First Ottawa Bancshares, Inc.

ANNUAL REPORT

2023

"Banking is built on relationships, strengthened through every interaction among our employees and the clients we serve."

American Commercial Bank & Trust
First National Bank of Ottawa

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First Ottawa Bancshares, Inc.

Annual Report Two Thousand Twenty Three

First Ottawa Bancshares, Inc.

March 23, 2024

Dear Shareholders,

In 2023 the banking industry was forced to adapt to the “Higher for Longer” theme for interest rates. General expectations for interest rate cuts by the Fed have diminished and the date for the first rate cut has been extended to later in 2024. Despite increases in interest rates during 2023 we were able to grow total assets of the bank by 10% to $1.49 Billion. Loans grew by 9% to $1.23 Billion and deposits grew by 14% to $1.24 Billion. On a consolidated basis Net Interest Income increased by 17% to $51.7 Million and Net Income increased by 14.5% to $14 Million.

Our investment portfolio continues to serve as a source of strength and liquidity. During 2021, and early 2022, many banks succumbed to experts’ pressure to extend durations in a desperate search for yield at a time when the Fed Funds Rate was 0%. Despite the pressure, we maintained discipline and a bias towards cash and variable rate investments. Banks that accepted the experts’ advice saw the value of their investments drop precipitously as interest rates began their dramatic rise. We did not. Between March and May of 2023, three of the largest banks in the US failed for precisely these reasons. Our discipline helped us continue purchasing high quality bonds in 2023 at much higher yields which resulted in our investment portfolio’s yield ending 2023 in the 96th percentile amongst our peers.

Our non-interest lines of business and services were negatively affected by the continued decline in residential mortgage originations due to much higher rates. Treasury Management and Service Charge Income continued positive growth of 7.5% to $2.5 Million. Secondary Market Servicing Fees, Mortgage Loan Origination Fees and Gain on Sale of Loans declined by 64% to $1.3 Million. Trust and Farm Management income remained flat at $1 Million.

Earnings per share for First Ottawa Bancshares grew from $13.95 in 2022 to $15.56 in 2023 and equated to 17.85% Return on Average Equity. Over the last 10 years, the Compound Annual Growth Rate (CAGR) of our Total Investment Return (including dividends) is 19.54%.

In 2023, we were recognized by American Banker® Magazine, for the third year in a row, in the Top 200 Community Banks in the United States, ranked by 3-year average Return on Average Equity. Our average 3 year ROE of 14.61% ranked us #50 on the list.

First Ottawa Bancshares, Inc. (FOTB)
701 LaSalle Street
Ottawa, Illinois 61350
www.FirstOttawa.com
(815) 434-0044

At our Annual Shareholder Meeting in May, the board re-elected Brian Zabel as Chairman of the Board and announced a second $0.75/share dividend for 2023 marking the 7th consecutive year of annual dividends at or above $1.50/share.

I want to extend my thanks to our Board of Directors for their counsel in 2023 and our team members for their commitment and hard work. Together, I believe we are well-positioned to navigate any environment and remain committed to being the finest entrepreneurial bank.

On behalf of your Board of Directors, we thank you for your commitment and loyalty.

Sincerely

Steven M. Gonzalo
First Ottawa Bancshares
President & CEO


American Commercial
Bank & Trust


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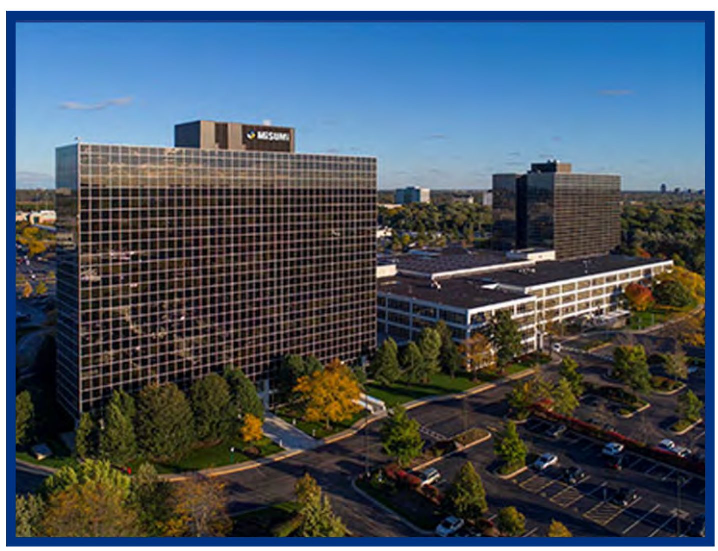
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Brian P. Zabel - Chairman

First Ottawa Bancshares, Inc. Board of Directors

Bradley J. Armstrong
Christina M. Cantlin-VanWiggeren
Daniel K. Miller
Donald J. Harris
Joseph Chiariello
Lynn M. Dubajic Kellogg
Steven M. Gonzalo
William K. Walsh

Secretary to Board of Directors
Karla Jones

First Ottawa Bancshares, Inc. Officers

Steven M. Gonzalo
President & Chief Executive Officer

Vincent G. Easi
Chief Financial Officer & Corporate Secretary

Shareholder Relations / Corporate Reporting

Vincent G. Easi
Corporate Secretary

Daniel K. Miller - Chairman

American Commercial Bank & Trust, NA Board of Directors

Bradley J. Armstrong
Brian P. Zabel
Christina M. Cantlin-VanWiggeren
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Lynn M. Dubajic Kellogg
Steven M. Gonzalo
William K. Walsh

Secretary to Board of Directors
Karla Jones

American Commercial Bank & Trust, NA Executive Officers

Daniel K. Miller
Chairman

Steven M. Gonzalo
President & Chief Executive Officer

John T. Armstrong
Executive Vice President & Chief Operating Officer

Vincent G. Easi
Executive Vice President & Chief Financial Officer

Kevin D. Steward
Executive Vice President & Chief Trust Officer

William E. Vogel
Executive Vice President & Chief Lending Officer

Joseph Chiariello
Executive Vice President & Partner


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NATIONAL BANK of OTTAWA
24 HR ATM
Drive Thru

FIRST OTTAWA BANCSHARES, INC.
AND SUBSIDIARY
Ottawa, Illinois

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY
Ottawa, Illinois

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

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Independent Auditor's Report

Audit Committee
First Ottawa Bancshares, Inc. and Subsidiary
Ottawa, IL

Opinion

We have audited the accompanying consolidated financial statements (the ''financial statements'') of First Ottawa Bancshares, Inc. and Subsidiary (the "Company"), which comprise the balance sheet as of December 31, 2023, and the related statement of income, comprehensive income, and stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of First Ottawa Bancshares, Inc. and Subsidiary as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (''GAAP'').

We also have audited the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with instructions to the Federal Financial Institutions Examination Council Consolidated Reports of Condition and Income ("Call Report"), as of December 31, 2023, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control—Integrated Framework* issued by COSO in 2013.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements and Internal Control Over Financial Reporting section of our report. We are required to be independent of First Ottawa Bancshares, Inc. and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of First Ottawa Bancorp Inc and Subsidiary as of December 31, 2022, were audited by other auditors whose report dated March 20, 2023, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements and Internal Control Over Financial Reporting

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management Report.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about First Ottawa Bancshares, Inc. and Subsidiary's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control Over Financial Reporting

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of financial statements or an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit of financial statements or an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the financial statement audit in order to design audit procedures that are appropriate in the circumstances.

- Obtain an understanding of internal control over financial reporting relevant to the audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about First Ottawa Bancshares, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the financial statement audit.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable fina6ncial statements in accordance with GAAP. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of the Company's internal control over financial reporting included controls over the preparation of financial statements in accordance with GAAP and with Call Report instructions.

An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Wipfli LLP

Wipfli LLP
Aurora, Illinois

March 11, 2024

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022
(In thousands, except share and per share data)

	2023	2022
Assets		
Cash and Due from Banks	$ 5,054	$ 7,590
Interest Bearing Deposits in Financial Institutions	22,562	45,224
Cash and Cash Equivalents	27,616	52,814
Securities Available for Sale at Fair Value (Amortized Cost is $167,004 in 2023 and $120,290 in 2022)	160,790	113,045
Loans Held for Sale	1,251	35,460
Loans, Net of Allowance for Credit Losses of $21,044 in 2023 and $16,023 in 2022	1,226,781	1,088,775
Premises and Equipment, Net	9,948	10,437
Goodwill	2,446	2,446
Cash Surrender Value of Life Insurance	32,484	24,280
Accrued Interest Receivable and Other Assets	27,627	27,431
Total Assets	$ 1,488,943	$ 1,354,688
Liabilities and Shareholders' Equity		
Liabilities		
Deposits	$ 1,235,731	$ 1,082,765
Borrowings	153,500	189,800
Other Liabilities	13,107	10,622
Total Liabilities	1,402,338	1,283,187
Shareholders' Equity		
Common Stock, $1 Par Value, 2,000,000 Shares Authorized; 992,249 and 979,742 Issued in 2023 and 2022, Respectively	$ 992	$ 980
Additional Paid-In Capital	22,050	20,873
Retained Earnings	73,305	60,200
Treasury Stock, at cost, 87,743 and 87,743 shares in 2023 and 2022, Respectively	(4,830)	(4,830)
Accumulated Other Comprehensive Income (Loss)	(4,912)	(5,722)
Total Shareholders' Equity	86,605	71,501
Total Liabilities and Shareholders' Equity	$ 1,488,943	$ 1,354,688

The accompanying notes are an integral part of the consolidated financial statements.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2023 and 2022
(In thousands, except share and per share data)

	2023	2022
Interest and Dividend Income		
Loans, Including Fees	$ 73,726	$ 48,302
Securities Available for Sale:		
Taxable	6,760	2,832
Exempt from Federal Tax	196	189
Other	1,679	531
Total Interest and Dividend Income	82,361	51,854
Interest Expense		
Deposits	24,415	4,545
Borrowings	6,274	3,179
Total Interest Expense	30,689	7,724
Net Interest Income	51,672	44,130
Provision for Credit Losses	7,080	3,975
Net Interest Income After Provision for Credit Losses	44,592	40,155
Noninterest Income		
Service Fees	2,466	2,295
Trust and Farm Management Fees	961	1,001
Mortgage Servicing Income, Net	127	2,334
Increase in Cash Value of Life Insurance, Net	962	787
Loss on sale of Investment Securities, Net	(139)	-
Other	324	407
Total Noninterest Income	4,701	6,824
Noninterest Expense		
Salaries and Employee Benefits	19,617	21,450
Occupancy and Equipment	2,955	2,695
Data Processing Fees	1,711	1,839
Insurance	1,649	1,145
Professional Fees	862	911
Other Real Estate Owned, Net	105	(109)
Advertising	296	326
Supplies	130	155
Other	2,783	2,014
Total Noninterest Expenses	30,108	30,426
Income Before Income Tax	19,185	16,553
Income Tax Expense	5,171	4,310
Net Income	$ 14,014	$ 12,243
Earnings Per Share - Basic	$ 15.56	$ 13.95
Average Shares Outstanding	900,753	877,303

The accompanying notes are an integral part of the consolidated financial statements.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2023 and 2022
(In thousands)

	2023	2022
Net Income	$ 14,014	$ 12,243
Other Comprehensive Income (Loss):		
Unrealized Gains (Losses) on Securities Available for Sale	894	(8,000)
Reclassification Adjustment for Net Loss on Sale of Securities Available for Sale Realized in Net Income	139	-
Income Tax Benefit (Expense) Relating to Securities Available for Sale	(223)	1,680
Net Gain (Loss) Relating to Pension Benefit Liability	-	278
Income Tax Benefit (Expense) Relating to Pension Benefit Liability	-	(58)
Total Other Comprehensive Income (Loss)	810	(6,100)
Total Comprehensive Income	$ 14,824	$ 6,143

The accompanying notes are an integral part of the consolidated financial statements.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 2023 and 2022
(In thousands, except share and per share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2021	$ 944	$ 17,888	$ 49,287	$ (4,830)	$ 378	$ 63,667
Net Income	-	-	12,243	-	-	12,243
Other Comprehensive Loss	-	-	-	-	(6,100)	(6,100)
Cash Dividends Declared ($1.50 per share)	-	-	(1,330)	-	-	(1,330)
RSUs Vested (3,298 shares)	3	277	-	-	-	280
Common Shares Sold to ESOP (3,395 shares)	4	285	-	-	-	289
Common Shares Sold (28,887 shares)	29	2,423	-	-	-	2,452
Balance, December 31, 2022	980	20,873	60,200	(4,830)	(5,722)	71,501
Net Income	-	-	14,014	-	-	14,014
CECL Adoption Initial Adjustment	-	-	445	-	-	445
Other Comprehensive Income	-	-	-	-	810	810
Cash Dividends Declared ($1.50 per share)	-	-	(1,354)	-	-	(1,354)
RSUs Vested (4,077 shares)	4	385	-	-	-	389
Common Shares Sold to ESOP (4,090 shares)	4	385	-	-	-	389
Common Shares Sold (4,340 shares)	4	407	-	-	-	411
Balance, December 31, 2023	$ 992	$ 22,050	$ 73,305	$ (4,830)	$ (4,912)	$ 86,605

The accompanying notes are an integral part of the consolidated financial statements.

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2023 and 2022
(In thousands)

	2023	2022
Operating Activities		
Net Income	$ 14,014	$ 12,243
Items Not Requiring (Providing) Cash:		
Provision for Credit Losses	7,080	3,975
(Accretion) Amortization on Securities Available for Sale, Net	(346)	4
Depreciation	990	894
Deferred Income Taxes	(1,859)	(861)
Loans Originated for Sale	(25,387)	(34,252)
Gain on Sale of Loans Held for Sale	(376)	(557)
Net Mortgage Servicing Rights Recorded	249	(1,777)
Proceeds from Sale of Loans Originated for Sale	26,017	37,054
Stock compensation expense	389	280
Losses on Sales of Securities, Net	139	-
Gains on Sales of Premises and Equipment	(38)	-
Writedowns and Net (Gain) Loss on Sales of Other Real Estate Owned	78	(135)
Increase in Cash Surrender Value of Life Insurance	(204)	(202)
Net Change in:		
Interest Receivable and Other Assets	323	1,065
Interest Payable and Other Liabilities	2,485	1,491
Net Cash Provided by Operating Activities	23,554	19,222
Investing Activities		
Purchase of Securities Available for Sale	(57,744)	(63,521)
Sale of Securities Available for Sale	4,313	-
Proceeds from Maturities, Calls and Paydowns of Securities Available for Sale	6,919	10,289
Purchase of Bank Owned Life Insurance	(8,000)	(5,800)
Purchase of FRB Stock	(230)	(1,492)
Purchase of FHLB Stock	-	(2,443)
Redemption of FHLB Stock	1,798	-
Purchase of Loans for Resale	(270,604)	(37,329)
Proceeds from Sales of Loans Purchased for Resale	304,311	21,375
Net Change in Loans	(145,299)	(281,933)
Proceeds from Sales of Other Real Estate Owned	135	881
Net Purchases of Premises and Equipment	(463)	(1,510)
Net Cash Used by Investing Activities	(164,864)	(361,483)

FIRST OTTAWA BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Years Ended December 31, 2023 and 2022
(In thousands)

	2023	2022
Financing Activities		
Net Change in Deposits	$ 152,966	$ 243,183
Net Change in FHLB Advances	(42,300)	123,550
Proceeds from Issuance of subordinated debt	-	7,750
Proceeds from Issuance of senior debt	6,000	-
Dividends Paid	(1,354)	(1,330)
Shares Sold to ESOP	389	288
Common Shares Sold	411	2,453
Net Cash Provided by Financing Activities	116,112	375,894
Net Change in Cash and Cash Equivalents	(25,198)	33,633
Cash and Cash Equivalents, Beginning of Year	52,814	19,181
Cash and Cash Equivalents, End of Year	$ 27,616	$ 52,814
Additional Cash Flows Information		
Interest Paid	$ 28,423	$ 6,920
Income Taxes Paid	5,906	4,175
Transfers from Loans to Other Real Estate Owned	213	92
Change in Dividends Payable	9	669

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: First Ottawa Bancshares, Inc. is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, American Commercial Bank & Trust, National Association (formerly The First National Bank of Ottawa) (the Bank). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in LaSalle, Grundy, Cook, and surrounding counties in Illinois. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. The consolidated financial statements include First Ottawa Bancshares, Inc. and the Bank, and the Bank's wholly owned subsidiary, First Ottawa Financial Corporation, together referred to as the Company. First Ottawa Financial Corporation discontinued operations in the first quarter of 2020 and these discontinued operations are considered immaterial to the consolidated financial statements taken as a whole.

Intercompany transactions and balances are eliminated in consolidation.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and future results could differ. The allowance for credit losses, the classification and valuation of securities, valuation of mortgage servicing rights, valuation of other real estate owned, valuation of goodwill, fair values of financial instruments, and certain key assumptions related to the defined benefit plan are particularly subject to change.

Significant Group Concentrations of Credit Risk: Most of the Company's activities are with customers located within LaSalle, Grundy, Cook, and surrounding counties in Illinois. Note 2 discusses the types of securities that the Company invests in. Note 3 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer.

Commercial real estate, including commercial construction loans, represented 56.0%, and 50.6% of the total portfolio at December 31, 2023 and 2022, respectively.

Cash and Cash Equivalents: As of December 31, 2023, the Company has deposits of approximately $630,000 at Northern Trust Bank, $345,000 at US Bank, $705,000 at Pacific Coast Bankers Bank, and $21.7 million at the Federal Reserve Bank, which are not fully insured by the FDIC. For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold, all of which have original maturities of ninety days or less.

Securities Available for Sale: Debt securities are classified as available for sale. Securities available for sale are carried at fair value with unrealized gains and losses reported in other comprehensive income (loss). Realized gains and losses on securities available for sale are included in noninterest income and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income (loss). Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity. For callable debt securities purchased at a premium, the amortization period is shortened to the earliest call date.

Effective January 1, 2023, the Company evaluates individual securities available for sale in an unrealized loss position by first determining whether the decline in fair value below the amortized cost basis of the security has resulted from a credit loss or other factors. A credit loss exists when the present value of cash flows expected to be collected from the security is less than the amortized cost basis of the security. In determining whether a credit loss exists, the Company considers the extent to which the fair value is less than the amortized cost basis, adverse conditions related to the security, the industry, or geographic areas, the payment structure of the debt security, failure of the issuer to make scheduled payments, and any changes to the rating of the security. Impairment related to credit losses is recognized through an allowance for credit losses up to the amount that fair value is less than the amortized cost

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

basis. Changes to the allowance are recognized through earnings as a provision for (or recovery of) credit losses. Impairment related to other factors is recognized in other comprehensive income.

The Company excludes accrued interest receivable from the amortized cost basis of securities available for sale when estimating credit losses and when presenting required disclosures in the financial statements. Accrued interest on securities available for sale totaling $776,398 and $578,760 at December 31, 2023 and 2022, respectively, was excluded from the amortized cost basis of securities available for sale as accrued interest receivable and other assets on the consolidated balance sheet.

Declines in the fair value of individual securities available for sale below their cost that are other than temporary result in writedowns of the individual securities to their fair value. The Company monitors the investment security portfolio for impairment on an individual security basis and has a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the intent of the Company to not sell the security or whether it is more likely than not that the Company will be required to sell the security before its anticipated recovery. A decline in value due to a credit event that is considered other than temporary is recorded as a loss in noninterest income.

<u>Restricted Stock:</u> The Bank, as a member of the Federal Home Loan Bank of Chicago (FHLB), is required to maintain an investment in the capital stock of the Federal Home Loan Bank. The Bank also maintains an investment in the capital stock of the Federal Reserve Bank of Chicago (FRB). For financial reporting purposes, such stock qualifies as Restricted stock and is carried at cost, subject to impairment, and reported as part of other assets on the consolidated balance sheets. Both cash and stock dividends are reported as income.

The Company owns $1,864,750 and $1,634,650 of FRB stock as of December 31, 2023 and 2022. The Company owns $4,884,549 and $6,683,274 of FHLB stock as of December 31, 2023 and 2022. Management performed an analysis and deemed the investments in restricted stock were not impaired at December 31, 2023 and 2022.

<u>Derivatives:</u> All derivative instruments are recorded at their fair values and the change in the fair value of a derivative is included in interest income. If derivative instruments are designated as hedges of fair values, both the change in the fair value of the hedge and the hedged item are included in current earnings. Fair value adjustments related to cash flow hedges are recorded in other comprehensive income and reclassified to earnings when the hedged transaction is reflected in earnings. Ineffective portions of hedges are reflected in earnings as they occur.

<u>Loans Held for Sale:</u> Mortgage loans originated or purchased and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

<u>Loans:</u> Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs and the allowance for credit losses. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and recognized as an adjustment of the related loan yield using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

Interest income is accrued on the unpaid principal balance. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Company assigns a risk rating to all loans except pools of homogeneous loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectibility of the portfolio. These risk ratings are also subject to examination by the Company's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into six major categories, defined as follows:

Satisfactory: Loans classified as satisfactory are supported by financial statements that indicate average risk. The loans have exhibited two or more years of satisfactory repayment with a reasonable reduction of principal.

Satisfactory/Monitored: Loans classified as satisfactory/monitored are considered to be of acceptable credit quality so long as they are given the proper level of management supervision.

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard: Loans classified as substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as Substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well-defined weaknesses include a borrower's lack of marketability, inadequate cash flow, or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as Doubtful have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified as Loss are considered uncollectible and charged off immediately.

The Company portfolio segments include the following:

Commercial Real Estate: Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments, except land and construction loans. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

Commercial Non-Real Estate: Commercial non-real estate loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Construction and Land Development: Construction and land development loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within a specified cost and time line. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

Agricultural: Agricultural loans generally possess a lower inherent risk of loss than commercial non-real estate or real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating agricultural businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are not closely correlated to the credit quality of these loans.

Residential: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Consumer: The consumer loan portfolio is usually comprised of a large number of small loans scheduled to be amortized over a specific period. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

Allowance for Credit Losses and Unfunded Commitments:

The Company adopted ASU No. 2016-13 and began accounting for credit losses under ASC 326, Financial Instruments Credit Losses, on January 1, 2023. The new standard significantly changed the impairment model for most financial assets that are measured at amortized cost, including off-balance sheet credit exposures, from an incurred loss impairment model to an expected credit loss model. Refer to the "New Accounting Pronouncements" section of this note for more information on the impact to the consolidated financial statements.

The allowance for credit losses on loans is a valuation allowance that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the Company's loan portfolio. The allowance for credit losses on loans is established through provisions for credit losses charged against earnings. When available information confirms that specific loans, or portions thereof, are uncollectible, these amounts are charged against the allowance for credit losses on loans, and subsequent recoveries, if any, are credited to the allowance for credit losses on loans.

Effective January 1, 2023, the Company uses a current expected credit loss ("CECL") model to estimate the allowance for credit losses on loans. The CECL model considers historical loss rates and other qualitative adjustments, as well as a new forward looking component that considers reasonable and supportable forecasts over the expected life of each loan. To develop the allowance for credit losses on loans estimate under the CECL model, the Company segments the loan portfolio into loan pools based on loan type and similar credit risk elements; performs an individual evaluation of certain collateral dependent and other credit deteriorated loans; calculates the historical loss rates for the segmented loan pools; applies the loss rates over the calculated life of the collectively evaluated loan pools; adjusts for forecasted macro level economic conditions and other anticipated changes in credit quality; and determines qualitative adjustments based on factors and conditions unique to the Company's loan portfolio.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under the CECL model, loans that do not share similar risk characteristics with loans in their respective pools are individually evaluated for expected credit losses and are excluded from the collectively evaluated loan credit loss estimates. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The following describes the types of collateral that secure collateral dependent loans:

- Commercial and industrial loans considered collateral dependent are primarily secured by accounts receivable, inventory and equipment
- Commercial real estate - Construction loans are primarily secured by resident and commercial properties, which are under construction and/or redevelopment, and by raw land
- Commercial real estate loans - Other are primarily secured by office and industrial buildings, warehouses, retail shopping facilities and various special purpose properties, including hotels and restaurants.
- Residential - First mortgages are primarily secured by first liens on residential real estate.
- Residential - Junior mortgages are primarily secured by first and junior liens on residential real estate.

Management evaluates all collectively evaluated loan pools using the weighted average remaining life ("remaining life") methodology. The remaining life methodology applies calculated quarterly net loss rates to collectively evaluated loan pools on a periodic basis based on the estimated remaining life of each pool. The estimated losses under the remaining life methodology are then adjusted for qualitative factors deemed appropriate by management.

The estimated remaining life of each pool is determined using quarterly, pool based attrition measurements using the Company's loan level historical data. The Company's historical call report data is utilized for historical loss rate calculations, and the lookback period for each collectively evaluated loan pool is determined by management based upon the estimated remaining life of the pool. Forecasted historical loss rates are calculated using the Company's historical data based on the lookback, forecast, and reversion period inputs by management. Management elected to utilize peer group loss rates to supplement the Company's data to provide a forecasted market adjustment.

The quantitative analysis under the remaining life methodology is supplemented with other qualitative factors based on the risks management determines are present for each collectively evaluated loan pool. The Qualitative Adjustment factor is intended to embody a forecasting component based on an independent economic metric. The Company has selected for this component regional unemployment for consumer portfolio segments and regional gross domestic product for nonconsumer portfolio segments.

In addition to the allowance for credit losses on loans, the Company maintains a reserve for unfunded loan commitments at a level that management believes is adequate to absorb estimated probable credit losses over the contractual terms of the Company's noncancellable loan commitments. The reserve for unfunded commitments, which is included in other liabilities on the consolidated balance sheet is established through provisions for credit losses charged against earnings.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unfunded loan commitments are segmented into the same pools used for estimating the allowance for credit losses on loans. Estimated credit losses on unfunded loan commitments are based on the same methodology, inputs, and assumptions used to estimate credit losses on collectively evaluated loans, adjusted for estimated funding probabilities. The estimated funding probabilities represent management's estimate of the amount of the current unfunded loan commitment that will be funded over the remaining contractual life of the commitment and is based on historical data.

The Company may modify loans to borrowers experiencing financial difficulty and grant certain concessions that include principal forgiveness, a term extension, an other than insignificant payment delay, an interest rate reduction, or a combination of these concessions. An assessment of whether the borrower is experiencing financial difficulty is made at the time of the loan modification.

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

Prior to January 1, 2023, the Company used an incurred loss impairment model to estimate the allowance for credit losses on loans. This methodology assessed the overall appropriateness of the allowance for credit losses on loans and included allocations for specifically identified impaired loans and loss factors for all remaining loans, with a component primarily based on historical loss rates and another component primarily based on other qualitative factors.

Under the incurred loss impairment model, the specific component of the allowance related to loans that were individually classified as impaired. A loan was considered impaired when, based on current information and events, it was probable that the Company would be unable to collect all amounts due according to the contractual terms of the loan agreement. Prior to the adoption of ASU No. 2022-02, loans for which the terms had been modified resulting in a concession, and for which the borrower was experiencing financial difficulties, were considered troubled debt restructurings (TDRs) and were classified as impaired.

Factors considered by management in determining impairment under the incurred loss impairment model included payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experienced insignificant payment delays and payment shortfalls generally were not classified as impaired. Management determined the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Prior to the adoption of ASU No. 2022-02, TDRs were individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs were measured at the present value of estimated future cash flows using the loan's original effective rate. If a TDR was considered to be a collateral dependent loan, the loan was measured at the fair value of the collateral less applicable estimated selling costs. For TDRs that subsequently defaulted, the Company determined the amount of the allowance on that loan in accordance with the accounting policy for the allowance for credit losses on loans individually identified as impaired under the incurred loss impairment model.

Under the incurred loss impairment model, the general component of the allowance was based on historical loss experience adjusted for current qualitative factors. The historical loss experience was determined by portfolio segment or loan class and was based on the actual loss history experienced by the Company. This actual loss experience was supplemented with other qualitative factors based on the risks present for each portfolio segment or loan class.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Off-Consolidated Balance Sheet Credit Related Financial Instruments: In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under credit arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

Premises and Equipment: Asset cost is reported net of accumulated depreciation. Buildings and related components are depreciated using the straight–line method with useful lives ranging from 7 to 39 years. Furniture, fixtures, and equipment are depreciated using the straight–line method with useful lives ranging from 5 to 15 years. These assets are reviewed for impairment when events indicate that the carrying amount may not be recoverable. Maintenance and repairs are charged to expense and improvements are capitalized.

Impairment of Long-Lived Assets: The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

Other Real Estate Owned: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated cost to sell at the date of foreclosure, establishing a new cost basis. Any writedowns based on the asset's fair value at the date of acquisition are charged to the allowance for credit losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated cost to sell. This evaluation is inherently subjective and requires estimates that are susceptible to significant revisions as more information becomes available. Due to potential changes in conditions, it is at least reasonably possible that changes in fair values will occur in the near term and that such changes could materially affect the amounts reported in the Company's consolidated financial statements. Revenue and expenses from operations are included in net expenses from other real estate owned.

Mortgage Servicing Rights: Servicing rights are recognized as assets for the allocated value of servicing rights retained on loans sold and are classified with accrued interest receivable and other assets in the consolidated balance sheets. Servicing rights are expensed in proportion to and over the period of estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights using groupings of the underlying loans as to interest rates and then, secondarily, as to geographic and prepayment characteristics. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market–based assumptions. Any impairment of a grouping is reported as a valuation allowance. There was no such valuation allowance recorded at December 31, 2023 and 2022.

Goodwill: Goodwill represents the excess of the original cost over fair value of assets acquired and liabilities assumed and related acquisition costs. Goodwill is reviewed for impairment annually with any loss recognized through the income statement. Goodwill is tested qualitatively and quantitatively for possible impairment at least annually or more frequently if events and circumstances occur that indicate a goodwill impairment test should be performed.

Cash Surrender Value of Life Insurance: The Company has purchased life insurance policies on certain key employees. These life insurance policies are recorded at their cash surrender value or the amount that can be realized, if lower.

Restricted Stock Units Award Agreements: The Company has Restricted Stock Unit Award Agreements (RSUs) that provide for the granting of shares to directors and select executives. Compensation expense is recognized at the vesting date of the awards based on the appraised value of the stock at the time of vesting.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition: Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as gain or loss associated with mortgage servicing rights, investment transactions, and income from bank owned life insurance are also not within the scope of the new guidance. Topic 606 is applicable to noninterest income such as trust department income, deposit related fees, and ATM processing fees. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Noninterest income considered to be within the scope of Topic 606 is discussed below.

Non-transactional Deposit Account Fees: The Company earns fees from its deposit customers for non-transaction-based overdraft and nonsufficient funds (NSF) fees services. Overdraft and NSF fees are recognized at the point in time that the overdraft or NSF occurs. Service charges on deposits are withdrawn from the customer's account balance. Non-transactional deposit fees of $2,199,000 and $2,012,000 are included in Service Fees for 2023 and 2022, respectively.

Trust Department Fees: Trust management fees are billed fees as the management services are performed. Services provided to clients include personal and fiduciary services, investment management accounts, bill paying agency accounts, investment custody services, corporate fiduciary accounts, and farm management services.

ATM Processing Services: Revenue from ATM transaction processing and settlement services is recognized at the time the services are performed. ATM fees of approximately $260,000 and $285,000 are included in Services Fees for 2023 and 2022, respectively.

The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2023 and 2022, the Company did not have any significant contract balances. As of December 31, 2023 and 2022, the Company did not capitalize any contract acquisition costs.

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 bases. 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 liabilities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under generally accepted accounting principles, 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 judgment concerning management's evaluation of both positive and negative evidence, the forecasts of future income, applicable tax planning strategies and assessments of the current and future economic and business conditions.

With regards to uncertain tax matters, the Company can recognize in financial statements the impact of a tax position taken, or expected to be taken, if it is more likely than not that the position will be sustained during a tax audit based on the technical merit of the position. See Note 12 - Income Taxes for additional disclosures. When applicable, the Company recognizes both interest and penalties related to tax matters as a component of other operating expenses. The Company did not recognize any significant interest or penalties related to tax matters in 2023 or 2022.

The Company files consolidated federal and state income tax returns and it is not subject to federal or state income tax examinations for taxable years prior to 2019.

Earnings Per Share: Basic earnings per share are calculated based on the weighted-average common shares outstanding during the year.

Fair Values of Financial Instruments: The Company categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

> *Level 1* – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity has the ability to access.
>
> *Level 2* – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.
>
> *Level 3* – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Company may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Company adopted the policy to value certain financial instruments at fair value. The Company has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

Comprehensive Income: Comprehensive income includes both net income and other comprehensive income (loss). Other comprehensive income (loss) includes the changes in unrealized gains and losses on securities available for sale, and minimum pension liability, net of deferred income taxes.

Trust Department Assets: Property held for customers in fiduciary or agency capacities is not included in the accompanying consolidated balance sheets, as such items are not assets of the Bank.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

Advertising Costs: Advertising costs are expensed as incurred.

Accounting for Certain Loans or Debt Securities Acquired in a Transfer: GAAP requires acquired loans to be initially recorded at fair value and prohibits carrying over valuation allowances in the initial accounting for acquired impaired loans. Loans carried at fair value, mortgage loans held for sale, and loans to borrowers in good standing under revolving credit agreements are excluded from the scope of these requirements.

Leases: *Lease liabilities*. A lease liability is initially and subsequently measured based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate, and are measured using the index or rate at the commencement date. The discount rate is the implicit rate if it is readily determinable; otherwise the Company uses its incremental borrowing rate. The implicit rates of all the Company's leases are not readily determinable; accordingly, the Company uses its incremental borrowing rate based on the information available at the commencement date for each lease. The Company's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment. The Company determines its incremental borrowing rates by starting with the interest rates on its recent borrowings and other observable market rates and adjusting those rates to reflect differences in the amount of collateral and the payment terms of the leases.

ROU assets. A lessee's ROU asset is measured at the commencement date at the amount of the initially-measured lease liability plus any lease payments made to the lessor before or at the commencement date, minus any lease incentives received; plus any initial direct costs. Unless impaired, the ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease cost for lease payments is recognized on a straight-line basis over the lease term.

Accounting policy election for short-term leases. The Company has elected, for all underlying classes of assets, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement, and do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise. The Company recognizes lease cost associated with its short-term leases on a straight-line basis over the lease term.

See Note 13, "COMMITMENTS, OFF–BALANCE–SHEET RISK, AND CONTINGENCIES" for additional information on the Company's leases.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements: The Company recently adopted the following Accounting Standards Updates (ASU) issued by the Financial Accounting Standards Board (FASB).

ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments - This standard significantly changes how financial assets measured at amortized cost are presented. Such assets, which include most loans, are presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses are based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amounts. The standard also changes the accounting for credit losses related to securities available for sale and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. The Company adopted ASU No. 2016-13 on January 1, 2023, and recorded a cumulative net effect adjustment of $445,000 to retained earnings, which resulted in a decrease to the allowance for credit losses by $445,000. Results for the year ended December 31, 2023, are presented under Accounting Standards Codification (ASC) 326 while prior period amounts continue to be reported in accordance with previously applicable accounting standards generally accepted in the United States (US GAAP).

ASU No. 2022-02, Troubled Debt Restructurings and Vintage Disclosures, Topic 326 (Financial Instruments-Credit Losses) – This standard eliminates the accounting guidance for troubled debt restructurings by creditors under Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors, and requires an entity evaluate whether the modification represents a new loan or a continuation of an existing loan. The amendments to the standard also enhance existing disclosure requirements, and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. The Company adopted ASU No. 2022-02 on January 1, 2023, on a prospective basis. See Note 3 for new disclosures related to the new accounting standard.

Subsequent Events: Management evaluated subsequent events through March 11, 2024, the date the consolidated financial statements were available to be issued.

(Table dollar amounts in thousands, except per share data)

NOTE 2 - SECURITIES AVAILABLE FOR SALE

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Treasury Securities	$ 6,175	$ -	$ (379)	$ 5,796
Federal Agencies	2,007	-	(71)	1,936
State and Municipal	13,579	80	(1,901)	11,758
Mortgage-Backed Securities and Collateral Mortgage Obligations	123,599	762	(4,410)	119,951
Asset Backed Securities	21,639	20	(317)	21,342
Other	5	2	-	7
Total Securities Available for Sale	$ 167,004	$ 864	$ (7,078)	$ 160,790

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Treasury Securities	$ 7,619	$ -	$ (660)	$ 6,959
Federal Agencies	2,011	-	(89)	1,922
State and Municipal	15,759	115	(2,222)	13,652
Mortgage-Backed Securities and Collateral Mortgage Obligations	69,878	101	(3,680)	66,299
Asset Backed Securities	25,018	8	(816)	24,210
Other	5	-	(2)	3
Total Securities Available for Sale	$ 120,290	$ 224	$ (7,469)	$ 113,045

As of December 31, 2023 and 2022, the Company had approximately $2,076,000 and $2,390,000, respectively, invested in bonds issued by municipalities located within LaSalle County, Illinois.

Securities with a carrying value of $86,288,000 and $83,563,000 were pledged at December 31, 2023 and 2022, respectively, to secure trust and public deposits, and for other purposes as required or permitted by law.

(Table dollar amounts in thousands, except per share data)

NOTE 2 - SECURITIES AVAILABLE FOR SALE (CONTINUED)

The amortized cost and fair value of securities available for sale at December 31, 2023 by contractual maturity, was as follows. Securities not due at a single maturity date, primarily mortgage–backed and equity securities, are shown separately.

	Amortized Cost	Fair Value
Within One Year	$ 1,866	$ 1,853
One to Five Years	25,209	24,613
Five to Ten Years	7,851	7,655
After Ten Years	8,474	6,711
	43,400	40,832
Mortgage-Backed Securities and Collateralized Mortgage Obligations	123,599	119,951
Other	5	7
Total	$ 167,004	$ 160,790

Sales of securities available for sale were as follows for the years ended December 31, 2023 and 2022.

	2023	2022
Proceeds from Sale	$ 4,313	$ -
Gross Realized Gains	33	-
Gross Realized Losses	(172)	-

(Table dollar amounts in thousands, except per share data)

NOTE 2 - SECURITIES AVAILABLE FOR SALE (CONTINUED)

The following tables show our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

Description of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	Over 12 Months Fair Value	Over 12 Months Unrealized Losses	Total Fair Value	Total Unrealized Losses
December 31, 2023						
US Treasury Securities	$ -	$ -	$ 5,796	$ (379)	$ 5,796	$ (379)
Federal Agencies	-	-	1,936	(71)	1,936	(71)
State and Municipal	1,701	(1)	7,217	(1,900)	8,918	(1,901)
Asset Backed Securities	2,867	(12)	15,213	(305)	18,080	(317)
Mortgage-Backed Securities and Collateralized Mortgage Obligations	34,579	(536)	60,434	(3,874)	95,013	(4,410)
Other	-	-	-	-	-	-
Total Temporarily Impaired Securities	$ 39,147	$ (549)	$ 90,596	$ (6,529)	$ 129,743	$ (7,078)
December 31, 2022						
US Treasury Securities	$ 1,420	$ (62)	$ 5,539	$ (598)	$ 6,959	$ (660)
Federal Agencies	1,922	(89)	-	-	1,922	(89)
State and Municipal	3,866	(130)	5,886	(2,092)	9,752	(2,222)
Asset Backed Securities	15,187	(423)	8,647	(393)	23,834	(816)
Mortgage-Backed Securities and Collateralized Mortgage Obligations	55,486	(2,718)	5,109	(962)	60,595	(3,680)
Other	-	-	3	(2)	3	(2)
Total Temporarily Impaired Securities	$ 77,881	$ (3,422)	$ 25,184	$ (4,047)	$ 103,065	$ (7,469)

At December 31, 2023, there were 105 securities that have an unrealized loss with aggregate depreciation of approximately 5.17% of the Company's amortized cost basis for such securities. These unrealized losses are a result of expected fluctuations in the bond market. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. The decline in value of these securities is deemed to be temporary, as management has the intent and ability to hold these investments to maturity or recovery.

(Table dollar amounts in thousands, except per share data)

NOTE 3 - LOANS AND THE ALLOWANCE FOR CREDIT LOSSES

Major classifications of loans as of December 31 are summarized as follows:

	2023	2022
Commercial:		
Real Estate	$ 615,574	$ 514,215
Non-Real Estate	378,654	392,316
Construction and Land Development	83,741	44,229
Agricultural	25,880	26,820
Residential	142,517	125,617
Consumer	1,459	1,601
Total Loans	1,247,825	1,104,798
Allowance for Credit Losses	(21,044)	(16,023)
Loans, Net	$ 1,226,781	$ 1,088,775

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was enacted, which included measures designed to address the impact of the COVID-19 pandemic. These provisions included the Paycheck Protection Program ("PPP"), which was designed to aid eligible businesses and non-profit entities through federally guaranteed loans distributed through local financial institutions under the oversight of the Small Business Administration ("SBA").

During 2021, the Bank originated approximately 429 PPP loans with a carry balance of $113,000,000. PPP loans are forgivable by the SBA under certain circumstances if the funds are used by the borrower for eligible expenses including payroll during a specified period. The Bank generated net fees of approximately $10,200,000 on the origination of the loans, which is being recognized over the life of the PPP loan adjusted for prepayments resulting from loan forgiveness.

As of December 31, 2023 and 2022, the Company had approximately $342,000 and $4,049,000, respectively, in unforgiven PPP loans which are included in the Non-Real Estate Commercial Loan classification. Origination fees recognized as income on PPP loans for the two periods were approximately $77,000 and $792,000, respectively.

(Table dollar amounts in thousands, except per share data)

NOTE 3 - LOANS AND THE ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The following tables present the recorded investment in loans and the related allowance for credit losses by portfolio segment and based on impairment method as of December 31, 2023 and 2022:

	Commercial Real Estate	Non-Real Estate	and Land Development	Agricultural	Residential	Consumer	Unallocated	Total
Total Loans								
Individually Evaluated for Impairment	$ 2,853	$ 1,995	$ -	$ -	$ 110	$ -	$ -	$ 4,958
Collectively Evaluated for Impairment	612,721	376,659	83,741	25,880	142,407	1,459	-	1,242,867
Balances, December 31	$ 615,574	$ 378,654	$ 83,741	$ 25,880	$ 142,517	$ 1,459	$ -	$ 1,247,825
Allowance for Credit Losses:								
Balances, January 1	$ 8,764	$ 5,108	$ 442	$ 138	$ 1,369	$ 17	$ 185	$ 16,023
Impact of adopting ASC 326							$ (445)	$ (445)
Provision for Credit Losses	1,709	637	1,158	(125)	974	13	1,824	6,190
Recoveries on Loans	31	29	17	-	11	5	-	93
Loans Charged-Off	(807)	-	-	-	(5)	(5)	-	(817)
Balances, December 31	$ 9,697	$ 5,774	$ 1,617	$ 13	$ 2,349	$ 30	$ 1,564	$ 21,044
Individually Evaluated for Impairment	$ -	$ 1,567	$ -	$ -	$ -	$ -	$ -	$ 1,567
Collectively Evaluated for Impairment	$ 9,697	$ 4,207	$ 1,617	$ 13	$ 2,349	$ 30	$ 1,564	$ 19,477

(Table dollar amounts in thousands, except per share data)

NOTE 3 - LOANS AND THE ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

	2022							
	Commercial Real Estate	Commercial Non-Real Estate	Construction and Land Development	Agricultural	Residential	Consumer	Unallocated	Total
Total Loans								
Individually Evaluated for Impairment	$ 5,728	$ 297	$ -	$ -	$ 100	$ -	$ -	$ 6,125
Collectively Evaluated for Impairment	508,487	392,019	44,229	26,820	125,517	1,601	-	1,098,673
Balances, December 31	$ 514,215	$ 392,316	$ 44,229	$ 26,820	$ 125,617	$ 1,601	$ -	$ 1,104,798
Allowance for Credit Losses:								
Balances, January 1	$ 7,531	$ 2,653	$ 374	$ 218	$ 1,263	$ 29	$ 54	$ 12,122
Provision for Credit Losses	1,148	2,455	68	13	158	2	131	3,975
Recoveries on Loans	127	-	-	-	22	-	-	149
Loans Charged-Off	(42)	-	-	(93)	(74)	(14)	-	(223)
Balances, December 31	$ 8,764	$ 5,108	$ 442	$ 138	$ 1,369	$ 17	$ 185	$ 16,023
Individually Evaluated for Impairment	$ 800	$ -	$ -	$ -	$ -	$ -	$ -	$ 800
Collectively Evaluated for Impairment	$ 7,964	$ 5,108	$ 442	$ 138	$ 1,369	$ 17	$ 185	$ 15,223

(Table dollar amounts in thousands, except per share data)

NOTE 3 - LOANS AND THE ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

At December 31, 2023, the Company maintained a reserve for unfunded loan commitments totaling $890,000, which is included in other liabilities on the accompanying consolidated balance sheet. As a part of the adoption of ASU No. 2016-13, the Company recorded an initial adjustment to the reserve for unfunded loan commitments of $0. The provision for credit losses on unfunded loan commitments totaled $890 for the year ended December 31, 2023.

Information regarding collateral dependent loans as of December 31, 2023 follows:

	Recorded Investment	Related Allowance
	December 31, 2023	
Commercial:		
Real Estate	$ 2,853	$ -
Non-Real Estate	1,995	1,567
Construction and Land Development	-	-
Agricultural	-	-
Residential	110	-
Consumer	-	-
Total	$ 4,958	$ 1,567

(Table dollar amounts in thousands, except per share data)

NOTE 3 - LOANS AND THE ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Information regarding nonaccrual loans during the years ended December 31, 2023 and 2022 follows:

	Nonaccrual Loans With No Allowance for Credit Losses	Nonaccrual Loans With An Allowance for Credit Losses	Total Nonaccrual Loans	Total Nonaccrual Loans at Beginning of Year	Interest Income Recognized on Nonaccrual Loans	Amortized Cost Basis Loans 90 Days Past Due Not on Nonaccrual
Commercial:	-	$ -	$ -			$ -
Real Estate	$ 2,853		2,853	5,606	21	3,721
Non-Real Estate	378	1,567	1,945	297	131	
Construction & Land Development	-	-	-	-	-	-
Agricultural	-	-	-	-	-	-
Consumer	-	-	-	-	-	32
Residential	110	-	110	100	-	217
Total	3,341	$ 1,567	$ 4,908	6,003	$ 152	$ 3,970

(Table dollar amounts in thousands, except per share data)

NOTE 3 - LOANS AND THE ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Information regarding impaired loans for the year ended December 31, 2022 follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	December 31, 2022				
With An Allowance Recorded:					
Commercial:					
Real Estate	$ 2,741	$ 2,814	$ 800	$ 2,634	$ -
Non-Real Estate	-	-	-	-	-
Construction and Land Development	-	-	-	-	-
Agricultural	-	-	-	-	-
Residential	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$ 2,741	$ 2,814	$ 800	$ 2,634	$ -
With No Allowance Recorded:					
Commercial:					
Real Estate	$ 2,987	$ 3,037	$ -	$ 3,083	$ -
Non-Real Estate	297	415	-	424	-
Construction and Land Development	-	-	-	-	-
Agricultural	-	-	-	-	-
Residential	100	145	-	148	-
Consumer	-	-	-	-	-
Total	$ 3,384	$ 3,597	$ -	$ 3,655	$ -
Total:					
Commercial:					
Real Estate	$ 5,728	$ 5,851	$ 800	$ 5,717	$ -
Non-Real Estate	297	415	-	424	-
Construction and Land Development	-	-	-	-	-
Agricultural	-	-	-	-	-
Residential	100	145	-	148	-
Consumer	-	-	-	-	-
Total	$ 6,125	$ 6,411	$ 800	$ 6,289	$ -

(Table dollar amounts in thousands, except per share data)

NOTE 3 - LOANS AND THE ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The following tables present the recorded investment in loans by class based on current payment and accrual status as of December 31, 2023 and 2022:

	December 31, 2023				
	Accruing Interest				
	Current	30-89 Days Past Due	More Than 90 Days Past Due	Total Nonaccrual	Total Loans
Commercial:					
Real Estate	$ 608,837	$ 163	$ 3,721	$ 2,853	$ 615,574
Non-Real Estate	376,709	-	-	1,945	378,654
Construction and Land Development	83,741	-	-	-	83,741
Agricultural	25,880	-	-	-	25,880
Residential	141,871	319	217	110	142,517
Consumer	1,424	3	32	-	1,459
Total	$ 1,238,462	$ 485	$ 3,970	$ 4,908	$ 1,247,825

	December 31, 2022				
	Accruing Interest				
	Current	30-89 Days Past Due	More Than 90 Days Past Due	Total Nonaccrual	Total Loans
Commercial:					
Real Estate	$ 506,243	$ 2,366	$ -	$ 5,606	$ 514,215
Non-Real Estate	392,007	12	-	297	392,316
Construction and Land Development	44,229	-	-	-	44,229
Agricultural	26,820	-	-	-	26,820
Residential	125,102	258	157	100	125,617
Consumer	1,579	1	21	-	1,601
Total	$ 1,095,980	$ 2,637	$ 178	$ 6,003	$ 1,104,798

(Table dollar amounts in thousands, except per share data)

NOTE 3 - LOANS AND THE ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The following tables present loans by class based on their assigned classifications determined by management as of December 31, 2023 and 2022:

	2023	2022	2021	Prior	Revolving	Revolving Converted to Term	Total
Commercial Real Estate:							
Pass	$ 159,156	$ 174,744	$ 130,305	$ 128,454	$ 3,620	$ -	$ 596,279
Special Mention/Watch	129	1,771	3,059	3,674	-	-	8,633
Substandard	-	500	4,888	4,774	500	-	10,662
Doubtful	-	-	-	-	-	-	-
Totals	$ 159,285	$ 177,015	$ 138,252	$ 136,902	$ 4,120	$ -	$ 615,574
Current period gross charge offs	(807)	(42)	(15)	(373)			(1,237)

	2023	2022	2021	Prior	Revolving	Revolving Converted to Term	Total
Commercial Non-Real Estate:							
Pass	$ 57,613	$ 53,210	$ 23,935	$ 24,782	$ 208,241	$ -	$ 367,781
Special Mention/Watch	-	-	-	9	8,196	-	8,205
Substandard	-	-	-	520	2,148	-	2,668
Doubtful	-	-	-	-	-	-	-
Totals	$ 57,613	$ 53,210	$ 23,935	$ 25,311	$ 218,585	$ -	$ 378,654
Current period gross charge offs	-	-	-	(16)			(16)

(Table dollar amounts in thousands, except per share data)

NOTE 3 - LOANS AND THE ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

	2023	2022	2021	Prior	Revolving	Revolving Converted to Term	Total
Construction and Land Development:							
Pass	$ 53,719	$ 22,668	$ 6,736	$ 248	$ 370	$ -	$ 83,741
Special Mention/Watch	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Totals	$ 53,719	$ 22,668	$ 6,736	$ 248	$ 370	$ -	$ 83,741
Current period gross charge offs	-	-	-	-			-

	2023	2022	2021	Prior	Revolving	Revolving Converted to Term	Total
Agricultural:							
Pass	$ 9,693	$ 9,402	$ 1,555	$ 4,906	$ 324	$ -	$ 25,880
Special Mention/Watch	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Totals	$ 9,693	$ 9,402	$ 1,555	$ 4,906	$ 324	$ -	$ 25,880
Current period gross charge offs	-	(93)	-	(17)			(110)

(Table dollar amounts in thousands, except per share data)

NOTE 3 - LOANS AND THE ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Information regarding the credit quality indicators most closely monitored for residential real estate and consumer loans by class as of December 31, 2023 and 2022 follows:

	2023		
	Performing	Non-performing	Total
Mortgage	142,190	327	142,517
Consumer	1,424	35	1,459
	143,614	362	143,976

	2022		
	Performing	Non-performing	Total
Mortgage	125,360	257	125,617
Consumer	1,579	22	1,601
	126,939	279	127,218

(Table dollar amounts in thousands, except per share data)

NOTE 3 - LOANS AND THE ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Information regarding the credit quality indicators most closely monitored for loans by class as of December 31, 2022 follows:

	Commercial Real Estate	Commercial Non-Real Estate	Construction and Land Development	Agricultural	Residential	Consumer	Total
	December 31, 2022						
Satisfactory	$ 57,398	$ 61,991	$ 5,282	$ 1,064	$ -	$ -	$ 125,735
Satisfactory/Mentioned	443,255	322,555	38,947	25,499	-	-	830,256
Special Mention	7,955	4,778	-	-	-	-	12,733
Substandard	5,607	2,992	-	257	-	-	8,856
Doubtful	-	-	-	-	-	-	-
Performing	-	-	-	-	125,360	1,579	126,939
Nonperforming	-	-	-	-	257	22	279
Total	$ 514,215	$ 392,316	$ 44,229	$ 26,820	$ 125,617	$ 1,601	$ 1,104,798

(Table dollar amounts in thousands, except per share data)

NOTE 3 - LOANS AND THE ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

The Company did not have any loan modifications to borrowers experiencing financial difficulties during the year ended December 31, 2023.

The following tables present information related to troubled debt restructurings as of December 31:

	December 31, 2022					
	Accruing			Non-Accruing		
	Number of Loans	Outstanding Balance	Specific Reserve	Number of Loans	Outstanding Balance	Specific Reserve
Commercial:						
Real Estate	-	$ -	$ -	1	$ 2,508	$ -
Non-Real Estate	1	145	-	-	-	-
Construction and Land Development	-	-	-	-	-	-
Agricultural	-	-	-	-	-	-
Residential	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total	1	$ 145	$ -	1	$ 2,508	$ -

The post-modification outstanding balances approximate pre-modification balances. The aggregate amount of charge-offs as a result of a restructuring are not significant.

Certain executive officers, directors, and their related interests are loan customers of the Company. A summary of such loans made by the Company in the ordinary course of business and made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons is as follows:

	2023	2022
Balance at January 1	$ 816	$ 605
New Loans	1,012	232
Repayments	(23)	(21)
Change in Related Party Status	-	-
Balance at December 31	$ 1,805	$ 816

(Table dollar amounts in thousands, except per share data)

NOTE 4 - LOAN SALES AND SERVICING

The Company sells mortgage loans with servicing retained to the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Bank (FHLB). The Company realized gross proceeds from the sales of originated mortgage loans totaling $25,387,000 and $37,054,000 in 2023 and 2022, respectively. Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans are summarized as follows:

	2023	2022
Total Loans Serviced	$ 458,786	$ 473,043

Following is an analysis of the changes in originated mortgage servicing rights:

	2023	2022
Balances, January 1	$ 6,437	$ 4,659
Servicing Rights Capitalized	343	2,877
Amortization of Servicing Rights	(592)	(1,099)
Balances, December 31	$ 6,188	$ 6,437

Estimated Fair value, January 1	$ 6,706	$ 4,911
Estimated Fair value, December 31	$ 6,444	$ 6,706
Range of discount rates	9.75%	8.62%
Range of prepayment speeds	5.31% to 6.13%	4.85% to 5.57%
Weighted average default rate	3.09%	3.12%

(Table dollar amounts in thousands, except per share data)

NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at December 31:

	2023	2022
Cost		
Land	$ 1,415	$ 1,415
Buildings and Land Improvements	13,127	13,068
Equipment	9,135	8,938
Total Cost	23,677	23,421
Accumulated Depreciation	(13,729)	(12,984)
Net	$ 9,948	$ 10,437

Depreciation expense for the years ended December 31, 2023 and 2022 amounted to $990,000 and $894,000, respectively.

NOTE 6 - OTHER REAL ESTATE OWNED

Activity in the other real estate owned account is as follows:

	2023	2022
Beginning of Year	$ -	$ 654
Transfers from Loans	213	133
Initial Adjustment to Carrying Value	(49)	(41)
Sales of Other Real Estate Owned	(135)	(881)
Loss on Sales of Other Real Estate Owned	(30)	(16)
Gain on Sales of Other Real Estate Owned	1	166
Writedowns on Other Real Estate Owned, Net	-	(15)
End of Year	$ -	$ -

Expenses related to other real estate owned included:

	2023	2022
(Gain) Loss on Sales, Net	$ 29	$ (150)
Writedowns	-	15
Operating Expenses, Net of Income	76	26
	$ 105	$ (109)

(Table dollar amounts in thousands, except per share data)

NOTE 7 - DEPOSITS

Deposits consisted of the following at December 31:

	2023	2022
Noninterest Bearing Demand	$ 350,981	$ 375,847
Interest Bearing Demand	230,131	250,347
Savings	53,602	62,909
Money Market Savings	187,399	188,996
Certificates and Other Time Deposits of $250,000 or More	48,971	40,994
Other Certificates and Time Deposits	364,647	163,672
Total	$ 1,235,731	$ 1,082,765

At December 31, 2023, the scheduled maturities of certificates and other time deposits were as follows:

Year Ending December 31,	Amount
2024	$ 229,614
2025	100,620
2026	44,107
2027	21,441
2028	17,836
Total	$ 413,618

Deposits held by the Company from related parties at December 31, 2023 and 2022 totaled $2,378,000 and $1,621,000, respectively.

NOTE 8 - BORROWINGS

At December 31, 2023, the Company had a revolving line of credit with a total available of $5 million with Chippewa Valley Bank. The note will bear interest at a variable rate of interest equal to Wall Street Journal Prime less .75%. The note requires quarterly payments of interest. There is no outstanding balance at December 31, 2023. The Company had two term notes outstanding at December 31, 2023 with Chippewa Valley Bank. The $4.0 million term note will bear interest on unpaid principal at a fixed rate of 4.99% for three years, then convert to Wall Street Journal Prime less .75%. The $5.0 million note bears interest at a variable rate of Wall Street Journal Prime less .75%. The rate at December 31, 2023 was 7.75%. Both notes require quarterly payments of interest. There is a $9 million combined outstanding balance on the two notes at December 31, 2023.

At December 31, 2022, the Company had a revolving line of credit note payable with a total available amount of $10 million with Chippewa Valley Bank. The note will bear interest on unpaid principal at a fixed rate of 4.99% for three years, then converts to Wall Street Journal Prime less .75%. The note requires quarterly payments of interest. There is a $3 million outstanding balance at December 31, 2022. The notes with Chippewa Valley Bank and Banker's Bank of Wisconsin are secured by all outstanding shares of Bank stock.

(Table dollar amounts in thousands, except per share data)

NOTE 8 - BORROWINGS (CONTINUED)

As of December 31, 2023 and 2022, a blanket lien on the Company's portfolio of one-to-four family and multifamily mortgages, small farm and business loans, and other real estate related collateral which was approximately $1.0 billion and $978.0 million, respectively, was used to secure current and potential future FHLB borrowings. As of December 31, 2023 and 2022, the Company had short term fixed rate advances (30 days or less) outstanding of $102.0 million and $139.3, respectively. As of December 31, 2022, the Company also had a letter of credit from the FHLB in connection with public funds held on deposit at the Company of $20.0 million. As of December 31, 2022, there was no outstanding principal balance for the letter of credit. At December 31, 2023 and 2022, long term advances were $6.3 and $11.3 million. All advances were fixed-rate, with interest rates ranging from 0 to 5.45%. The weighted average rate at December 31, 2023 and 2022 was 5.36% and 1.92%, respectively.

The Company issued $7.75 million and $28.5 million of ten-year subordinated debt at the Holding Company in 2022 and 2021, respectively. The subordinated debt bears a fixed rate of 5.5% for five years from the date of issuance at which time it converts to a variable rate. The Company can call on or after June 1, 2027 for the 2022 issuance and September 15,2025 for the 2021 issuance. The subordinated debt can be called in whole or part or at any time based on specified events.

At December 31, 2023, the scheduled maturities of borrowings were as follows:

Year Ending December 31,	Rate	Amount
2024	5.43% to 5.45%	$ 102,000
2025	0%	1,250
2026	4.85%	5,000
2027	4.99%	4,000
2028	4.99% to 7.75%	41,250
Thereafter		-
Total		$ 153,500

(Table dollar amounts in thousands, except per share data)

NOTE 9- ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the activity and accumulated balances for components of other comprehensive income (loss):

	(1) Unrealized Gains (Losses) On Securities	(2) Pension Loss	Total Accumulated Other Comprehensive Income (Loss)
Balances, December 31, 2021	$ 598	$ (220)	$ 378
Other Comprehensive Income Before Reclassification	$ (8,000)	$ 278	$ (7,722)
Amounts Reclassed from Accumulated Other Comprehensive Income (Loss)	-	-	-
Other Comprehensive Income, Before Tax	(8,000)	278	(7,722)
Income Tax effect	1,680	(58)	1,622
Balances, December 31, 2022	$ (5,722)	$ -	$ (5,722)
Other Comprehensive Income Before Reclassification	$ 1,033	$ -	$ 1,033
Amounts Reclassed from Accumulated Other Comprehensive Income (Loss)	-	-	-
Other Comprehensive Income, Before Tax	1,033	-	1,033
Income Tax effect	(223)	-	(223)
Balances, December 31, 2023	$ (4,912)	$ -	$ (4,912)

(1) The pre-tax amounts reclassified from accumulated other comprehensive loss are included in “loss on sale of investment securities, net” in the consolidated statements of income.

(2) The pre-tax amounts reclassified from accumulated other comprehensive loss are included in the computation of net periodic pension costs which is in “salaries and employee benefits” in the consolidated statements of income. For additional information refer to Note 10.

(Table dollar amounts in thousands, except per share data)

NOTE 10 – BENEFIT PLANS

The Company had a noncontributory defined-benefit pension plan covering all employees who meet the eligibility requirements. In 1999, all plan benefits were frozen.

The Company uses a December 31 measurement date for the plan. The Bank terminated the plan on December 29, 2022, and remaining assets were either annuitized or transferred to the 401k plan at the discretion of individual participants.

The following tables set forth the Company's pension plan's funded status and amounts actuarially determined for the years indicated:

	2022
Change in Benefit Obligation:	
Beginning Benefit Obligation	$ 814
Interest Cost	24
Actuarial (Gain) Loss	22
Settlements	(806)
Benefits Paid	(54)
Ending Benefit Obligations	$ -
Beginning Fair Value	$ 1,333
Actual Return	10
Employer Contribution	-
Settlements	(1,289)
Benefits Paid	(54)
Ending Fair Value	$ -
Funded Status	$ -

Funded status recognized in the consolidated balance sheets:

	2022
Other Assets	$ -

Gross amounts recognized in accumulated other comprehensive income not yet recognized as components of net periodic benefit cost consist of:

	2022
Net Loss	$ -

(Table dollar amounts in thousands, except per share data)

NOTE 10 - BENEFIT PLANS (CONTINUED)

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	2022
Accumulated Benefit Obligation	$ -
Fair Value of Plan Assets	-

Other significant balances and costs are:

	2022
Components of Net Periodic Benefit Cost	
Interest Cost	$ 24
Return on Plan Assets	(13)
Amortization	7
Settlement Loss	297
Net Periodic Benefit Cost	$ 315

Other changes in plan assets and benefit obligations recognized in other comprehensive income:

	2022
Amounts Arising During the Period	
Net Gains (Losses)	$ 25

The estimated net loss for the defined-benefit pension plan that was recognized as a result of termination settlement during 2022 was $297,000.

	2022
Assumptions Used to Determine Benefit Obligations	
Discount Rate	5.25%
Return on Plan Assets	1.00%
Assumptions Used to Determine Benefit Costs	
Discount Rate	3.00%
Return on Plan Assets	1.00%

The discount rate and expected return on plan assets are critical assumptions which significantly affect pension accounting. Even relatively small changes in these rates would significantly change the recorded pension expense and accrued liability. Management believes the discount rate and expected rate of return on plan assets used in determining its year-end pension accounting are reasonable based on currently available information.

NOTE 10 - BENEFIT PLANS (CONTINUED)

Prior to termination the Company has estimated the long–term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long–term interest rates based on publicly available information.

Prior to termination plan assets were held by a bank–administered trust fund, which invested the plan assets in accordance with the provisions of the plan agreement. The permitted investments as established by the plan agreement included, but were not limited to, common and preferred stocks, open–end or closed–end mutual funds, bonds and other evidences of indebtedness or ownership, and real estate or any interest therein.

Asset allocation is primarily based on a strategy to provide stable earnings while attempting to recognize potentially higher returns through limited investments in equity securities. Plan assets are rebalanced periodically. At December 31, 2022 there were no remaining plan assets.

The Bank has a directors' retirement plan which provides retirement benefits primarily to former members of the board of directors. The Bank also maintains a supplemental executive retirement plan that provides benefits to certain key executive officers and directors in accordance with the plan document. At December 31, 2023 and 2022, the Bank had Supplemental Retirement Plan Balances of $618,000, and $598,000, respectfully. The balances are included in Other Liabilities in the Consolidated Balance Sheet. The Bank accrued expenses related to these plans totaling $84,000 in 2023 and $34,000 in 2022.

The Company also has a combined employee stock ownership plan (ESOP) and 401(k) profit-sharing plan, also known as a KSOP. The Company's KSOP covers eligible employees with more than 90 days of service, as defined, and who are at least 21 years of age. The plan allows employee contributions. The Company may make a matching contribution equal to a percentage of salary deferral, and discretionary profit sharing and ESOP contributions. The Company's contributions are voluntary and at the discretion of the Board of Directors. All contributions are subject to statutory restrictions. The Company's matching contributions were made throughout the year in 2023, profit sharing contributions are made following the end of the calendar year, matching and profit sharing contributions totaled $983,000 for 2023, and $898,000 for 2022. There were 20,323 Company shares held by the plan as of December 31, 2023, and 16,174 as of December 31, 2022.

NOTE 11 – STOCK-BASED COMPENSATION

Restricted Stock Unit Award

Restricted Stock Unit Award Agreements (RSU) provides for the issuance of shares to directors and select executives. Compensation expense is recognized at the vesting date of the awards based on the appraised value of the stock at the timing of vesting. The fair value of the stock was determined using the appraised price. RSU shares fully vest in the same year of grant date for Directors and vest ratably over four years for select officers. Totals shares outstanding but unvested under the plan are 8,309 shares at December 31, 2023, and 6,542 shares at December 31, 2022. Total compensation cost of $389,000 and $280,000 was recorded in 2023 and 2022, respectively.

(Table dollar amounts in thousands, except per share data)

NOTE 11 - STOCK-BASED COMPENSATION (CONTINUED)

A summary of changes in the Company's nonvested shares for the year follows:

	2023	
Nonvested Shares	Shares	Weighted-Average Grant Date Fair Value
Nonvested Shares, Beginning of Year	6,542	$ 81.08
Granted	5,844	95.79
Vested	(4,077)	87.72
Forfeited	-	-
Nonvested, End of Year	8,309	97.71

	2022	
Nonvested Shares	Shares	Weighted-Average Grant Date Fair Value
Nonvested Shares, Beginning of Year	2,900	$ 70.69
Granted	6,940	85.00
Vested	(3,298)	80.20
Forfeited	-	-
Nonvested, End of Year	6,542	81.08

The total fair value of shares vested during the years ended December 31, 2023 and 2022 was $358,000 and $264,000, respectively.

The RSUs for executives are forfeited if the executive terminates prior to the expiration of the Restricted Period.

Future compensation expense is estimated at:

For the Year Ended	
2024	$ 416
2025	400
2026	347
2027	225
	$ 1,388

(Table dollar amounts in thousands, except per share data)

NOTE 12 - INCOME TAXES

Income tax expense for the years ended December 31, 2023 and 2022 consisted of:

	2023	2022
Income Tax Expense		
Currently Payable		
Federal	$ 4,485	$ 3,243
State	2,545	1,928
Deferred	(1,859)	(861)
Total Income Tax Expense	$ 5,171	$ 4,310

Total income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 21% to income before income tax expense as a result of the following:

	2023	2022
Reconciliation of Federal Statutory to Actual Tax Expense		
Federal Statutory Income Tax at 21%	$ 4,029	$ 3,476
Tax-exempt Income	(259)	(235)
Effect of State Income Taxes	1,521	1,026
Other Items, Net	(120)	43
Actual Tax Expense	$ 5,171	$ 4,310
Effective Tax Rate	27.00%	25.83%

(Table dollar amounts in thousands, except per share data)

NOTE 12 - INCOME TAXES (CONTINUED)

The components of the deferred tax assets (liabilities) included on the consolidated balance sheets are as follows:

	2023	2022
Assets:		
Allowance for Credit Losses	$ 6,252	$ 4,414
Unrealized Loss on Securities Available for Sale	1,307	1,520
Deferred Compensation	888	941
Other Real Estate Owned	-	-
Deferred PPP Loan Fees	-	24
Other	186	289
Total Assets	8,633	7,188
Liabilities:		
FHLB Stock	-	(2)
Depreciation	(605)	(759)
Mortgage Servicing Rights	(1,764)	(1,834)
Goodwill	(697)	(697)
Other	(52)	(27)
Total Liabilities	(3,118)	(3,319)
Total Deferred Tax Assets	$ 5,515	$ 3,869

(Table dollar amounts in thousands, except per share data)

NOTE 13 - COMMITMENTS, OFF–BALANCE–SHEET RISK, AND CONTINGENCIES

There are various contingent liabilities that are not reflected in the consolidated financial statements, including claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these claims and legal actions is not expected to have a material effect on financial condition or results of operations.

The Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. There was no reserve requirement as of December 31, 2023 or December 31, 2022.

Some financial instruments are used in the normal course of business to meet the financing needs of customers. These financial instruments include unfunded commitments and standby letters of credit. These involve, to varying degrees, credit and interest rate risk in excess of the amounts reported in the consolidated financial statements.

Exposure to credit loss if the other party does not perform is represented by the contractual amount for these commitments. The same credit policies are used for commitments and conditional obligations as are used for loans. Collateral or other security is normally required to support financial instruments with credit risk.

Unfunded commitments under commercial lines of credit, revolving credit lines, and credit cards are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments if deemed necessary.

A summary of the notional or contractual amounts of financial instruments with off-balance sheet risk at year-end follows:

	2023	2022
Unfunded Commitments	$ 390,829	$ 315,103
Standby Letters of Credit	12,108	10,666

(Table dollar amounts in thousands, except per share data)

NOTE 13 - COMMITMENTS, OFF–BALANCE–SHEET RISK, AND CONTINGENCIES (CONTINUED)

In 2021, the Company began to account for its leases in accordance with FASB ASC 842, Leases. The Company is a lessee in several non-cancellable operating leases, for office space and certain office equipment. The Company determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. The Company recognized a lease liability of $4,728,000 and a right of use (ROU) asset of $4,728,000, after the initial adoption of this accounting policy.

The Company is a lessee in several non-cancellable operating leases for office space. Future minimum lease payments outstanding at December 31, 2023 are as follows:

Year Ending December 31,		Amount
2024	$	501
2025		512
2026		524
2027		536
2028		547
Thereafter		1,596
Total lease payments	$	4,216
Less: Imputed interest		(437)
Total lease liability	$	3,779

The total lease expense included in the Occupancy and Equipment line item, pursuant to the above operating leases amounted to approximately $452,000 and $517,000 as of December 31, 2023 and 2022, respectively.

Amounts reported in the Statement of Financial Condition as of December 31, 2023 and 2022 were as follows:
Operating leases:

Operating lease ROU assets were $ 3,825,000 at December 31 2023 and $ 4,277,000 for 2022 (included in Accrued Interest Receivable and Other Assets)
Operating lease liabilities were $3,779,000 at December 31, 2023 and $ 4,331,000 for 2022 (included in Other liabilities)

Other information related to leases as of December 31, 2023 and 2022 was as follows:

Weighted-average remaining lease term:
Operating leases 7.9 years for December 31, 2023, and 8.9 years for 2022.
Weighted-average discount rate:
Operating leases 1.85% for December 2023 and 2022

Amounts disclosed for ROU assets obtained in exchange for lease liabilities and reductions to ROU assets resulting from reductions to lease liabilities include amounts added to or reduced from the carrying amount of ROU assets resulting from new leases, lease modifications or reassessments.

(Table dollar amounts in thousands, except per share data)

NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS

Recurring Basis

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Company measures fair value refer to Note 1 – Summary of Significant Accounting Policies. The following table presents the balances of the assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 and 2022:

		2023 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities Available for Sale:				
US Treasury Securities	$ 5,796	$ -	$ 5,796	$ -
Federal Agencies	1,936	-	1,936	-
State and Municipals	11,758	-	11,758	-
Mortgage-Backed Securities and Collateralized Mortgage Obligations	119,951	-	119,951	-
Asset Backed Securities	21,342	-	21,342	-
Other	7	7	-	-
Total	$ 160,790	$ 7	$ 160,783	$ -

		2022 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities Available for Sale:				
US Treasury Securities	$ 6,959	$ -	$ 6,959	$ -
Federal Agencies	1,922	-	1,922	-
State and Municipals	13,652	-	13,652	-
Mortgage-Backed Securities and Collateralized Mortgage Obligations	66,299	-	66,299	-
Asset Backed Securities	24,210	-	24,210	-
Other	3	3	-	-
Total	$ 113,045	$ 3	$ 113,042	$ -

(Table dollar amounts in thousands, except per share data)

NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities

When available, the Company uses quoted market prices to determine the fair value of securities; such items are classified in Level 1 of the fair value hierarchy. For the Company's securities where quoted prices are not available for identical securities in an active market, the Company determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market, and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained, or cannot be corroborated, a security is generally classified as Level 3.

Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as there is evidence of impairment or a change in the amount of previously recognized impairment.

The following table presents the balances of the assets measured at fair value on a nonrecurring basis as of December 31, 2022 and 2021, as well as any related net impairment losses for the years ended December 31, 2023 and 2022:

	December 31, 2023			
	Level 1	Level 2	Level 3	Impairment Losses
Collateral Dependent Loans	$ -	$ -	$ 1,995	$ 1,567
Other Real Estate Owned	-	-	-	-

	December 31, 2022			
	Level 1	Level 2	Level 3	Impairment Losses
Collateral Dependent Loans	$ -	$ -	$ 2,741	$ 800
Other Real Estate Owned	-	-	-	-

Collateral Dependent Loans

In accordance with the provisions of the loan impairment guidance, impairment was measured for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. Impaired loans require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria.

Impairment losses on impaired loans represent specific valuation allowance and write-downs during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged-off.

NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Foreclosed Assets

Foreclosed assets are recorded at fair value based on property appraisals, less estimated selling costs, at the date of the transfer. Subsequent to the transfer, foreclosed assets are carried at the lower of cost or fair value, less estimated selling costs. Values are estimated using Level 3 inputs based on customized discounting criteria. The carrying value of foreclosed assets is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs.

Impairment losses on foreclosed assets represent specific valuation allowance and write-downs during the periods presented where the carrying value of the foreclosed assets exceeded the current fair value less estimated selling costs of the foreclosed asset subsequent to their initial classification as foreclosed assets.

Collateral-Dependent Impaired Loans and Foreclosed Assets

The estimated fair value of collateral-dependent impaired loans and foreclosed assets is based on the appraised fair value of the collateral, less estimated costs to sell. Collateral-dependent impaired loans and foreclosed assets are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or a similar evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals or a similar evaluation of the collateral underlying collateral-dependent loans and foreclosed assets are obtained when the loan is determined to be collateral-dependent for impaired loans and at the time a loan is transferred to foreclosed assets. Appraisals or similar evaluations are obtained subsequently as deemed necessary by management but at least annually on foreclosed assets. Appraisals are reviewed for accuracy and consistency by management. Appraisals are performed by individuals selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated costs to sell. These discounts and estimates are developed by management by comparison to historical results.

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements.

	Fair Value at December 31, 2023	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral Dependent Impaired Loans	$ 428	Market Comparable Properties	Marketability Discount	10.0%

	Fair Value at December 31, 2022	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral Dependent Impaired Loans	$ 1,941	Market Comparable Properties	Marketability Discount	28.1%

(Table dollar amounts in thousands, except per share data)

NOTE 14 - FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The following methods and assumptions were used to estimate fair values for financial instruments carried on the consolidated balance sheets at other than fair value. The carrying amount is considered to estimate fair value for cash and cash equivalents, deposits with no stated maturity such as demand, NOW, money market and savings deposits, accrued interest receivable and payable, and variable rate loans or deposits. For interest-bearing time deposits, fixed rate loans and deposits, or borrowings, the fair value is estimated by discounted cash flow analysis using current market rates for the estimated life and credit risk. The carrying amount of life insurance approximates fair value as it reflects the policies' cash surrender values. The fair value of off–balance–sheet items is based on the fees or cost that would currently be charged to enter into or terminate such agreements and is not material.

The carrying values and estimated fair values of the Company's financial instruments as of December 31, 2023 and 2022 were as follows:

	2023		2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and Cash Equivalents	$ 27,616	$ 27,616	$ 52,814	$ 52,814
Loans, Net	1,226,781	1,189,045	1,088,775	1,073,529
Cash Surrender Value of Life Insurance	32,484	32,484	24,280	24,280
Accrued Interest Receivable	5,618	5,618	3,989	3,989
Liabilities:				
Deposits With no Stated Maturities	822,113	707,157	878,099	879,099
Time Deposits	413,618	412,849	204,666	201,719
Borrowings	153,500	152,987	189,800	189,458
Accrued Interest Payable	3,004	3,004	1,291	1,291

The following methods and assumptions, not previously presented, used to estimate fair values and are described as follows:

Cash and Cash Equivalents - The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Cash Surrender Value of Life Insurance - The carrying amounts of cash surrender value of life insurance approximate fair values and are classified as Level 1.

Loans - The fair value of loans is calculated based on exit price using various components using yield, credit and liquidity marks. A third-party calculates the exit price using an asset/liability model based off information from the Company's loan information.

Deposits - The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of interest-bearing deposits without maturity dates and variable-rate certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on like-term certificates of deposit.

Borrowings - The fair values of the Company's Borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Accrued Interest Receivable/Payable - The carrying amounts of accrued interest approximate fair value resulting in a Level 2 classification.

NOTE 15 - REGULATORY AND CAPITAL MATTERS

The Company may pay dividends without prior approval from the Federal Reserve Bank so long as it remains "adequately capitalized" after such payment. The Bank is subject to statutory dividend restrictions which provide, in general, that the Bank may pay the current year's earnings and the prior two years' retained earnings without the prior approval of the Office of the Comptroller of Currency. At December 31, 2023, the Bank's shareholder's equity totaled $128.4 million, of which $26.4 million was available for payment of dividends without prior regulatory approval.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. These capital requirements were modified in 2013 with the Basel III capital rules, which establish a new comprehensive capital framework for U.S. banking organizations. The Bank became subject to the new rules on January 1, 2015, with a phase-in period for many of the new provisions.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of Common Equity Tier I, Tier I, and total capital (as defined in the regulations) to risk-weighted assets (as defined) and Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2023 and 2022, that the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2023, the Bank met the requirements to be categorized as "well capitalized" under the regulatory framework for prompt correction action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, Common Equity Tier 1 risk-based, and Tier I leverage ratios as set forth in the following table (as defined). Management is not aware of any conditions or events since December 31, 2023 that would change the Bank's category.

NOTE 15 - REGULATORY AND CAPITAL MATTERS (CONTINUED)

The Bank's actual capital amounts and ratios as of December 31, 2023 and 2022 are presented in the following tables:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
December 31, 2023	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Amounts in Thousands)			
Common Equity Tier 1 Capital to Risk Weighted Assets (CET1) :	$ 131,544	9.57%	$ 61,851	4.50%	$ 89,341	6.50%
Tier I Capital to Risk Weighted Assets:	131,544	9.57%	82,468	6.00%	109,958	8.00%
Total Capital to Risk Weighted Assets:	148,784	10.82%	109,958	8.00%	137,447	10.00%
Tier I Capital to Average Assets:	131,544	8.95%	58,804	4.00%	73,504	5.00%

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
December 31, 2022	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Amounts in Thousands)			
Common Equity Tier 1 Capital to Risk Weighted Assets (CET1) :	$ 110,028	8.83%	$ 56,060	4.50%	$ 80,976	6.50%
Tier I Capital to Risk Weighted Assets:	110,028	8.83%	74,747	6.00%	99,662	8.00%
Total Capital to Risk Weighted Assets:	125,600	10.08%	99,662	8.00%	124,578	10.00%
Tier I Capital to Average Assets:	110,028	8.55%	51,472	4.00%	64,340	5.00%

(Table dollar amounts in thousands, except per share data)

NOTE 16 - PARENT COMPANY FINANCIAL STATEMENTS

The following are the condensed balance sheets and statements of income for First Ottawa Bancshares, Inc. for the years ending December 31, 2023 and 2022.

Condensed Balance Sheets

	2023	2022
Assets		
Cash and Due From Banks	$ 2,993	$ 4,780
Investment in Common Stock of Bank	128,382	106,054
Other Assets	1,710	1,074
Total Assets	$ 133,085	$ 111,908
Liabilities		
Dividends Payable	$ 678	$ 669
Other Liabilities	552	488
Borrowings	45,250	39,250
Stockholders' Equity	86,605	71,501
Total Liabilities and Stockholders' Equity	$ 133,085	$ 111,908

Condensed Statements of Income

	2023	2022
Income - Dividends from Bank	$ 450	$ 2,400
Expenses	2,275	1,897
Income (Loss) Before Income Tax and Equity in Undistributed Income of Subsidiary	(1,825)	503
Income Tax Expense (Benefit)	(637)	(531)
Income Before Equity in Undistributed Income of Subsidiary	(1,188)	1,034
Equity in Undistributed Income of Subsidiary	15,202	11,209
Net Income	$ 14,014	$ 12,243

This information is an integral part of the accompanying consolidated financial statements.

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OSF St. Elizabeth Medical Center

Morris Location:
American Commercial Bank and Trust

Lisle Location:
American Commercial Bank and Trust

Streator Locations:
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Streator National Bank - North

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Fax: 815-434-3361

Streator National Bank - Main
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