FIRST EAGLE BANCSHARES, INC.
Hanover Park, Illinois

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

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Independent Auditor's Report

To the Board of Directors
First Eagle Bancshares, Inc.

Opinion

We have audited the consolidated financial statements (the "financial statements") of First Eagle Bancshares, Inc. and subsidiary (the "Company"), which comprise the consolidated balance sheet as of December 31, 2023 and the related consolidated statements of operations, comprehensive income, changes in 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 present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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* section of our report. We are required to be independent of the Company and to meet our 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.

Emphasis of Matter

As described in Note 1 to the financial statements, the Company has changed its method for accounting for credit losses effective January 1, 2023 due to the adoption of Accounting Standards Codification 326, *Financial Instruments - Credit Losses* (ASC 326). The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Report on Prior Year Financial Statements

The financial statements of First Eagle Bancshares, Inc. and subsidiary as of December 31, 2022 were audited by other auditors, who expressed an unmodified opinion on those statements on April 3, 2023.

Responsibilities of Management for the Financial Statements

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 internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

To the Board of Directors
First Eagle Bancshares, Inc.

Auditor’s Responsibilities for the Audit of the Financial Statements

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 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 conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- 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 audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company'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 audit.

Plante & Moran, PLLC

April 1, 2024

FIRST EAGLE BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022

	2023	2022
ASSETS		
Cash and cash due from financial institutions	$ 2,819,016	$ 6,836,675
Interest-bearing deposits in other financial institutions	22,138,054	-
Cash and cash equivalents	24,957,070	6,836,675
Interest-bearing time deposits in other financial institutions	3,460,096	3,965,004
Securities available for sale	131,891,441	169,410,217
Loans, net	365,182,723	368,619,693
Federal Home Loan Bank and Federal Reserve Bank Stock	2,403,657	1,954,812
Premises and equipment, net	5,371,656	5,241,640
Goodwill	1,302,731	1,302,731
Bank-owned life insurance	13,206,705	12,717,954
Accrued interest receivable	2,658,419	2,708,056
Other assets	953,665	743,533
Total assets	$ 551,388,163	$ 573,500,315
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Non-interest-bearing	$ 100,046,681	$ 132,747,393
NOW and money market accounts	170,794,805	163,982,778
Savings	16,361,275	22,021,163
Time deposits	129,488,779	109,866,615
Total deposits	416,691,540	428,617,949
Federal funds purchased	-	9,970,000
Federal Home Loan Bank advances	16,722,479	26,108,072
Accrued interest payable	765,577	304,588
Dividends payable	949,893	999,881
Other liabilities	7,468,792	6,789,935
Total liabilities	442,598,281	472,790,425
Stockholders' equity		
Common stock, $1 par value; 250,000 shares Authorized; 190,065 shares issued and outstanding	190,065	190,065
Additional paid-in capital	6,457,219	6,452,574
Retained earnings	133,769,437	126,334,657
Treasury stock, at cost; 43,725 and 39,185 shares, respectively	(21,975,606)	(18,362,311)
Accumulated other comprehensive income/(loss)	(9,651,233)	(13,905,095)
Total stockholders' equity	108,789,882	100,709,890
Total liabilities and stockholders' equity	$ 551,388,163	$ 573,500,315

See accompanying notes to consolidated financial statements.

FIRST EAGLE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2023 and 2022

	2023	2022
Interest and dividend income		
Loans, including fees	$ 22,196,253	$ 19,918,928
Securities		
Taxable	1,990,919	1,573,732
Exempt from federal taxes	2,053,165	2,436,272
Dividends	151,195	194,450
Federal funds sold and other	1,464,742	69,807
Total interest and dividend income	27,856,274	24,193,189
Interest expense		
Deposits	6,566,702	1,442,788
Federal Home Loan Bank advances	493,947	377,450
Federal funds purchased and other	92,099	5,259
Total interest expense	7,152,748	1,825,497
Net interest and dividend income	20,703,526	22,367,692
Credit loss expense	(119,894)	-
Net interest and dividend income after credit loss expense	20,823,420	22,367,692
Other operating income		
Deposit service charges	478,704	483,161
Other service charges and fees	321,059	276,668
Income on bank-owned life insurance	432,679	405,288
Net gains/(losses) on sale of securities	(1,876,660)	-
Grant income	997,350	783,437
Other income	37,346	37,366
	390,478	1,985,920
Other operating expense		
Compensation and benefits	6,564,549	6,475,206
Occupancy and equipment	949,308	1,030,048
Data processing	397,026	398,116
FDIC assessments	233,500	150,000
Professional fees	243,208	217,380
Foreclosed asset expenses	-	1,683
Other expenses	1,258,809	1,127,118
	9,646,400	9,399,551
Income before income taxes	11,567,498	14,954,061
Income tax expense	75,053	94,048
Net income	$ 11,492,445	$ 14,860,013

See accompanying notes to consolidated financial statements.

FIRST EAGLE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2023 and 2022

	2023	2022
Net income	$ 11,492,445	$ 14,860,013
Other comprehensive income (loss):		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during the period	2,377,202	(19,741,616)
Reclassification adjustment for gains/(loss) included in net income	1,876,660	-
Total other comprehensive income (loss)	4,253,862	(19,741,616)
Comprehensive income (loss)	$ 15,746,307	$ (4,881,603)

See accompanying notes to consolidated financial statements.

FIRST EAGLE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended December 31, 2023 and 2022

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2022	$ 190,065	$ 6,450,772	$ 116,862,548	$(13,127,906)	$ 5,836,521	$ 116,212,000
Net income	-	-	14,860,013	-	-	14,860,013
Total other comprehensive income/(loss)	-	-	-	-	(19,741,616)	(19,741,616)
Cash dividends declared ($26.17 per share)	-	-	(3,974,652)	-	-	(3,974,652)
Treasury stock repurchased (7,415 shares)	-	-	-	(5,234,405)	-	(5,234,405)
Pass Through Entity tax payment	-	-	(1,413,252)	-	-	(1,413,252)
Stock option expense	-	1,802	-	-	-	1,802
Balance at December 31, 2022	190,065	6,452,574	126,334,657	(18,362,311)	(13,905,095)	100,709,890
Cumulative effect of change in accounting principle	-	-	(355,000)	-	-	(355,000)
Net income	-	-	11,492,445	-	-	11,492,445
Total other comprehensive income/(loss)	-	-	-	-	4,253,862	4,253,862
Cash dividends declared ($21.40 per share)	-	-	(3,199,665)	-	-	(3,199,665)
Treasury stock repurchased (4,540 shares)	-	-	-	(3,613,295)	-	(3,613,295)
Pass Through Entity tax payment	-	-	(503,000)	-	-	(503,000)
Stock option expense	-	4,645	-	-	-	4,645
Balance at December 31, 2023	$ 190,065	$ 6,457,219	$ 133,769,437	$(21,975,606)	$ (9,651,233)	$ 108,789,882

See accompanying notes to consolidated financial statements.

FIRST EAGLE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Net income	$ 11,492,445	$ 14,860,013
Adjustments to reconcile net income to net cash from operating activities		
Amortization of premiums and discounts, net	993,100	1,303,543
Credit loss expense	(119,894)	-
Net (gains)/losses on sales of securities	1,876,660	-
Depreciation	344,162	360,006
Stock option expense	4,645	1,802
Income on bank-owned life insurance	(432,679)	(405,288)
Change in:		
Accrued interest receivable and other assets	(160,493)	(346,992)
Accrued interest payable and other liabilities	536,969	66,014
Net cash - operating activities	14,534,915	15,839,098
Cash flows from investing activities		
Net change in interest-bearing time deposits in other financial institutions	504,908	(2,740,000)
Securities available for sale:		
Purchases	(5,885,366)	(15,205,459)
Sales	34,796,320	-
Maturities, prepayments and calls	9,991,924	5,687,923
Loan originations and principal collections, net	3,804,740	18,296,270
Purchase of FHLB stock and FRB stock	(623,968)	(100)
Redemption of FHLB stock and FRB stock	175,123	-
Premiums paid on bank-owned life insurance	(56,072)	(56,207)
Purchases of premises and equipment, net	(474,178)	(118,861)
Net cash - investing activities	42,233,431	5,863,566
Cash flows from financing activities		
Net change in deposits	(11,926,409)	(14,905,973)
Net change in federal funds purchased	(9,970,000)	9,970,000
Proceeds from Federal Home Loan Bank advances	68,000,000	-
Repayments of Federal Home Loan Bank advances	(77,385,594)	(9,164,922)
Repurchase of treasury stock	(3,613,295)	(5,234,405)
Pass Through Entity tax payment	(503,000)	(1,413,252)
Cash dividends paid on common stock	(3,249,653)	(4,849,617)
Net cash - financing activities	(38,647,951)	(25,598,169)
Net change in cash and cash equivalents	18,120,395	(3,895,505)
Cash and cash equivalents at beginning of year	6,836,675	10,732,180
Cash and cash equivalents at end of year	$ 24,957,070	$ 6,836,675
Supplemental disclosures:		
Interest paid in cash	$ 6,691,759	$ 1,692,972
Dividends accrued	949,893	999,881

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: These consolidated financial statements include the accounts of First Eagle Bancshares, Inc. and its wholly owned subsidiary, First Eagle Bank (the "Bank"), collectively referred to as the "Company". Intercompany transactions and balances are eliminated in consolidation. The operations of the Company consist primarily of those financial activities common to the community banking industry. The Company primarily serves Cook and DuPage counties in Illinois and surrounding areas.

The Company provides financial products and services through its offices in Hanover Park and Chicago, Illinois. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are commercial real estate, commercial business, and consumer loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. The Company's exposure to credit risk is significantly affected by changes in the economy in the Chicago area. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one industry or customer. However, the customers' ability to repay their loans is dependent on the real estate and general economic conditions in the area.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through April 1, 2024, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, which are also recognized as a separate component of equity.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities under 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest-bearing time deposits in other financial institutions, and federal funds purchased.

Interest Bearing Time Deposits in Other Financial Institutions: Interest Bearing Deposits in Other Financial Institutions mature within twenty-four months and are carried at cost.

Securities: Securities classified as available for sale are those securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

The Company periodically reviews available-for-sale securities with declines in fair value below their cost to evaluate for potential credit losses. In this evaluation, management considers (1) the duration and extent of fair value being below amortized cost, (2) the issuer's financial condition and near-term prospects, and

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) the Company's intent and ability to retain the investment for potential recovery in fair value. If it's likely that the security will be sold before recovering its amortized cost basis, the Company records an allowance for credit losses related to available-for-sale securities, offsetting it against the provision for credit losses on the statement of comprehensive income.

Prior to the adoption of ASU 2016-13 (CECL) on January 1, 2023, the Company evaluated its available for sale securities in accordance with the methodology specified in the preceding paragraphs except that the credit portion of the impairment would reduce the amortizing cost basis of the security.

Management evaluated securities for other-than-temporary impairment at least quarterly, and more frequently when economic or market conditions warranted. Management assessed whether it intended to sell, or it is more likely than not that it would be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria were met, the entire difference between amortized cost and fair value was recognized as impairment through earnings.

For securities that did not meet the aforementioned criteria, the amount of impairment was split into two components: (1) other-than-temporary impairment related to credit loss, which would be recognized in the income statement and (2) other-than-temporary impairment related to other factors, which would be recognized in other comprehensive income. The credit loss was defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

To determine other-than-temporary impairment for purchased beneficial interests that were not highly rated, the Company compared the present value of the remaining cash flows estimated at the preceding evaluation date to the current expected remaining cash flows. Other-than-temporary impairment occurred if there had been an adverse change in the remaining expected future cash flows. As of December 31, 2022, the Company did not hold any equity securities.

Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) Stock: The Company, as a member of the FHLB of Chicago and the FRB, is required to maintain an investment in capital stock of the FHLB and FRB. FHLB and FRB stock do not have readily determinable fair values as ownership is restricted and they lack a ready market. As a result, these stocks are carried at cost and evaluated periodically for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans: Loans are reported at the principal balance outstanding, net of deferred loan fees and costs and an allowance for credit losses. Accrued interest receivable is reported in accrued interest receivable on the consolidated balance sheets and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on loans is discontinued at the time the loan is 90 days delinquent unless the loan is well secured and in process of collection. Past due status is based on the 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. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such 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.

Allowance for Credit Losses: As of January 1, 2023, the Company adopted ASU (CECL) 2016-13, which supersedes the previous guidance on the allowance for loan losses. The allowance for credit losses (ACL) is an estimate of the expected credit losses on the loans held for investment. Loan losses are charged against the ACL when management believes the uncollectibility of a loan balance is confirmed. Any subsequent recoveries are credited back to the ACL. The ACL methodology is measured on a collective

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(pool) basis when similar risk characteristics exist. The Company identifies seven loan portfolio segments and measures the ACL using the Scaled CECL Allowance for Losses Estimator (SCALE) method. The loan portfolio segments are commercial, commercial leases, real estate-residential, real estate-commercial, real estate-construction, home equity and installment and other. SCALE utilizes publicly available data from Schedule RI-C of the Call Report to derive initial proxy expected lifetime loss rates. These proxy rates are then adjusted for bank-specific facts and circumstances to arrive at the final ACL estimate, reflecting the Company's loss history and credit risk within the loan portfolio.

Qualitative adjustments may be made for differences between the Company and its defined peer group in terms of loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors. Additionally, the Company reviews loans with collateral dependency or nonperforming status through individually analyzed CECL calculations.

Before ASU 2016-13 (CECL), the allowance for credit losses followed guidance from ASC 310 and ASC 450, under which an incurred loss methodology was used to estimate credit losses. This approach looked backward and focused on triggering events that indicated inherent losses within the portfolio. Impaired loans under ASC 310 were assessed individually. Provision expense levels were estimated based on these requirements for comparative periods.

The allowance for loan losses (the allowance) was established as losses were estimated to have occurred through a provision for loan losses charged to earnings. Loan losses were charged against the allowance when management believed the uncollectibility of a loan balance was confirmed. Subsequent recoveries, if any, were credited to the allowance. Management estimated the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors.

The allowance consisted of specific and general components. The specific component related to loans that were individually classified as impaired. The general component covered non-classified loans and were based on historical loss experience adjusted for current factors. A loan was considered impaired when, based on current information, it was probable that the Company would be unable to collect all amounts due according to the contractual terms of the loan agreement.

Loans were individually evaluated for impairment. If a loan was impaired, a portion of the allowance was allocated so that the loan was reported, net, at the present value of estimated future cash flows using the existing rate or at the fair value of collateral (if repayment was expected solely from collateral). Troubled debt restructurings were separately identified for impairment disclosures and measured at the present value of estimated future cash flows using the loan's effective rate at inception.

<u>Allowance for Credit Losses on Off-Balance Sheet Credit Exposures</u>: Under ASU 2016-13, the Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over their estimated lives.

<u>Foreclosed Assets</u>: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance or direct write-down is recorded through expense. Operating costs after acquisition are expensed.

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed for financial purposes over the assets' useful lives principally using the straight-line method and on an accelerated method for income tax purposes. Maintenance and repairs are charged to expense when incurred.

Goodwill: Goodwill represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is not amortized; rather, it is assessed at least annually on October 31 for impairment, and any such impairment will be recognized in the period identified. The Company did not identify any impairment to goodwill in 2023 and 2022.

Bank-Owned Life Insurance: The Company has purchased life insurance policies on certain key executives. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Treasury Stock: Treasury stock is recorded at cost, determined on a first-in, first-out basis.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Grant Income: The Bank is certified by the U.S. Treasury Department's Community Development Financial Institutions Fund as a Community Development Financial Institution ("CDFI"). The CDFI designation allows the Bank access to various financial assistance programs, including the Bank Enterprise Award ("BEA") Program, Financial Assistance ("FA") Award Program, CDFI Rapid Response Program (CDFI RRP), and Small Dollar Loan Grant (SDLG) awards. The Company received BEA awards of $437,350 in 2023 and $170,699 in 2022. BEA award income is recognized when received. The Company received FA awards of $560,000 in 2023 and $525,000 in 2022. The FA awards require certain financial, managerial, and deployment of resource goals to be met from the date of the award receipt through the goal period, generally three years. FA award income recognized was $560,000 in 2023 and $525,000 in 2022. The Company received a SDLG award of $87,738 in 2022. The SDLG award was recognized when received.

Income Taxes: The Company is an S corporation under Section 1362 of the Internal Revenue Code. As a result, the Company is generally not subject to federal or state income tax, except for the State of Illinois replacement tax. Prior to 2021, the company elected to be taxed under comparable state regulations for state income tax purposes. The Company elected beginning in 2021 to pay certain state income tax at the corporate level on behalf of its stockholders. Company payments of state income taxes for stockholders is recorded as a reduction of retained earnings on the consolidated statement of stockholders' equity when paid.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Company recognizes interest and penalties related to income tax matters in income tax expense. There were no penalties and interest related to tax matters in 2023 and 2022.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation: Compensation cost is recognized for stock options issued based on the fair value of these options at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to stockholders.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Revenue Recognition: Most of the Company's revenue is not subject to Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, including net interest income, and fees related to loans and loan commitments.

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

Transfer of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of the 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.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to current presentation. Reclassifications had no effect on the prior year net income or stockholders' equity.

Adoption of New Accounting Standards: On January 1, 2023, the Company adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, and other similar instruments). In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet (OBS) credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net decrease to retained earnings of $355,000 as of January 1, 2023 for the cumulative effect of adopting ASC 326. The transition adjustment includes a $665,000 impact due to the allowance for OBS credit exposures and a decrease of $310,000 to the allowance for credit losses. There was no impact from the adoption of CECL on securities available for sale.

(Continued)

NOTE 2 - SECURITIES AVAILABLE FOR SALE

The amortized cost and fair value of securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income/losses were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2023				
U.S. government-sponsored entities and agencies	$ 5,000,000	$ -	$ (37,770)	$ 4,962,230
State and political subdivisions	110,287,878	69,288	(8,374,485)	101,982,681
Corporate notes	13,973,566	1,127	(550,100)	13,424,593
Mortgage-backed securities and collateralized mortgage obligations: residential	12,281,230	17,679	(776,972)	11,521,937
Total securities	$ 141,542,674	$ 88,094	$ (9,739,327)	$ 131,891,441

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2022				
U.S. government-sponsored entities and agencies	$ 7,462,568	$ -	$ (94,543)	$ 7,368,025
State and political subdivisions	150,954,172	118,793	(12,237,682)	138,835,283
Corporate notes	16,697,082	1,993	(847,595)	15,851,480
Mortgage-backed securities and collateralized mortgage obligations: residential	8,201,490	1,324	(847,385)	7,355,429
Total securities	$ 183,315,312	$ 122,110	$(14,027,205)	$ 169,410,217

Securities with an approximate carrying value of $62,371,000 and $50,146,000 at year-end 2023 and 2022 were pledged as collateral for public deposits, FHLB advances, and for other purposes as required or permitted by law.

Securities at year-end 2023 by contractual maturity are shown below. Securities not due at a single maturity, mortgage-backed and collateralized mortgage obligations are shown separately.

	Amortized Cost	Fair Value
Due in one year or less	$ 10,303,918	$ 10,220,313
Due after one year through five years	56,751,443	54,950,317
Due after five years through ten years	45,653,107	42,005,827
Due after ten years	16,552,976	13,193,047
Mortgage-backed securities and collateralized mortgage obligations	12,281,230	11,521,937
Total	$ 141,542,674	$ 131,891,441

(Continued)

NOTE 2 - SECURITIES AVAILABLE FOR SALE (Continued)

Securities with unrealized losses at year-end 2023 and 2022 aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position are as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2023						
U.S. government-sponsored entities and agencies	$ -	$ -	$ 4,962,230	$ (37,770)	$ 4,962,230	$ (37,770)
State and political subdivisions	4,408,731	(27,531)	88,147,405	(8,346,954)	92,556,136	(8,374,485)
Corporate notes	990,730	(4,867)	11,682,736	(545,233)	12,673,466	(550,100)
Mortgage-backed securities and collateralized mortgage obligations: residential	3,448,636	(12,498)	6,736,279	(764,474)	10,184,915	(776,972)
	$ 8,848,097	$ (44,896)	$111,528,650	$ (9,694,431)	$120,376,747	$ (9,739,327)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2022						
U.S. government-sponsored entities and agencies	$ 7,368,025	$ (94,543)	$ -	$ -	$ 7,368,025	$ (94,543)
State and political subdivisions	100,741,128	(6,644,383)	22,771,750	(5,593,299)	123,512,878	(12,237,682)
Corporate notes	9,716,497	(590,028)	3,132,990	(257,567)	12,849,487	(847,595)
Mortgage-backed securities and collateralized mortgage obligations: residential	2,595,950	(102,056)	4,696,846	(745,329)	7,292,796	(847,385)
	$120,421,600	$ (7,431,010)	$30,601,586	$ (6,596,195)	$ 151,023,186	$(14,027,205)

There were no securities with identified credit losses at December 31, 2023 and 2022. Unrealized losses on investment securities have not been recognized into income because the issuers' bonds are of high credit quality, the Company has the intent and ability to hold the investment securities for the foreseeable future, and the declines in fair value are primarily due to increased market interest rates and market volatility. The fair value is expected to recover as the bonds approach their maturity dates.

The Company evaluated whether the unrealized losses in the investment portfolio were a result of credit losses or other factors and concluded the unrealized losses were the result of other market conditions, and therefore no credit losses were identified. The issuers of the bonds in the investment portfolio have made payments as agreed.

Sales of securities available-for-sale were:

	2023	2022
Proceeds from sales	$ 34,796,320	$ -
Gross realized gains	1,319	-
Gross realized losses	(1,877,979)	-

(Continued)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

In conjunction with the adoption of ASC 326, the Company made certain loan portfolio segment reclassifications to conform to the new allowance for credit losses methodology. Loans and these related reclassifications, are summarized as follows:

	Post-Adoption December 31, 2023	Adoption Reclassification	Pre-Adoption December 31, 2023	December 31, 2022
Commercial	$ 10,127,125	$ (56,078,915)	$ 66,206,040	$ 66,172,610
Commercial Leases	56,078,915	56,078,915	-	-
Real estate				
Residential	170,823,622	110,004,589	60,819,033	58,561,208
Commercial	53,116,378	(122,216,670)	175,333,048	175,295,293
Construction	73,382,853	12,212,081	61,170,772	66,737,155
Home equity	7,731,321	-	7,731,321	8,227,459
Installment and other	455,013	-	455,013	622,250
Total loans	371,715,227	-	371,715,227	375,615,975
Less				
Net deferred loan fees	(1,294,609)	-	(1,294,609)	(1,396,783)
Allowance for credit losses	(5,237,895)	-	(5,237,895)	(5,599,499)
Net loans	$365,182,723	$ -	$ 365,182,723	$368,619,693
Allowance for credit losses as a Percent of total loans	1.41 %	- %	- %	1.49 %

Executive officers, directors and principal shareholders of the Company, including their families and companies of which they are principal owners, are considered to be related parties. Loans outstanding to related parties totaled approximately $3,113,000 and $3,777,000 at year-end 2023 and 2022.

(Continued)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Activity in the allowance for credit losses by portfolio segment was as follows during 2023 and 2022:

	Pre-Adoption Beginning Balance	Impact of Adoption	Provision For Credit Losses	Loans Charged-Off	Recoveries	Ending Balance
2023						
Commercial	$ 486,671	$ (49,845)	$(355,763)	$ (7,004)	$ 13,172	$ 87,231
Commercial Leases	-	22,902	573,904	-	-	596,806
Real estate	5,107,694	(282,773)	(274,660)	-	-	4,550,261
Installment and other	5,134	(284)	(1,253)	-	-	3,597
	$5,599,499	$(310,000)	$ (57,772)	$ (7,004)	$ 13,172	$5,237,895

	Beginning Balance	Provision for Credit Losses	Loans Charged-Off	Recoveries	Ending Balance
2022					
Commercial	$ 796,738	$ (323,123)	$ -	$ 13,056	$ 486,671
Real estate	4,788,029	319,665	-	-	5,107,694
Installment and other	1,676	3,458	-	-	5,134
	$ 5,586,443	$ -	$ -	$ 13,056	$ 5,599,499

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The balance in the allowance for credit losses by portfolio segment based on evaluation method was as follows at year-end 2023 :

	Loan Balances			Allowance for Credit Losses		
	Individually Evaluated	Collectively Evaluated	Total	Individually Evaluated	Collectively Evaluated	Total
2023						
Commercial	$ -	$ 10,127,125	$ 10,127,125	$ -	$ 87,231	$ 87,231
Commercial Leases	-	56,078,915	56,078,915	-	596,806	596,806
Real estate	2,938,726	302,115,448	305,054,174	132,618	4,417,644	4,550,262
Installment and other	-	455,013	455,013	-	3,596	3,596
Total	$ 2,938,726	$ 368,776,501	$ 371,715,227	$ 132,618	$ 5,105,277	$ 5,237,895

The balance in the allowance for loan losses by portfolio segment based on impairment method was as follows at year-end 2022:

	Loan Balances			Allowance for Loan Losses		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
2022						
Commercial	$ -	$ 66,172,610	$ 66,172,610	$ -	$ 486,671	$ 486,671
Real estate	3,037,344	305,783,771	308,821,115	-	5,107,694	5,107,694
Installment and other	-	622,250	622,250	-	5,134	5,134
Total	$ 3,037,344	$ 372,578,631	$ 375,615,975	$ -	$ 5,599,499	$ 5,599,499

(Continued)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Collateral dependent loans individually evaluated for purposes of the ACL by collateral type were as follows at year-end 2023:

	Real Estate
2023	
Real estate	
Residential	$ 492,618
Total	$ 492,618

Information related to impaired loans by class of loans as of year-end 2022 follows:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
2022						
With no related allowance recorded:						
Commercial	$ -	$ -	$ -	$ -	$ -	$ -
Real estate						
Residential	1,412,141	1,412,141	-	1,424,840	67,608	67,608
Commercial	1,625,203	1,625,203	-	1,650,834	81,621	81,621
Construction	-	-	-	-	-	-
Home equity	-	-	-	-	-	-
	3,037,344	3,037,344	-	3,075,674	149,229	149,229
With an allowance recorded:						
Commercial	-	-	-	-	-	-
Real estate						
Commercial	-	-	-	-	-	-
	-	-	-	-	-	-
Total	$ 3,037,344	$ 3,037,344	$ -	$ 3,075,674	$ 149,229	$ 149,229

Recorded investment on impaired loans does not include accrued interest receivable or deferred loan fees, which are not material to the presentation. Differences between unpaid principal balance and the recorded investment on impaired loans is due to partial charge-offs.

(Continued)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The aging of the recorded investment in past due and nonaccrual loans as of year-end 2023 and 2022 by class of loans was as follows:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Nonaccrual Loans	Loans Current	Total
2023							
Commercial	$ 15,107	$ -	$ -	$ 15,107	$ -	$ 10,112,018	$ 10,127,125
Commercial Leases	469,062	-	-	469,062	-	55,609,853	56,078,915
Real estate							
Real estate							
Residential	1,060,763	-	-	1,060,763	-	169,762,859	170,823,622
Commercial	-	-	-	-	-	53,116,378	53,116,378
Construction	-	-	-	-	-	73,382,853	73,382,853
Home equity	-	-	-	-	-	7,731,321	7,731,321
Installment and other	-	5,817	-	5,817	-	449,196	455,013
Total	$ 1,544,932	$ 5,817	$ -	$ 1,550,749	$ -	$ 370,164,478	$ 371,715,227
2022							
Commercial	$ 211,703	$ -	$ -	$ 211,703	$ -	$ 65,960,907	$ 66,172,610
Real estate							
Residential	-	-	-	-	-	58,561,208	58,561,208
Commercial	-	-	-	-	-	175,295,293	175,295,293
Construction	-	-	-	-	-	66,737,155	66,737,155
Home equity	-	-	-	-	-	8,227,459	8,227,459
Installment and other	-	-	-	-	-	622,250	622,250
Total	$ 211,703	$ -	$ -	$ 211,703	$ -	$ 375,404,272	$ 375,615,975

(Continued)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Modified Loans

The Company had no loans whose terms have been modified under ASC 326 as of year-end 2023. The Company had $0 in loans to customers whose loan terms have been modified in troubled debt restructurings as of year-end 2022. During 2022, there were no loans modified as troubled debt restructurings.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes non-homogeneous loans, such as commercial and commercial real estate loans, and is performed generally on a monthly basis but no less than quarterly. The risk category of homogeneous loans is evaluated when a loan becomes delinquent.

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

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

Loans not meeting the criteria above that are analyzed individually as part of the above-described process are considered to be pass rated loans. As of year-end 2023, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Total
2023				
Commercial	$ 10,127,125	$ -	$ -	$ 10,127,125
Commercial Lease	56,078,915	-	-	56,078,915
Real estate				
Residential	167,884,896	2,938,726	-	170,823,622
Commercial	53,116,378	-	-	53,116,378
Construction	73,382,853	-	-	73,382,853
Home equity	7,731,321	-	-	7,731,321
Installment and other	455,013	-	-	455,013
Total	$ 368,776,501	$ 2,938,726	$ -	$ 371,715,227

(Continued)

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

	Pass	Special Mention	Substandard	Total
2022				
Commercial	$ 66,172,610	$ -	$ -	$ 66,172,610
Real estate				
Residential	57,149,067	1,412,141	-	58,561,208
Commercial	173,670,090	1,625,203	-	175,295,293
Construction	66,737,155	-	-	66,737,155
Home equity	8,227,459	-	-	8,227,459
Installment and other	622,250	-	-	622,250
Total	$ 372,578,631	$ 3,037,344	$ -	$ 375,615,975

NOTE 4 - PREMISES AND EQUIPMENT

Year-end bank premises and equipment were as follows:

	2023	2022
Land	$ 1,843,000	$ 1,843,000
Premises	5,478,307	5,478,307
Furniture and equipment	4,819,456	4,425,974
Total cost	12,140,763	11,747,281
Less accumulated depreciation	(6,769,107)	(6,505,641)
	$ 5,371,656	$ 5,241,640

NOTE 5 - DEPOSITS

Time deposits $250,000 and greater were $48,484,744 and $43,067,585 at year-end 2023 and 2022.

At year-end 2023, the scheduled maturities of time deposits are as follows:

2024	$ 117,319,530
2025	7,389,224
2026	1,536,284
2027	1,088,547
2028	2,155,194
Thereafter	-
	$ 129,488,779

Deposits from principal officers, directors, principal shareholders, and their affiliates at year-end 2023 and 2022 were approximately $9,400,000 and $6,500,000.

(Continued)

NOTE 6 - FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

At year-end 2023 and 2022, advances from the FHLB were as follows:

	2023	2022
Amortizing advances maturing November 2025 through September 2035; principal and interest payable monthly at fixed rates ranging from 0.56% to 1.31%, averaging 0.76% at year-end 2023.	$ 16,722,479	$ 17,608,072
There were no single maturity advances at year-end 2023.	-	8,500,000
	$ 16,722,479	$ 26,108,072

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The Company has pledged $108,600,000 and $111,900,000 of securities, first mortgage loans, and home equity lines of credit as collateral to secure the advances at year-end 2023 and 2022.

Scheduled maturities of advances at year-end 2023 were as follows:

2024	$ -
2025	6,310,961
2026	4,438,591
2027	2,056,663
2028	328,788
Thereafter	3,587,476
	$ 16,722,479

NOTE 7 - EMPLOYEE BENEFIT PLANS

The Company has a profit sharing plan that covers substantially all employees. Company contributions are at the discretion of the Board of Directors. Contributions charged to expense were $250,000 in 2023 and $325,000 in 2022.

The Company has deferred compensation agreements with three officers. The agreements provide for guaranteed payments for 20 years after reaching the specified retirement age of 59 or 65, depending on the individual participant agreements. The liability for the officers is being accrued over the service period in which the benefit has been earned. The liability totaled approximately $5,839,678 and $5,721,426 as of year-end 2023 and 2022 and is reported in other liabilities on the consolidated balance sheet. Expense of $118,252 and $112,621 is reported in compensation and benefits in the accompanying consolidated statements of operations for 2023 and 2022.

(Continued)

NOTE 8 - STOCK OPTIONS

The Company's Non-Qualified Stock Option agreement (the Plan) permits the grant of share options and shares to its employees for up to 10,000 shares of the Company's common stock at 110% of the fair value of the common stock at the date of grant. The options begin vesting at the end of the third year from the date of grant and become fully vested at the end of the sixth year.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model. Expected stock price volatility is based on peer comparisons. The expected term of options granted is based on management estimates and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The Company granted 250 options in 2023 and 250 options in 2022. The fair value of options granted was determined using the following weighted-average assumptions as of grant date:

	2023	2022
Risk-free interest rate	3.48%	2.60%
Expected term	6 years	6 years
Dividend yield	0%	0%
Weighted-average fair value	$82.96	$42.95

The above noted weighted average fair values are an estimate based on the above assumptions.

A summary of the activity in the stock option plan for 2023 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at beginning of year	750	$ 586.92	6.1
Granted	250	850.56	
Exercised	-	-	
Forfeited or expired	-	-	
Outstanding at end of year	1,000	$ 652.83	6.1
Fully vested or expected to vest	1,000	$ 652.83	6.1
Exercisable at end of year	500	$ 479.25	3.3

As of year-end 2023, there was $26,353 of unrecognized compensation cost related to nonvested stock options.

(Continued)

NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet financing needs of its customers. The Company's exposure to credit loss in the event of nonperformance by the parties to these financial instruments is represented by the contractual amount of the instruments. The Company uses the same credit policy for commitments as it uses for loans recorded on the balance sheet. At year end, the financial instruments whose contract amounts represent credit risk are summarized as follows:

	2023	2022
Unused lines of credit	$ 61,665,000	$ 63,248,000
Letters of credit	1,738,000	572,000

With the January 1, 2023 adoption of ASC 326, the Company maintains a December 31, 2023 reserve for unfunded commitments balance totaling $602,878.

NOTE 10 - REGULATORY MATTERS

Banks are subject to regulatory capital requirements administered by the federal banking agencies. Since the Company is a one-bank holding company and has consolidated assets of less than $3 billion, regulatory minimum capital requirements are applied primarily to the Bank. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes that as of December 31, 2023, the Bank met all capital adequacy requirements to which it was subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. As of December 31, 2023 and 2022, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of December 31, 2020.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules, the community bank leverage ratio minimum requirement is 9% for calendar year 2022 and beyond. The interim rule allows

(Continued)

NOTE 10 - REGULATORY MATTERS (Continued)

for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio greater than 8%.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2023, the Bank was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

The Bank's capital amounts (in thousands) and ratios are presented in the following tables:

	Actual		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
2023				
Tier 1 (Core) Capital (to average assets)	$116,585	20.25%	$ 51,824	>9.00%

	Actual		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
2022				
Tier 1 (Core) Capital (to average assets)	$112,868	19.08%	$ 53,253	>9.00%

(Continued)

NOTE 11 - FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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

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

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

Securities: The fair values of securities available for sale are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Assets at year-end measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2023			
Securities available for sale:			
U.S. government-sponsored entities and agencies	$ -	$ 4,962,230	$ -
State and political subdivisions	-	101,982,681	-
Corporate notes	-	13,424,593	-
Mortgage-backed securities and collateralized mortgage obligations: residential	-	11,521,937	-
2022			
Securities available for sale:			
U.S. government-sponsored entities and agencies	$ -	$ 7,368,025	$ -
State and political subdivisions	-	138,835,283	-
Corporate notes	-	15,851,480	-
Mortgage-backed securities and collateralized mortgage obligations: residential	-	7,355,429	-

Assets measured at fair value on a non-recurring basis were not material at year-end 2023 or 2022.