discount rates that reflect the credit and interest rate risk inherent in each loan portfolio. The fair value of the adjustable loan portfolio, with the exception of those loans that adjust on a daily basis, was estimated by grouping the loans with similar characteristics and comparing the characteristics of each group to the prices quoted for similar types of loans in the secondary market.

FHLB Stock
The carrying amount of FHLB stock approximates its fair value.

Accrued Interest Receivable
The carrying amount of accrued interest receivable approximates its fair value since it is short-term in nature and does not present unanticipated credit concerns.

Mortgage Servicing Assets
The fair values of mortgage servicing assets were calculated by a third party using a discounted cash flow model-based technique that uses significant assumptions both observable and non-observable in the market. The non-observable assumptions reflect estimates of assumptions that market participants would use in pricing the mortgage servicing asset.

Deposits
The fair value of demand deposits, savings accounts and certain money market account deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered in the marketplace for deposits of similar remaining maturities based on a discounted cash flow calculation.

FHLB Advances and Other Borrowings
The fair values of advances and borrowings with fixed maturities are estimated based on a discounted cash flow analysis using as discount rates the interest rates charged by the FHLB for borrowing of similar remaining terms. The carrying amount of overnight advances approximates their fair value.

Accrued Interest Payable
The carrying amount of accrued interest payable approximates its fair value since it is short-term in nature.

Commitments to Extend Credit

The fair values of commitments to extend credit are estimated using the fees normally charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counter parties.

Commitments to Sell Loans

The fair values of commitments to sell loans are estimated using the quoted market prices for loans with similar interest rates and terms to maturity.

NOTE 22 HMN Financial, Inc. Financial Information (Parent Company Only)

The following are the condensed financial statements for the parent company only as of and for the years ended December 31, 2023 and 2022.

(Dollars in thousands)		2023	2022
Condensed Balance Sheets			
Assets:			
Cash and cash equivalents	$	16,287	15,250
Investment in subsidiaries		91,500	81,190
Prepaid expenses and other assets		56	1,046
Total assets	$	107,843	97,486
Liabilities and Stockholders' Equity:			
Accrued expenses and other liabilities	$	136	150
Total liabilities		136	150
Common stock		91	91
Additional paid-in capital		41,235	41,013
Retained earnings		142,278	138,409
Net unrealized losses on securities available for sale		(13,191)	(19,761)
Unearned employee stock ownership plan shares		(870)	(1,063)
Treasury stock, at cost, 4,670,757 and 4,647,686 shares		(61,836)	(61,353)
Total stockholders' equity		107,707	97,336
Total liabilities and stockholders' equity	$	107,843	97,486
Condensed Statements of Income			
Interest income	$	321	43
Equity income of subsidiaries		6,570	8,500
Compensation and benefits		(273)	(272)
Occupancy and equipment		(32)	(30)
Data processing		(8)	(6)
Professional services		(129)	(125)
Other		(433)	(404)
Income before income tax (expense) benefit		6,016	7,706
Income tax (expense) benefit		(11)	339
Net income	$	6,005	8,045
Condensed Statements of Cash Flows			
Cash flows from operating activities:			
Net income	$	6,005	8,045
Adjustments to reconcile net income to cash used by operating activities:			
Equity income of subsidiaries		(6,570)	(8,500)
Deferred income tax benefit		0	4
Amortization of restricted stock awards		225	227
Amortization of unearned ESOP shares		193	193
Earned employee stock ownership shares priced above original cost		207	271
Decrease (increase) in other assets		990	(261)
Decrease in other liabilities		(14)	(13)
Other, net		0	(1)
Net cash provided (used) by operating activities		1,036	(35)
Cash flows from financing activities:			
Treasury stock purchased		(629)	(2,134)
Stock awards withheld for tax withholding		(64)	(70)
Dividends to stockholders		(1,306)	(1,049)
Dividends received from Bank		2,000	6,000
Net cash provided by financing activities		1	2,747
Increase in cash and cash equivalents		1,037	2,712
Cash and cash equivalents, beginning of year		15,250	12,538
Cash and cash equivalents, end of year	$	16,287	15,250

NOTE 23 Business Segments

The Bank has been identified as a reportable operating segment in accordance with the provisions of ASC 280. HMN, the holding company, did not meet the quantitative thresholds for a reportable segment and therefore is included in the "Other" category. The Company evaluates performance and allocates resources based on the segment's net income, return on average assets and return on average equity. Each corporation is managed separately with its own officers and board of directors.

The following table sets forth certain information about the reconciliations of reported net income and assets for each of the Company's reportable segments.

(Dollars in thousands)	Home Federal Savings Bank	Other	Eliminations	Consolidated Total
At or for the year ended December 31, 2023:				
Interest income – external customers	$ 43,477	0	0	43,477
Non-interest income – external customers	8,281	0	0	8,281
Intersegment interest income	0	321	(321)	0
Intersegment non-interest income	272	6,570	(6,842)	0
Interest expense	13,041	0	(321)	12,720
Provision for credit losses	713	0	0	713
Non-interest expense	29,169	875	(272)	29,772
Income tax expense	2,537	11	0	2,548
Net income	6,570	6,005	(6,570)	6,005
Total assets	1,107,124	107,843	(107,832)	1,107,135
At or for the year ended December 31, 2022:				
Interest income – external customers	$ 34,255	0	0	34,255
Non-interest income – external customers	8,887	0	0	8,887
Intersegment interest income	0	43	(43)	0
Intersegment non-interest income	234	8,500	(8,734)	0
Interest expense	2,042	0	(43)	1,999
Provision for credit losses	1,071	0	0	1,071
Non-interest expense	28,198	837	(234)	28,801
Income tax expense (benefit)	3,565	(339)	0	3,226
Net income	8,500	8,045	(8,500)	8,045
Total assets	1,095,268	97,486	(96,552)	1,096,202

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. An evaluation was carried out under the supervision and with the participation of the Company's management, including the Bank's President (our Principal Executive Officer) and our Chief Financial Officer (our Principal Financial Officer) of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Changes in internal controls. No change in the Company's internal control over financial reporting was identified in connection with the evaluation required by Rule 13a-15(d) of the Exchange Act that occurred during the fourth quarter of the fiscal year ended December 31, 2023 and that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are only being made in accordance with authorizations of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Any control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of a control system inherently has limitations, and the benefits of controls must be weighed against their costs. Additionally, controls can be circumvented by the individual acts of some persons by collusion of two or more people, or by management override of the control. Therefore, no assessment of a cost-effective system of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, will be detected.

Under the supervision and with the participation of management, including the Principal Executive Officer and Principal Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in the *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the Company's evaluation under this framework, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2023.

ITEM 9B. OTHER INFORMATION

None of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted, modified, or terminated any contract, instruction, or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act or any non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K) during the quarter ended December 31, 2023.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated by reference from the information under the captions “Proposal 1 – Election of Directors - Board of Directors,” “Corporate Governance - Committees of the Board of Directors” and, if applicable, “Delinquent Section 16(a) Reports” in the Company’s definitive proxy statement to be filed with the SEC pursuant to Regulation 14A not later than 120 days after the close of the Company’s fiscal year ended December 31, 2023 (the 2024 Proxy Statement).

Information About Our Executive Officers

Executive officers are chosen by and serve at the discretion of the Board of Directors of HMN and the Bank. There are no family relationships among any of the directors or officers of HMN and the Bank. The business experience of each executive officer of both HMN and the Bank is set forth below.

Bradley C. Krehbiel*, age 65.* Mr. Krehbiel has been a director of HMN and President of the Bank since 2009, President of HMN since 2010, and Chief Executive Officer of HMN and the Bank since 2012. Prior to that, he had been the Executive Vice President of the Bank since 2004. Mr. Krehbiel joined the Bank as Vice President of Business Banking in 1998. Prior to his employment at the Bank, Mr. Krehbiel held several positions in the financial services industry.

Jon J. Eberle*, age 58.* Mr. Eberle is Chief Financial Officer, Senior Vice President and Treasurer of HMN and the Chief Financial Officer, Executive Vice President and Treasurer of the Bank. Mr. Eberle has held the Chief Financial Officer and Treasurer positions since 2003 and the Executive Vice President position since 2012. Prior to that he served as a Vice President since 2000 and as the Controller since 1998. From 1994 to 1998, he served as the Director of Internal Audit for HMN and the Bank. Prior to his employment at the Bank, Mr. Eberle worked as a certified public accountant for a national accounting firm.

Lawrence D. McGraw, *age 60*. Mr. McGraw has served as the Chief Operating Officer and Executive Vice President of the Bank since 2012. Prior to that he served as Chief Credit Officer and Senior Vice President since 2010. Prior to his employment at the Bank, Mr. McGraw served as Regional President and Chief Banking Officer of a Minnesota community bank from 2005 until 2010. From 2001 to 2005 he served as the President and Chief Executive Officer of a branch location of the same community bank. Prior to his tenure at the Minnesota community bank, Mr. McGraw held various positions at two other community banks and the FDIC.

The Company has adopted a Code of Ethics that applies to its principal executive officer, principal financial and accounting officer, controller and other persons performing similar functions. The Company has posted the Code of Ethics on its website located at www.hmnf.com. The Company intends to post on its website any amendment to, or a waiver from, a provision of the Code of Ethics that applies to its principal executive officer, principal financial and accounting officer, controller or other persons performing similar functions within four business days following the date of such amendment or waiver.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference from the information under the captions “Executive Compensation” (excluding information under the caption “Pay versus Performance”) and “Director Compensation” in the 2024 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference from the information under the captions "Security Ownership of Management and Certain Beneficial Owners" and "Other Equity Compensation Plan Information" in the 2024 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference from the information under the subheadings "Director Independence"; "Related Person Transaction Approval Policy"; and "Certain Other Transactions" under the heading "Corporate Governance" in the 2024 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated by reference from the information under the captions "Corporate Governance - Independent Registered Public Accounting Firm" and "Approval of Independent Registered Public Accounting Firm Services and Fees" in the 2024 Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this Annual Report on Form 10-K:

(1) Financial Statements: The financial statements filed as a part of this Annual Report on Form 10-K are listed in Part II, Item 8.

(2) Financial Statement Schedules: The schedules are either not applicable or the required information is presented in the consolidated financial statements or notes thereto.

(3) Exhibits: The exhibits incorporated by reference or filed as a part of this Annual Report on Form 10-K are listed in the Exhibit Index prior to the signatures to this report.

EXHIBIT INDEX

Exhibit Number	Exhibit
3.1	Certificate of Incorporation (Amended and Restated through July 28, 2015) (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2015)
3.2	Amended and Restated By-laws (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed August 24, 2022)
4.1	Form of Common Stock Certificate (incorporated by reference to the same numbered exhibit to the Company's Registration Statement on Form S-1 dated April 1, 1994)
4.2	Description of Capital Stock (incorporated by reference to Exhibit 4.2 to the Company's annual report on Form 10-K for the period ended December 31, 2019)
10.1†	Form of Change in Control Agreement with executive officers (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 27, 2014, filed on June 2, 2014)
10.2†	Directors Deferred Compensation Plan (incorporated by reference to the same numbered exhibit to the Company's annual report on Form 10-K for the period ended December 31, 1994)
10.3†	Non-Employee Director Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2015)
10.4†	Description of annual awards to non-employee directors under the 2009 Equity Incentive Plan and form of Restricted Stock Agreement (approved April 28, 2015) (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2015)
10.5†	HMN Financial, Inc. Employee Stock Ownership Plan (Amended and Restated January 1, 2016) (incorporated by reference to Exhibit 10. 5 to the Company's annual report on Form 10-K for the period ended December 31, 2015)
10.6†	HMN Financial, Inc. 2009 Equity Incentive Plan (incorporated by reference to Exhibit A to the Company's Proxy Statement for its Annual Meeting of Stockholders held on April 28, 2009)
10.7†	Form of Incentive Stock Option Agreement under HMN Financial, Inc. 2009 Equity Incentive Plan (Approved January 26, 2016) (incorporated by reference to Exhibit 10.9 to the Company's annual report on Form 10-K for the period ended December 31, 2015)
10.8†	Executive Management Incentive Plan (Amended and Restated January 31, 2017) (incorporated by reference to Exhibit 10.11 to the Company's annual report on Form 10-K for the period ended December 31, 2016)
10.9†	HMN Financial, Inc. 2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2017)
10.10†	Form of Directors' Restricted Stock Agreement for awards granted to directors under the HMN Financial, Inc. 2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2017)
10.11†	Form of Executives' Restricted Stock Agreement for awards granted to executives under the HMN Financial, Inc. 2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's annual report on Form 10-K for the period ended December 31, 2017)
10.12†	Executive Severance Agreement, dated May 23, 2017, among the Company, the Bank and Bradley C. Krehbiel (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 23, 2017, filed on May 30, 2017)
10.13	Form of Executive Severance Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 6, 2023, filed on June 9, 2023)
21	Subsidiaries of Registrant (Incorporated by reference to Exhibit 21 to the Company's annual report on Form 10-K for the period ended December 31, 2019)
23.1	Consent of Baker Tilly US LLP**
23.2	Consent of CliftonLarsonAllen LLP**
24	Powers of Attorney**
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer*

Exhibit Number	Exhibit
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer*
32	Section 1350 Certifications*
97	Compensation Recovery Policy, effective as of October 2, 2023**
101	Financial Statements of the Company from this Annual Report on Form 10-K for the year ended December 31, 2023, formatted in inline Extensible Business Reporting Language (iXBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Statements of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements.*
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)*

* Filed herewith.
** Filed previously as an exhibit to the Annual Report on Form 10-K for the annual period ended December 31, 2023.
† Relates to compensation plans.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 to Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

HMN FINANCIAL, INC.

Date: March 19, 2024

By: */s/Bradley Krehbiel*

Bradley Krehbiel,
President and CEO

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