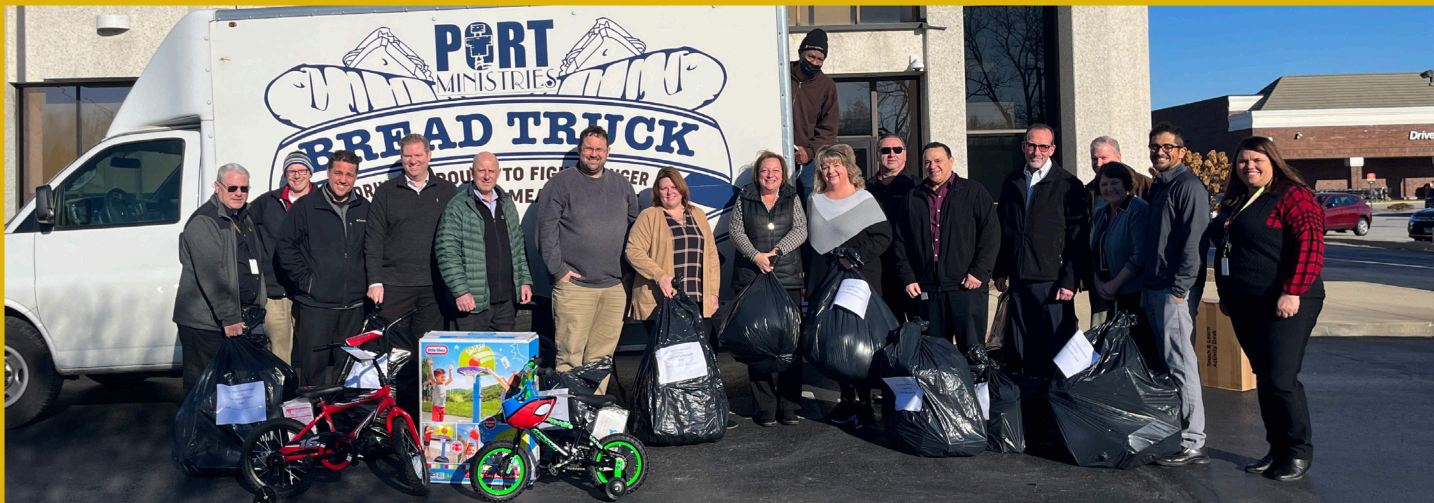
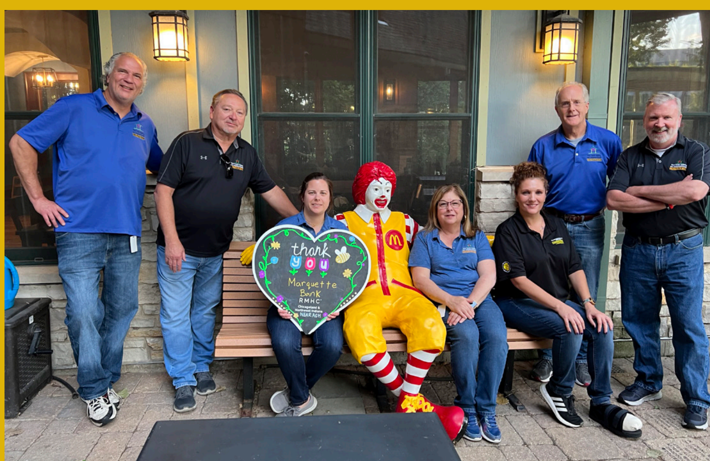
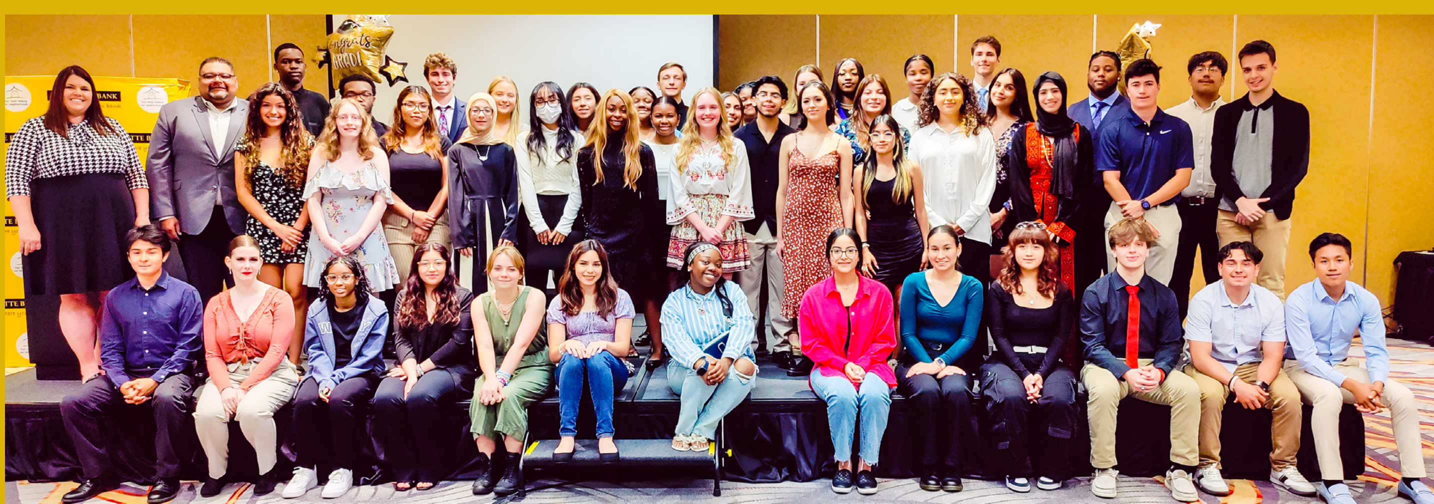
MARQUETTE NATIONAL CORPORATION







2023 ANNUAL REPORT

MARQUETTE NATIONAL CORPORATION

Letter to Our Shareholders

We are happy to share that Marquette National Corporation's earnings, capital level and liquidity improved in 2023. As we recap our performance, we would be remiss if we did not speak to the issues that have dramatically affected our industry. The failures of two regional banks in March 2023 were stark reminders of the importance of risk management and the reputational harm done to our industry when banks stumble. This was one of the most challenging market environments in history, as rates rose 525 basis points in 24 months, and the challenges have continued into 2024. Our team continues to focus on safeguarding the long-term interests of our customers, shareholders and employees.

Marquette National Corporation – Parent Company

The unrealized pretax gains in Marquette National Corporation's equity securities and exchange traded funds (Equity Investments Portfolio) increased by $15.5 million in 2023 compared to a decrease of $21.7 million in 2022. This was the primary reason for the net earnings of $16.1 million for Marquette National Corporation in 2023, compared to net loss of $3.0 million in 2022.

This Equity Investments Portfolio continues to be a resource to address any threats or opportunities the Bank could encounter. Insofar as it invests almost entirely in global companies outside of banking, the portfolio provides some diversification of risk to our shareholders. It is anticipated that the portfolio will play a large role in repaying or refinancing $55.0 million in trust preferred borrowings due in 2036.

The Equity Investments Portfolio was valued at $38.1 million at the end of 2022. At year-end 2023, the value of the Equity Investment Portfolio was $54.5 million. The return on Marquette National Corporation's Equity Investment Portfolio for 2023 was 43%, while the S&P 500 returned 26% for 2023.

Marquette Bank

The Bank's Balance Sheet grew slightly in 2023 with shifts in liabilities during the year. Deposit and Net Interest Margin pressure continued this year with the Federal Reserve raising rates to the highest levels since December 2007. Our Net Interest Margin decreased from 2.98% to 2.64%. The Bank experienced a shift from non-maturity deposits to Certificates of Deposit as a result. We remained defensive with the goal of retaining customers and deposits on reasonable terms.

Loan growth was flat for the year. Asset quality was stable. The Bank's earnings were positive, but were negatively impacted by a $1.4 million pretax loss on the sale of securities in the fourth quarter of 2023, a $1.1 million pretax asset write-down recorded upon the closure of our former Romeoville branch in the second quarter of 2023, and the continued pressure on net interest income resulting from the significant increase in interest rates over the last 24 months.

Our customer base remains strong with 80,000 customers utilizing an average of four services each. The Bank has an excellent reputation in the neighborhoods we serve. Customers are long term and in many cases multi-generational. By providing strong customer service and relationship focused banking, our customers are satisfied and become a source of referrals for the Bank. Marquette Bank utilizes a referral-based platform to reward customers for both referring new customers and utilizing bank products.

In addition, we measure our customer loyalty through NPS (Net Promoter Score). Our current NPS score is 64, 40 points higher than the Banking Industry average NPS. Our customers are more than 2.5 times more likely to recommend us to friends and family. Customer loyalty is strong and maintaining great customer service is a focus.

Marquette Neighborhood Commitment

Since 1945, Marquette Bank has a tradition of helping our neighborhoods, community residents and local service organizations. Since the introduction of our Marquette Neighborhood Commitment in 2008, our bank-wide community efforts have become even more focused in making a difference in our neighborhoods. Throughout these challenging past few years, we never stopped doing the things that make us a strong neighborhood bank. In 2023, 117 employees volunteered for a total of 1,185 hours at 31 events, with over 31,000 hours volunteered by employees since 2010. Through our Bank and Foundations, we have impacted over 100 organizations, with over $720,000 in total giving last year.

On behalf of the Board of Directors and Management, we wish to thank our shareholders and our employee-shareholders for their continued goodwill and support.

Paul M. McCarthy

George S. Moncada

PAUL M. McCARTHY
Chairman of the Board & CEO

GEORGE S. MONCADA
President

Marquette National Corporation and Subsidiaries
Consolidated Financial Statements
December 31, 2023

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Marquette National Corporation and Subsidiaries
Financial Highlights
(in thousands, except share and per share data)

Balance Sheet

	12/31/23	12/31/22	Percent Change
Total assets	$2,142,039	$2,083,449	3%
Total loans, net	1,410,345	1,411,892	0%
Total deposits	1,709,750	1,688,939	1%
Total stockholders' equity	159,053	139,042	14%
Shares outstanding	4,381,162	4,355,375	1%
Book value per share	$36.30	$31.92	14%
Tangible book value per share	$28.24	$23.81	19%

Operating Results

	Year Ended December 31,		Percent
	2023	2022	Change
Net interest income	$48,654	$56,592	-14%
Provision for credit losses	2,619	2,039	28%
Realized securities gains (loss), net	(662)	836	*
Unrealized holding gains (loss) on equity securities and ETFs	15,476	(21,694)	*
Other income	15,596	15,898	-2%
Other expense	54,913	55,299	-1%
Income tax expense (benefit)	5,411	(2,742)	*
Net income (loss)	16,121	(2,964)	*
Basic income (loss) per share	$3.69	($0.68)	*
Weighted average shares outstanding	4,372,570	4,364,700	0%
Cash dividends declared per share	$1.12	$1.12	0%
Comprehensive income (loss)	$24,132	($40,891)	*

* *Not meaningful*

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Independent Auditor's Report

Audit Committee
Marquette National Corporation and Subsidiaries
Orland Park, Illinois

Opinions on the Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated financial statements (the "financial statements") of Marquette National Corporation and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended and the related notes to the consolidated financial statement.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years 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 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 audits 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 other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 the Company'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 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 judgement 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 judgement 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 judgement, 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 controls-related matters that we identified during the financial statement audit.

Definition and Inherent Limitations of Internal Control over Financial Reporting

A 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 financial 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 13, 2024

Marquette National Corporation and Subsidiaries
Consolidated Balance Sheets
(in thousands, except share data)

	December 31, 2023	December 31, 2022
Assets		
Cash and due from banks	$ 29,517	$ 35,277
Interest-bearing deposits with banks	131,048	18,575
Total cash and cash equivalents	160,565	53,852
Debt securities available for sale, at fair value (amortized cost of $405,670 and $475,757)	358,540	417,425
Debt securities held to maturity, at cost	1,463	1,471
Equity securities and exchange traded funds, at fair value	52,710	32,818
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	7,851	7,454
Loans held for sale	2,294	526
Loans	1,424,611	1,427,207
Less: Allowance for credit losses	(14,266)	(15,315)
Loans, net	1,410,345	1,411,892
Premises and equipment, net	46,245	49,435
Bank owned life insurance	50,309	48,806
Goodwill	35,348	35,348
Other real estate owned	497	437
Accrued interest receivable and other assets	15,872	23,985
Total assets	$ 2,142,039	$ 2,083,449
Liabilities		
Deposits		
Noninterest-bearing	$ 323,673	$ 363,278
Interest-bearing	1,386,077	1,325,661
Total deposits	1,709,750	1,688,939
Securities sold under agreements to repurchase	108,170	96,441
Borrowed funds	92,000	86,000
Junior subordinated notes issued to capital trusts	56,702	56,702
Accrued interest payable and other liabilities	16,364	16,325
Total liabilities	1,982,986	1,944,407
Commitments and contingent liabilities (Note 15)		
Stockholders' Equity		
Preferred stock: $.01 par value; shares authorized: 150,000 at December 31, 2023 and December 31, 2022; shares issued: none at December 31, 2023 and December 31, 2022	-	-
Common stock: $.01 par value; shares authorized: 6,000,000 at December 31, 2023 and December 31, 2022; shares issued: 4,381,162 at December 31, 2023 and 4,355,375 at December 31, 2022	44	44
Surplus	38,740	37,831
Retained earnings	153,962	142,871
Deferred compensation	1,277	1,169
Accumulated other comprehensive loss, net of tax	(33,693)	(41,704)
Less: Treasury stock, at cost, 49,817 shares in 2023 and 34,486 shares in 2022	(1,277)	(1,169)
Total stockholders' equity	159,053	139,042
Total liabilities and stockholders' equity	$ 2,142,039	$ 2,083,449

See accompanying notes to consolidated financial statements.

Marquette National Corporation and Subsidiaries
Consolidated Statements of Income

(in thousands, except share and per share data)

	Years Ended December 31, 2023	2022
Interest and Dividend Income		
Loans, including fees:		
Taxable	$ 62,014	$ 52,272
Exempt from federal income tax	3	12
Securities:		
Taxable	7,334	6,757
Exempt from federal income tax	600	811
Dividends	556	756
Federal Home Loan Bank and Federal Reserve Bank stock	518	270
Federal funds sold and interest-bearing deposits with banks	3,238	774
Total interest income and dividends	74,263	61,652
Interest Expense		
Deposits	15,095	2,029
Securities sold under agreements to repurchase	2,883	982
Borrowed funds	3,810	242
Junior subordinated notes issued to capital trusts	3,821	1,807
Total interest expense	25,609	5,060
Net interest income	48,654	56,592
Provision for credit losses	2,619	2,039
Net interest income after provision for credit losses	46,035	54,553
Other Income		
Service charges on deposit accounts	4,939	4,807
Income from trust services	2,023	2,070
Mortgage banking revenue, net	971	1,208
Wealth management product fees	1,947	1,817
Income from bank owned life insurance	1,503	1,677
Realized securities gains (loss), net	(662)	836
Unrealized holding gains (loss) on equity securities and exchange traded funds	15,476	(21,694)
Other operating income	4,213	4,319
Total other income (loss)	30,410	(4,960)
Other Expense		
Salaries and employee benefits	27,753	28,028
Net occupancy expense	7,093	7,462
Equipment expense	1,210	1,267
Other real estate owned (income) expense, net	(58)	307
Data processing expense	4,848	4,658
Professional and legal services	2,135	2,139
Advertising and promotion expenses	981	1,276
FDIC insurance premiums	1,421	1,106
Other operating expenses	9,530	9,056
Total other expense	54,913	55,299
Income (loss) before income taxes	21,532	(5,706)
Income tax expense (benefit)	5,411	(2,742)
Net income (loss)	$ 16,121	$ (2,964)
Basic income (loss) per share	$ 3.69	$ (0.68)
Weighted average shares outstanding	4,372,570	4,364,700

See accompanying notes to consolidated financial statements.

Marquette National Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
(in thousands)

	Years Ended December 31, 2023	Years Ended December 31, 2022
Net income (loss)	$ 16,121	$ (2,964)
Other comprehensive income (loss):		
Unrealized holding gains (loss) on debt securities arising during the period	9,767	(53,049)
Related tax effect	(2,782)	15,122
Unrealized gains (loss) on debt securities, net of tax	6,985	(37,927)
Reclassification adjustment for realized debt securities net loss during the period	(1,435)	-
Related tax effect	409	-
Net after tax reclassification adjustment	(1,026)	-
Other comprehensive income (loss), net of tax	8,011	(37,927)
Comprehensive income (loss)	$ 24,132	$ (40,891)

See accompanying notes to consolidated financial statements.

Marquette National Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
(in thousands, except share data)

	Common Stock	Surplus	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2022	**$44**	**$37,630**	**$151,500**	**$1,356**	**($3,777)**	**($1,356)**	**$185,397**
Net loss	-	-	(2,964)	-	-	-	(2,964)
Other comprehensive loss, net of tax	-	-	-	-	(37,927)	-	(37,927)
Cash dividends declared on common stock	-	-	(4,886)	-	-	-	(4,886)
Issuance of 28,712 shares of common stock	-	474	-	-	-	-	474
Cost of common shares repurchased (50,215 shares of common stock reverting to authorized unissued status)	-	(273)	(779)	-	-	-	(1,052)
Deferred compensation	-	-	-	(187)	-	187	-
Balance, December 31, 2022	**44**	**37,831**	**142,871**	**1,169**	**(41,704)**	**(1,169)**	**139,042**
Net income	-	-	16,121	-	-	-	16,121
Other comprehensive income, net of tax	-	-	-	-	8,011	-	8,011
Cash dividends declared on common stock	-	-	(4,902)	-	-	-	(4,902)
Issuance of 32,144 shares of common stock	-	964	-	-	-	-	964
Cost of common shares repurchased (6,357 shares of common stock reverting to authorized unissued status)	-	(55)	(128)	-	-	-	(183)
Deferred compensation	-	-	-	108	-	(108)	-
Balance, December 31, 2023	**$44**	**$38,740**	**$153,962**	**$1,277**	**($33,693)**	**($1,277)**	**$159,053**

See accompanying notes to consolidated financial statements.

Marquette National Corporation and Subsidiaries
Consolidated Statements of Cash Flows

(in thousands)

	December 31, 2023	December 31, 2022
Operating Activities		
Net income (loss)	$ 16,121	$ (2,964)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred loan fees and costs, net	462	474
Premium amortization on securities, net	1,837	2,456
Provision for credit losses	2,619	2,039
Origination of loans held for sale	(42,725)	(58,245)
Proceeds from sale of loans originated for sale	41,928	63,912
Gain on sale of loans originated for sale	(971)	(1,208)
Earnings on bank owned life insurance	(1,503)	(1,677)
Realized securities (gains) loss, net	662	(836)
Unrealized holding (gain) loss on equity securities and exchange traded funds	(15,476)	21,694
Realized equity options loss, net	-	351
Write down of premises transferred to other real estate owned	1,149	-
Depreciation and amortization	2,796	2,939
Loss (gain) on sale or disposal of premises and equipment	9	(2)
Write down of other real estate owned	-	42
Loss (gain) on sales of other real estate owned	(103)	248
Deferred income tax benefit (expense)	(4,266)	(5,025)
(Increase) decrease in accrued interest receivable and other assets	7,244	(13,801)
Increase in accrued interest payable and other liabilities	1,912	11,677
Net cash provided by operating activities	11,695	22,074
Investing Activities		
Securities:		
Proceeds from maturities, pay downs and calls	40,415	54,298
Proceeds from sales	32,382	20,754
Purchases	(9,618)	(44,252)
Purchase of Federal Home Loan Bank stock	(397)	(437)
Purchase of Federal Reserve Bank stock	-	(300)
Net increase in loans	(2,564)	(150,957)
Proceeds from death benefit on bank-owned life insurance	-	625
Proceeds from sale of premises and equipment	-	2
Purchases of premises and equipment	(1,196)	(2,263)
Proceeds from sales of other real estate owned	1,570	556
Net cash provided by (used in) investing activities	60,592	(121,974)
Financing Activities		
Net (decrease) increase in deposits	20,811	(50,205)
Net increase in securities sold under agreements to repurchase	11,729	7,997
Net increase in borrowed funds	6,000	86,000
Cash dividends paid on common stock	(4,895)	(4,847)
Issuance of common stock	964	474
Repurchase of common stock	(183)	(1,052)
Net cash provided by financing activities	34,426	38,367
Net increase (decrease) in cash and cash equivalents	106,713	(61,533)
Cash and cash equivalents at beginning of period	53,852	115,385
Cash and cash equivalents at end of period	$ 160,565	$ 53,852
Supplemental disclosures:		
Interest paid	$ 23,531	$ 4,567
Income taxes paid	(735)	(3,529)
Supplemental schedule of non-cash investing and financing activities:		
Loans transferred to other real estate owned	$ 1,030	$ 283
Common stock cash dividends declared and unpaid	1,227	1,220

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Marquette National Corporation and Subsidiaries (the "Company") conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. A summary of the significant accounting and reporting policies of Marquette National Corporation and Subsidiaries is as follows:

Principles of Consolidation
The consolidated financial statements include the accounts of Marquette National Corporation and its wholly-owned subsidiaries, Marquette Bank (the "Bank"), Marquette Wealth Management, Inc. and Marquette Risk Management, Inc., a captive insurance subsidiary headquartered in Nevada. Marquette Risk Management, Inc. was dissolved during 2023. Significant intercompany accounts and transactions are eliminated in consolidation.

Subsequent Events
The Company has evaluated subsequent events for recognition and disclosure through March 13, 2024, which is the date the consolidated financial statements were available to be issued.

Use of Estimates in Preparation of Financial Statements
The preparation of financial statements in conformity with Generally Accepted Accounting Principles in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of income and expenses during the reported periods. Actual results could differ significantly from those estimates. Estimates that are particularly susceptible to significant changes are the determination of the allowance for credit losses, the judgment regarding securities impairment, valuation of other real estate owned, the carrying value of goodwill and deferred tax assets, and the fair value of financial instruments.

Cash Flows
Cash and cash equivalents includes 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 deposits in other financial institutions, and federal funds purchased and securities sold under agreements to repurchase.

Securities
Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Securities not classified as held to maturity are classified as available for sale and are carried at fair value. Unrealized holding gains and losses on debt securities available for sale, net of related taxes, are excluded from earnings and reported as a separate component of stockholders' equity until realized. Equity securities and exchange traded funds are carried at fair value and changes in fair value are recognized in net income. During 2023 and 2022, the Company did not have trading securities. Dividend and interest income is recognized when earned. Premiums and discounts on debt securities are amortized in a manner that approximates the level yield method. Gains or losses on security sales are based on the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method.

Effective January 1, 2023, the Company adopted the current expected credit loss ("CECL") model to estimate the allowance for credit losses on securities held to maturity. 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 security.

Management evaluates all securities held to maturity using a probability of default / loss given default method. The loss reserve amount is calculated by Moody's ImpairmentStudio using a basic probability of default and loss given default approach. The probability of default method estimates the probability a security with a certain credit rating will default during its remaining contractual term (probability of default) and how much loss is expected to be incurred if a security defaults (loss given default rate).

The Company excludes accrued interest receivable from the amortized cost basis of securities held to maturity when estimating credit losses and when presenting required disclosures in the financial statements. Accrued interest on securities held to maturity totaling $4,000 and $4,000 at December 31, 2023 and 2022, respectively, was excluded from the amortized cost basis of securities held to maturity.

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 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 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 $977,000 and $1,330,000 at December 31, 2023 and 2022, respectively, was excluded from the amortized cost basis of securities available for sale.

Prior to January 1, 2023, declines in fair value of debt securities that were deemed to be other than temporary, if applicable, were reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considered the length of time and the extent to which fair value had been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Federal Home Loan Bank and Federal Reserve Bank Stock
The Company owns investments in the stock of the Federal Reserve Bank (“FRB”) and the Federal Home Loan Bank of Chicago (“FHLBC”). No ready market exists for these stocks and they have no quoted market values. FRB and FHLBC stock is carried at cost, classified as restricted securities and periodically evaluated for impairment based on ultimate recovery of par value. Dividends are reported as income upon receipt.

Loans Held for Sale
Mortgage loans originated and intended for sale are classified as held for sale in the Consolidated Balance Sheets and are recorded at the lower of aggregate cost or fair value as determined by outstanding commitments with investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Gains or losses on the sale of loans, net of commission expense, are classified with Mortgage Banking Revenue in the Consolidated Statements of Income.

Mortgage loans held for sale are generally sold with servicing rights released. For those loans sold where servicing rights are retained, the carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans
Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are recorded at the amount of unpaid principal, reduced by unearned income, deferred loan fees and costs, and an allowance for 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. When a loan is paid in full prior to maturity, any unamortized fees or costs are recorded in interest income at payoff. Fees, such as prepayment penalties, are recorded in interest income when received.

Nonaccrual Loans – The accrual of interest income is discontinued when management believes, after considering the borrower's financial condition and other relevant factors, that future collection of principal or interest in accordance with contractual terms of the loan may be doubtful. All loans 90 days or more past due are transferred to nonaccrual status unless they are well secured and in the process of collection. When a loan is placed on nonaccrual status, unpaid accrued interest is reversed and charged against current year income. A nonaccrual loan is returned to accrual status when the financial position of the borrower and other relevant factors indicate there is no longer doubt that the Company will collect all principal and interest due.

Modified and Restructured Loans – In cases where a borrower experiences financial difficulties and the Company makes certain concessions or modifications to contractual terms it would not otherwise consider, the loan is classified as a troubled loan modification (“TLM”). By granting the concession, the Company expects to obtain more cash or other value from the debtor or to increase the probability of receipt than would be expected by not granting the concession. These concessions may include rate reductions, principal forgiveness, extension of maturity date and other actions intended to minimize potential losses. All TLM loans are individually evaluated for impairment at the time of restructuring and at each quarter end.

Individually Evaluated Loans – A loan is individually evaluated when, based on current information and events, it is probable that the Company will be unable to collect all contractual principal and interest due according to the terms of the loan agreement. Factors considered by management in determining impairment include payment status and the probability of collecting scheduled principal and interest payments when due. Loans experiencing 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 circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay and the borrower's prior payment record.

With the exception of loans that were restructured and still accruing interest, any subsequent principal and interest payments received are applied to the principal on the loan. A nonaccrual, impaired loan is returned to accrual status when the financial position of the borrower and other relevant factors indicate there is no longer reason to believe the Company will not collect all principal and interest due.

Allowance for Credit Losses
The allowance for credit losses ("ACL") is a valuation allowance providing for the probability of default for the entire life of the loan or financial instrument. A provision for credit losses is recorded to income to adjust the allowance to a level deemed to be adequate based on management's evaluation. When a loan or a part thereof is considered by management to be uncollectible, a charge is made against the allowance. Recoveries of loans previously charged off are credited to the allowance. Management assesses the adequacy of the allowance for credit losses on a quarterly basis. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The calculation of the Company's ACL employs a methodology providing for the probability of default for the entire life of the loan or financial instrument. The contractual cash flows are adjusted for the probability of default and loss given default to compute the expected cash flow. The values of the contractual cash flows and expected cash flow are then used to calculate the cash short fall. The Company utilizes a multidisciplinary approach to calculate the allowance for credit losses. That approach considers each of the following factors:

- The Company's historical loss experience or a best estimate proxy of the Company's historical loss experience using external data should it lack data or loss history. This includes lifetime historical default and loss rates as well as historical risk rating migration patterns.
- Loan-level information related to risk characteristics such as but not limited to loan pool, call report category, risk rating, origination date, amortization structure, maturity date, collateral information (including derived loan-to-value), debt service coverage ratio, and fixed/floating interest rate structure.
- Estimates for prepayment rates by loan pool.
- Adjustments to the historical losses for current and forecasted conditions.
- Appropriate qualitative factors.
- External independent loan reviews.

The quantitative analysis described above is supplemented with other qualitative factors based on the risks present for each collectively evaluated loan pool. These qualitative factors include: trends in volume and terms of loans; external loan review results; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; industry conditions; and effects of changes in credit concentrations.

An individual loan is considered impaired when based on current information and events it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. When available information confirms that specific loans, or portions thereof, are uncollectible, these amounts are to be promptly charged-off against the ACL.

The Company's ACL calculation methodology consists of the following tiers:

- Individually Evaluated Loans
- Pooled Loans
- Unfunded Commitments
- Held to Maturity Securities

The sum of the estimated losses and required level of ACL calculated in accordance with each tier's methodology establishes the aggregate required level of the ACL.

The Company evaluates and/or modifies its ACL calculation methodology as needed to ensure that the resulting loss estimate is consistent with current accounting and regulatory requirements, and is sufficient for the Company's loan portfolio.

The following briefly describes the underwriting, collateral and inherent risks of the Company's principal loan portfolios by class. For purposes of footnote presentation, all information is presented at the class level. For additional information on loans and the allowance for credit losses, see Note 4 "Loans and Allowance for Credit Losses."

Real Estate – Commercial

Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is largely dependent upon the successful operation of the property securing the loan or the business conducted on the property securing the loan. As part of the underwriting process, the Company examines current and projected cash flows to determine the ability of the borrower to repay his obligation as agreed. The Company generally lends up to the lower of 75% of the property's appraised value or cost. Decisions to lend are based on the economic viability of the property and the creditworthiness of the borrower. In evaluating a proposed commercial real estate loan, the Company emphasizes the ratio of the property's projected net cash flow to the loan's debt service requirement computed after deduction for appropriate vacancy factors and property expenses. Personal guarantees are usually required when the borrower is not a natural person. The Company's commercial real estate loans are generally written as three-, or five-year adjustable-rate mortgages or mortgages with balloon maturities ranging from three to ten years. Amortization on these loans is generally based on 20- to 25-year schedules.

Properties securing the commercial real estate portfolio are diverse in terms of type and geographic location. They are generally located within the greater Chicago metropolitan area and contiguous markets and are secured by owner-occupied or investor owned real estate. Properties securing commercial real estate loans include office buildings, light industrial buildings, retail shopping centers and mixed-use developments and, to a lesser extent, more specialized properties such as hotel, religious and educational facilities. Management monitors and evaluates commercial real estate loans based on cash flow, collateral, geography, and risk grade criteria. Economic events, interest rates and governmental regulations outside of the control of the borrower or the Company may negatively impact the future cash flow and market values of the affected properties.

Real Estate – Construction & Development

Construction and development loans generally consist of loans to developers to finance the purchase of and improvements to real estate. Improvements include utilities, roads, sewers and other development costs. Construction and development loans also include loans to developers for the construction of single-family homes, town-homes and condominium conversions and commercial properties. Construction and development loans are underwritten utilizing feasibility studies, independent appraisals, sensitivity analyses of absorption and lease rates and financial analyses of the creditworthiness of the developers and property owners. The Company currently lends up to 75% of cost or 75% of the as-completed appraised value of the property. Personal guarantees are usually required when the borrower is a corporation or partnership. Construction and development loans are generally based upon estimates of costs and value associated with the completed projects. Construction and development loans often involve the disbursement of substantial funds with repayment primarily dependent upon the sale of improved lots, finished residences or commercial properties. Sources of repayment for these types of loans may be pre-committed permanent loans approved by the Company or other lenders, sales of developed property, or an interim loan commitment until permanent financing is obtained. These loans are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, demand and supply of alternative real estate, the availability of long-term financing, and changes in general economic conditions. Currently, the Company is originating construction and development loans on a selective basis.

Real Estate – Multifamily Housing

Multifamily housing loans generally are secured by multifamily rental properties such as apartment buildings, including subsidized apartment units. The Company considers a number of factors in underwriting multifamily housing loans including projected cash flow available for the loan's required debt service, the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. Multifamily housing loans are generally originated in amounts up to 75% of the appraised value of the property securing the loan. The Company's multifamily loans are generally written as five-, seven- or ten-year adjustable-rate mortgages and amortization on these loans is generally thirty years. Personal guarantees are usually required when the borrower is a corporation or partnership. Substantially all of the properties securing these loans are located in Chicago and suburban markets in which the Company operates. Loans secured by multifamily mortgages generally involve a greater degree of credit risk than one- to four-family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, rising interest rates and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multifamily housing mortgages typically depends upon the successful operation of the related real estate property. If the cash flow from the project is reduced, the borrower's ability to repay the loan may become impaired.

Real Estate – Residential
The Company offers conforming and non-conforming, fixed-rate and adjustable-rate residential mortgage loans with maturities up to thirty years. The Company offers fixed-rate conventional mortgage loans with terms of ten to thirty years that are fully amortized and adjustable-rate conventional mortgage loans with initial terms between five and seven years that amortize up to thirty years. Residential mortgage loans are generally underwritten according to Fannie Mae and Freddie Mac guidelines which are referred to as "conforming loans." The Company originates both fixed- and adjustable-rate loans in amounts up to the maximum conforming loan limits as established by the Federal Housing Finance Agency; for 2023 $726,200 for single-family homes. Private mortgage insurance is required for first mortgage loans with loan-to-value ratios in excess of 80%. The Company originates loans above conforming limits, sometimes referred to as "jumbo loans," that generally have been underwritten consistent with the credit standards of Fannie Mae. The Company also originates loans at higher rates that do not fully meet the credit standards of Fannie Mae but are deemed to be acceptable risks. The majority of properties securing these loans are located in Chicago and suburban markets in which the Company operates.

Real Estate – Home Equity
Home equity loans primarily consist of lines of credit secured by first or second mortgage liens on residential property. This segment includes amortizing home equity loans with terms generally between five to twenty years. Home equity lines and loans are made for, among other purposes, the improvement of residential properties, debt consolidation and education expenses. The current maximum loan-to-value ratio is 80%, when taking into account both the balance of the home equity and the first mortgage loans. Home equity lines of credit allow for a ten-year, revolving draw period with an interest rate tied to the prime rate as published in The Wall Street Journal. Home equity lines and loans have greater credit risk than one-to-four family residential mortgage loans because they may be secured by mortgages subordinated to an existing first mortgage on the property which the Company may or may not hold. The majority of properties securing home equity lines and loans are located in Chicago and suburban markets in which the Company operates.

Commercial and Industrial
Commercial and industrial loans include lines of credit and term loans and are typically secured by collateral and used for general business purposes, including working capital financing, equipment financing, capital investment and general investment. Commercial business loans typically have shorter maturities than real estate loans but generally involve more credit risk because of the type and nature of the collateral. The underwriting process for commercial and industrial loans includes an analysis of current and projected cash flows to determine the ability of the borrower to repay their obligation as agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Personal guarantees are usually required when the borrower is not a natural person. Most commercial and industrial loans are secured by the assets of the borrower. The Company focuses on small- to medium-sized companies that operate in its market area.

Municipal Leases
The Company provided funding to municipalities and schools districts for equipment financing leases. Generally, the leases are secured from an originating leasing company by the assignment of the lease payment stream and a security interest in the equipment being leased. The lessee acknowledges our security interest in the leased equipment and sends lease payments directly to us. The Company's municipal leases are secured primarily by fire trucks, fire stations, ambulances and other capital equipment. Municipal leases are fully amortizing and generally have final maturities of five to ten years. Presently the Company is not originating municipal leases.

Premises and Equipment
Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization have been computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over a period not exceeding the term of the lease, including renewal option periods. Rates of depreciation are generally based on the following useful lives: building – 40 years; building and leasehold improvements, furniture and equipment – 5 to 15 years.

Bank Owned Life Insurance
The Company has purchased life insurance policies on certain directors and 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.

Goodwill and Other Intangible Assets
Goodwill resulting from business combinations represents the excess of the purchase price over the fair value of the net assets of the business acquired. Goodwill has an indefinite useful life and is not amortized, but is tested for impairment at least annually. Goodwill is the only intangible asset with an indefinite life on the balance sheet.

Other Real Estate Owned
Other real estate owned represents properties acquired through foreclosure or deed in lieu of foreclosure as well as buildings and land that the Company intends to sell where the held-for-sale criteria have been met. Properties acquired through foreclosure or deed in lieu of foreclosure are recorded at fair value, less estimated costs to sell when acquired, establishing a new cost basis. The excess, if any, of the loan amount over fair value is charged to the allowance for credit losses. Subsequent declines in the fair value of other real estate owned, along with related operating expenses, are included in Other Expense in the Consolidated Statements of Income. At December 31, 2023 and 2022, the recorded investment of these foreclosed properties included in Other Real Estate Owned was $0 and $200,000, respectively.

Residential real estate loans that are in the process of foreclosure totaled $193,000 at December 31, 2023 and $325,000 at December 31, 2022.

Buildings and land that the Company intends to sell where the held-for-sale criteria have been met are transferred from Premises and Equipment to Other Real Estate Owned at the lower of their fair value less costs to sell or their recorded investment. In 2023, $497,000 of properties were transferred from Premises and Equipment to Other Real Estate Owned. No properties were transferred in 2022. At December 31, 2023 and 2022, the recorded investment of these properties included in Other Real Estate Owned was $497,000 and $237,000, respectively.

Mortgage Servicing Rights
Servicing rights are recognized separately when they are acquired through sales of loans. When mortgage loans are sold, servicing rights are initially recorded at fair value with the income statement affect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into other operating income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

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

The amortization of mortgage servicing rights and the income earned from the servicing of the mortgage loans are classified with Other Operating Income in the Consolidated Statements of Income. Mortgage servicing rights are included in Accrued Interest Receivable and Other Assets in the Consolidated Balance Sheets. At December 31, 2023 and 2022, the balance of mortgage servicing rights was $236,000 and $323,000, respectively.

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

Long-Term Assets
Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Income Taxes
The Company files consolidated Federal and state income tax returns. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carryforwards, and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax

assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Net deferred tax assets are included in accrued interest receivable and other assets in the Consolidated Balance Sheets.

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/or penalties related to income tax matters in income tax expense.

Retirement Plans
Employee 401(k) expense is the amount of the Company's matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

Trust Assets
Assets held in fiduciary or agency capacities are not included in the Consolidated Balance Sheets, since such items are not assets of the Company.

Earnings per Share
Basic earnings per share, is computed by dividing net income applicable to common shares by the weighted average number of common shares outstanding for the year. The Company has no dilutive common stock equivalents.

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

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.

Derivative Financial Instruments
The Company has purchased index put options which are intended to hedge the Company's equity securities portfolio. Index put options are a derivative financial instrument and are accounted for at fair value, with changes in the value of the put options recorded through earnings. At December 31, 2023 and 2022, there was no recorded investment in index put options.

Fair Value of Financial Instruments
Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular instruments. Changes in assumptions or in market conditions could significantly affect these estimates.

Revenue from Contracts with Customers
The Company's primary revenue generating activities that are within ASC Topic 606 "Revenue from Contracts with Customers" and are presented in the accompanying Consolidated Statements of Income as components of noninterest income, include service charges on deposit accounts, trust fees, mortgage banking revenue, wealth management product fees, processing and fees for other customer services. Service charges on deposits represent service fees for monthly account maintenance and activity or transaction-based or item-based revenue. Revenue is recognized when the performance obligation is completed which is generally monthly for account maintenance services or when a transaction has been completed. Payment for such performance obligations are generally received at the time the performance obligations are satisfied. Trust services include custody of assets, investment management, fees for trust services and other fiduciary activities. Wealth management fees are received from a third party broker-dealer as part of a revenue sharing agreement for fees earned from customers. Revenue is recognized when the performance obligation is completed, which is generally monthly. Processing and fees for other customer services represent transaction-based fees including debit card interchange fees, loan servicing fees, ATM transaction fees and safe deposits rentals. Revenue is recognized when the performance obligation is completed, which is generally monthly.

Loss Contingencies
Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Reclassifications
Certain amounts in the 2022 consolidated financial statements have been reclassified to conform to the 2023 presentation. These reclassifications did not result in any changes to previously reported net income or stockholders' equity.

Recently Issued Accounting Guidance

ASU No. 2016-13 "Measurement of Credit Losses on Financial Instruments", also known as Current Expected Credit Losses, or "CECL" - This standard replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses. The measurement of estimated credit losses will be based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. CECL requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected (net of the allowance for credit losses).

This new accounting standard is effective for financial statements issued for interim and annual periods beginning after December 15, 2022. The Company adopted ASU No. 2016-13 on January 1, 2023. The net impact to retained earnings would have been immaterial, thus no adjustment was made to retained earnings. 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). See Debt Securities, Loans, and Allowance for Credit Losses – Off Balance Sheet Credit Exposures and Unfunded Commitments below for changes to accounting policies and see Note 4 for additional disclosures related to this new accounting pronouncement.

ASU No. 2022-02, Troubled Debt Restructurings and Vintage Disclosures, Topic 326 (Financial Instruments-Credit Losses) – This standard eliminates the recognition and measurement guidance for troubled debt restructurings by creditors under ASC Subtopic 310-40, Receivables-Troubled Debt Restructurings by Creditors, and, instead, requires the Company to evaluate (consistent with other loan modification accounting standards) whether a loan 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 loans made to borrowers experiencing financial difficulty (Troubled Loan Modification - TLM). The Company adopted ASU No. 2022-02 on January 1, 2023, on a prospective basis. See Note 4 for new disclosures related to the new accounting standard.

NOTE 2 – SECURITIES

The fair value of debt and equity securities, exchange traded funds and the related unrealized gains and losses at December 31, 2023 and 2022, were as follows *(in thousands)*:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2023				
Agency residential mortgage-backed securities	$ 277,695	$ -	$ (35,665)	$ 242,030
US Governmental Agencies	57,185	-	(5,413)	51,772
US Treasury	32,442	-	(1,980)	30,462
State and municipal obligations	30,229	-	(3,136)	27,093
Trust preferred collateralized debt obligations	6,569	-	(936)	5,633
Corporate and other	1,550	-	-	1,550
Total debt securities available for sale	$ 405,670	$ -	$ (47,130)	$ 358,540
State and municipal obligations, held to maturity	$ 1,463	$ 16	$ -	$ 1,479
Equity securities and exchange traded funds	$ 21,392	$ 31,506	$ (188)	$ 52,710
December 31, 2022				
Agency residential mortgage-backed securities	$ 312,152	$ 2	$ (41,425)	$ 270,729
US Governmental Agencies	61,223	33	(7,310)	53,946
US Treasury	38,923	-	(3,187)	35,736
State and municipal obligations	55,240	8	(5,227)	50,021
Trust preferred collateralized debt obligations	6,669	-	(1,226)	5,443
Corporate and other	1,550	-	-	1,550
Total debt securities available for sale	$ 475,757	$ 43	$ (58,375)	$ 417,425
State and municipal obligations, held to maturity	$ 1,471	$ 17	$ (3)	$ 1,485
Equity securities and exchange traded funds	$ 16,976	$ 16,018	$ (176)	$ 32,818

At December 31, 2023, the fair value of equity securities and exchange traded funds includes $48,212,000 of individual equity holdings and $4,498,000 in exchange traded funds. At December 31, 2022, the fair value of equity securities and exchange traded funds includes $27,803,000 of individual equity holdings and $5,015,000 in exchange traded funds.

At year-end 2023 and 2022, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

Debt securities with market values of $187,655,000 and $137,902,000 at December 31, 2023 and 2022, respectively, were pledged principally to secure public fund deposits and securities sold under agreements to repurchase.

Proceeds from sales of securities during 2023 and 2022 were $32,382,000 and $20,754,000, respectively. Gross gains of $1,185,000 and gross losses of $1,847,000 were realized on those sales during 2023. Gross gains of $4,187,000 and gross losses of $3,351,000 were realized on those sales during 2022.

Management 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 basis. Changes to the allowance are recognized through earnings as a provision for (or recovery of) credit losses. Credit losses related to other factors is recognized in other comprehensive income. In 2023 and 2022, the Company did not recognize credit losses.

Changes in the amount of credit losses relating to trust preferred collateralized debt obligations recognized in earnings for the years ended December 31, 2023 and 2022 is as follows *(in thousands)*:

	2023	2022
Balance, beginning of year	$ 27	$ 29
Accretion of prior year credit losses	(1)	(2)
Reductions for current credit losses realized on securities sold or deemed worthless during the period	-	-
Balance, end of year	$ 26	$ 27

The following table presents the year-end fair values and unrealized gross losses for each investment category, by length of time that individual securities in each category have been in a continuous loss position *(in thousands):*

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2023						
Agency residential mortgage-backed securities	$ 1,121	$ (11)	$ 240,909	$ (35,654)	$ 242,030	$ (35,665)
US Governmental Agencies	5,030	(72)	46,742	(5,341)	51,772	(5,413)
US Treasury	-	-	30,462	(1,980)	30,462	(1,980)
State and municipal obligations	436	(5)	26,657	(3,131)	27,093	(3,136)
Trust preferred collateralized debt obligations	-	-	5,633	(936)	5,633	(936)
Total debt securities available for sale	$ 6,587	$ (88)	$ 350,403	$ (47,042)	$ 356,990	$ (47,130)
State and municipal obligations, held to maturity	$ -	$ -	$ -	$ -	$ -	$ -
Equity securities and exchange traded funds	$ 2,535	$ (188)	$ -	$ -	$ 2,535	$ (188)
December 31, 2022						
Agency residential mortgage-backed securities	$ 63,221	$ (4,626)	$ 207,093	$ (36,799)	$ 270,314	$ (41,425)
US Governmental Agencies	8,658	(335)	40,145	(6,975)	48,803	(7,310)
US Treasury	15,627	(727)	20,109	(2,460)	35,736	(3,187)
State and municipal obligations	24,431	(1,611)	21,720	(3,616)	46,151	(5,227)
Trust preferred collateralized debt obligations	-	-	5,443	(1,226)	5,443	(1,226)
Total debt securities available for sale	$ 111,937	$ (7,299)	$ 294,510	$ (51,076)	$ 406,447	$ (58,375)
State and municipal obligations, held to maturity	$ 433	$ (3)	$ -	$ -	$ 433	$ (3)
Equity securities and exchange traded funds	$ 3,152	$ (176)	$ -	$ -	$ 3,152	$ (176)

At December 31, 2023, one hundred eighty nine debt securities available for sale have unrealized losses with aggregate depreciation of 12% from the Company's amortized cost basis. These unrealized losses relate principally to the changes in interest rates and are not due to changes in the financial condition of the issuer, the quality of any underlying assets, or applicable credit enhancements. In analyzing whether unrealized losses on debt securities available for sale are other than temporary, management considers whether the securities are issued by a government body or agency, whether a rating agency has downgraded the securities, industry analysts' reports, the financial condition and performance of the issuer, and the quality of any underlying assets or credit enhancements. Since management has the ability to hold debt securities for the foreseeable future, no declines are deemed to be other than temporary.

Information regarding credit ratings for securities held to maturity by major security type as of December 31, 2023 and 2022 follows *(in thousands)*:

	Aaa	Aa1	Aa2	Ba1	Not Rated	Total
December 31, 2023						
State and municipal obligations	$ 1,029	$ 434	$ -	$ -	$ -	$ 1,463
Total securities held to maturity	$ 1,029	$ 434	$ -	$ -	$ -	$ 1,463
December 31, 2022						
State and municipal obligations	$ 1,035	$ 436	$ -	$ -	$ -	$ 1,471
Total securities held to maturity	$ 1,035	$ 436	$ -	$ -	$ -	$ 1,471

No securities held to maturity were past due or on nonaccrual as of December 31, 2023 and 2022. No accrued interest was written off during 2023 and 2022.

The following table summarizes the contractual maturities of debt securities at December 31, 2023. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or repaid without any penalties. Therefore, these securities are not included in the maturity categories in the following maturity summary *(in thousands)*:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 6,311	$ 6,261	$ -	$ -
Due after one year through five years	72,302	66,495	-	-
Due after five years through ten years	27,332	24,442	1,029	1,045
Due after ten years	22,030	19,312	434	434
Agency residential mortgage-backed securities	277,695	242,030	-	-
Total debt securities	$ 405,670	$ 358,540	$ 1,463	$ 1,479

NOTE 3 – FEDERAL HOME LOAN BANK AND FEDERAL RESERVE BANK STOCK

The Bank owns stock of the FRB and the FHLBC. Both of these entities require the Bank to invest in their nonmarketable stock as a condition of membership. The value of stock held in the FRB was $3,183,000 and $3,183,000 at December 31, 2023 and 2022, respectively. The value of stock held in the FHLBC was $4,668,000 and $4,271,000 at December 31, 2023 and 2022, respectively. FHLBC members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FRB and FHLBC stock are carried at cost, classified as a restricted security, and periodically evaluated for impairment.

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

The following table summarizes loan balances by class as of December 31, 2023 and 2022 *(in thousands)*:

	2023	2022
Real Estate:		
Commercial	$ 298,952	$ 302,432
Construction and development	28,482	49,586
Multifamily housing	817,580	816,726
Residential	215,298	195,211
Home equity	44,672	42,820
Commercial and industrial	19,306	20,021
Municipal leases	45	98
Other consumer	276	313
Total loans	$ 1,424,611	$ 1,427,207

Certain directors and executive officers of the Company and companies with whom they are affiliated have obtained loans from the Bank on various occasions. These loans were made in the ordinary course of business and were made on substantially the same terms, including rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectability or present other unfavorable features. The aggregate balance of these loans was $2,749,000 and $3,223,000 at December 31, 2023 and 2022, respectively. The unused commitments of these loans was $560,000 and $461,000 at December 31, 2023 and 2022, respectively.

The Company primarily lends to privately owned, small and mid-sized businesses, commercial real estate owners and developers, owners of multifamily housing units and consumers in the markets in which the Company operates. Within these areas, the Company diversifies its loan portfolio by loan type, industry, and borrower. A majority of the Company's loans are secured by commercial, multifamily and residential real estate.

Deposit accounts in an overdraft position that were reclassified as loans was $212,000 and $189,000 at December 31, 2023 and December 31, 2022, respectively.

Past Due & Nonperforming Loans

The following table presents an aging of the recorded investment in past due loans by class as of December 31, 2023 and 2022. The aging is determined without regard to accrual status. The table also presents the recorded investment in nonperforming loans, consisting of loans 90 days or more past due and still accruing interest and nonaccrual loans *(in thousands)*:

	Aging Analysis (Accruing and Nonaccrual Loans)				Nonperforming Loans	
	Loans Not Past Due	30-89 Days Past Due	90 Days or Greater Past Due	Total Loans	90 Days Past Due Loans Still Accruing Interest	Nonaccrual Loans
December 31, 2023						
Real Estate:						
Commercial	$ 293,333	$ 387	$ 5,232	$ 298,952	$ -	$ 5,619
Construction and development	28,482	-	-	28,482	-	-
Multifamily housing	816,943	578	59	817,580	-	59
Residential	214,816	311	171	215,298	-	642
Home equity	44,480	76	116	44,672	-	191
Commercial and industrial	19,231	-	75	19,306	-	83
Municipal leases	45	-	-	45	-	-
Other consumer	276	-	-	276	-	13
Total	$ 1,417,606	$ 1,352	$ 5,653	$ 1,424,611	$ -	$ 6,607
December 31, 2022						
Real Estate:						
Commercial	$ 295,411	$ 159	$ 6,862	$ 302,432	$ 27	$ 7,203
Construction and development	49,586	-	-	49,586	-	-
Multifamily housing	816,267	391	68	816,726	-	68
Residential	194,805	406	-	195,211	-	433
Home equity	42,551	57	212	42,820	-	297
Commercial and industrial	19,846	-	175	20,021	-	175
Municipal leases	98	-	-	98	-	-
Other consumer	313	-	-	313	-	30
Total	$ 1,418,877	$ 1,013	$ 7,317	$ 1,427,207	$ 27	$ 8,206

The following table presents the nonaccrual loans as of December 31, 2023 and 2022 *(in thousands)*:

	Nonaccrual Loans: With No Allowance for Credit Losses	Nonaccrual Loans: With an Allowance for Credit Losses	Nonaccrual Loans: Total	Nonaccrual Loans: Balance Beginning of Year	Interest Income Recognized on Nonaccrual Loans	Amortized Cost Basis of Loans 90+ Days Past Due Not on Nonaccrual
December 31, 2023						
Real Estate:						
Commercial	$ 5,619	$ -	$ 5,619	$ 7,203	$ 335	$ -
Construction and development	-	-	-	-	-	-
Multifamily housing	59	-	59	68	-	-
Residential	413	229	642	433	12	-
Home equity	29	162	191	297	30	-
Commercial and industrial	-	83	83	175	10	-
Municipal leases	-	-	-	-	-	-
Other consumer	-	13	13	30	-	-
Total	$ 6,120	$ 487	$ 6,607	$ 8,206	$ 387	$ -

	Nonaccrual Loans: With No Allowance for Credit Losses	Nonaccrual Loans: With an Allowance for Credit Losses	Nonaccrual Loans: Total	Nonaccrual Loans: Balance Beginning of Year	Interest Income Recognized on Nonaccrual Loans	Amortized Cost Basis of Loans 90+ Days Past Due Not on Nonaccrual
December 31, 2022						
Real Estate:						
Commercial	$ 7,173	$ 30	$ 7,203	$ 9,230	$ 75	$ -
Construction and development	-	-	-	-	-	-
Multifamily housing	68	-	68	77	-	-
Residential	169	264	433	1,083	104	-
Home equity	102	195	297	821	76	-
Commercial and industrial	175	-	175	423	16	-
Municipal leases	-	-	-	-	-	-
Other consumer	-	30	30	40	-	-
Total	$ 7,687	$ 519	$ 8,206	$ 11,674	$ 271	$ -

Credit Quality Indicators

The Company categorizes loans into risk categories based on various characteristics, such as the borrower's cash flow, leverage, collateral coverage, historical payment experience, performance trends and other factors. Risk ratings are updated on an "as warranted" basis. The Company also utilizes its internal asset classification system as a means of reporting problem and potential problem loans. Under the risk rating system, the Company classifies problem and potential problem loans "Special Mention," "Substandard," and "Doubtful." The Company uses the following definitions for these risk classification ratings:

Special Mention: Loans identified by this risk classification warrant increased levels of management oversight as they have potential weaknesses that deserve management's close attention. Borrowers of this type may have experienced a significant reduction of sales, an erosion of profit margin or experienced a loss. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Companies in this category are highly leveraged having debt to equity ratios well in excess of the average for the industry in which they operate. Borrower debt service coverage, based upon recent performance is not adequate to service debt. Management also considers payment delinquencies, slow or missing financial reporting to be contributing factors in an overall assessment of a credit to be deemed Special Mention.

Substandard: Substandard loans are inadequately protected by the net worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Although legal initiatives may have been undertaken by the Company, the borrower generally continues to cooperate with the Company in pursuing a satisfactory resolution to the loan obligation. The borrower may be providing additional collateral, pursuing additional equity, attempting to refinance, etc.

Doubtful: A loan classified "doubtful" has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently known facts, conditions, and values. The likelihood of a loss on an asset or portion of an asset classified Doubtful is high.
Loans not covered by the definitions above are considered Pass credits and are evaluated based on past due status, which was previously presented.

The following table presents the loan portfolio by risk classification and origination year for the year ended December 31, 2023 *(in thousands)*:

	Vintage Year				Revolving	Revolving Loans Converted to	
	2023	**2022**	**2021**	**Prior**	**Loans**	**Term Loans**	**Total**
Commercial Real Estate:							
Pass	$11,707	$ 68,568	$ 64,436	$145,464	$ 2,070	$ -	$ 292,245
Special Mention/Watch	-	-	-	1,089	-	-	1,089
Substandard	-	-	-	601	-	-	601
Doubtful	-	-	-	5,017	-	-	5,017
Totals	$11,707	$ 68,568	$ 64,436	$152,171	$ 2,070	$ -	$ 298,952
Current year gross charge-offs	$ -	$ -	$ -	$ 3,216	$ -	$ -	$ 3,216
Construction and Development:							
Pass	$ 9,307	$ 11,892	$ 2,387	$ 525	$ 4,371	$ -	$ 28,482
Special Mention/Watch	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Totals	$ 9,307	$ 11,892	$ 2,387	$ 525	$ 4,371	$ -	$ 28,482
Current year gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Multifamily Housing:							
Pass	$46,797	$206,635	$172,924	$387,969	$ 1,772	$ -	$ 816,097
Special Mention/Watch	-	345	-	673	-	-	1,018
Substandard	-	-	-	465	-	-	465
Doubtful	-	-	-	-	-	-	-
Totals	$46,797	$206,980	$172,924	$389,107	$ 1,772	$ -	$ 817,580
Current year gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Residential Real Estate:							
Pass	$33,676	$ 40,855	$ 54,933	$ 82,583	$ -	$ -	$ 212,047
Special Mention/Watch	-	375	-	2,111	-	-	2,486
Substandard	-	-	-	765	-	-	765
Doubtful	-	-	-	-	-	-	-
Totals	$33,676	$ 41,230	$ 54,933	$ 85,459	$ -	$ -	$ 215,298
Current year gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -

	Vintage Year 2023	2022	2021	Prior	Revolving Loans	Revolving Loans Converted to Term Loans	Total
Home Equity Real Estate:							
Pass	$ 6,293	$ 2,617	$ 476	$ 3,423	$ 30,068	$ 287	$ 43,164
Special Mention/Watch	-	24	-	134	826	333	1,317
Substandard	-	-	-	-	46	29	75
Doubtful	-	-	-	-	116	-	116
Totals	$ 6,293	$ 2,641	$ 476	$ 3,557	$ 31,056	$ 649	$ 44,672
Current year gross charge-offs	$ -	$ -	$ -	$ 14	$ -	$ 67	$ 81
Commercial and Industrial:							
Pass	$ 1,691	$ 1,005	$ 228	$ 1,138	$ 7,429	$ -	$ 11,491
Special Mention/Watch	-	-	-	206	281	-	487
Substandard	-	-	625	17	6,686	-	7,328
Doubtful	-	-	-	-	-	-	-
Totals	$ 1,691	$ 1,005	$ 853	$ 1,361	$ 14,396	$ -	$ 19,306
Current year gross charge-offs	$ -	$ -	$ -	$ 129	$ -	$ -	$ 129
Municipal Leases:							
Pass	$ -	$ -	$ -	$ 45	$ -	$ -	$ 45
Special Mention/Watch	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Totals	$ -	$ -	$ -	$ 45	$ -	$ -	$ 45
Current year gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other Consumer:							
Pass	$ 183	$ -	$ 50	$ 7	$ 23	$ -	$ 263
Special Mention/Watch	-	-	-	-	-	-	-
Substandard	-	-	-	13	-	-	13
Doubtful	-	-	-	-	-	-	-
Totals	$ 183	$ -	$ 50	$ 20	$ 23	$ -	$ 276
Current year gross charge-offs	$ 200	$ -	$ -	$ 2	$ -	$ -	$ 202

The following table presents the credit quality indicators most closely monitored by loan class as of December 31, 2022 *(in thousands)*:

	Pass	Special Mention	Substandard	Doubtful	Total Loans
December 31, 2022					
Real Estate:					
Commercial	$ 289,792	$ 2,421	$ 10,189	$ 30	$ 302,432
Construction and development	49,586	-	-	-	49,586
Multifamily housing	815,051	1,174	430	71	816,726
Residential	192,290	2,357	517	47	195,211
Home equity	40,771	1,738	155	156	42,820
Commercial and industrial	12,054	7,091	876	-	20,021
Municipal leases	98	-	-	-	98
Other consumer	283	-	-	30	313
Total	$ 1,399,925	$ 14,781	$ 12,167	$ 334	$ 1,427,207

Individually Evaluated Loans

The following table presents loans individually evaluated for impairment by class as of December 31, 2023 and 2022. For purposes of this disclosure, the unpaid contractual principal balance is not reduced for net charge-offs *(in thousands)*:

	With No Related Allowance Recorded	With a Related Allowance Recorded	
	Recorded Investment	Recorded Investment	Allowance for Credit Losses
December 31, 2023			
Real Estate:			
Commercial	$ 5,978	$ -	$ -
Construction and development	-	-	-
Multifamily housing	59	406	58
Residential	1,581	4,199	384
Home equity	639	162	129
Commercial and industrial	958	83	83
Other consumer	-	13	13
Total	$ 9,215	$ 4,863	$ 667

	With No Related Allowance Recorded		With a Related Allowance Recorded		
	Unpaid Contractual Principal Balance	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Investment	Allowance for Credit Losses
December 31, 2022					
Real Estate:					
Commercial	$ 13,053	$ 8,080	$ 58	$ 30	$ 30
Construction and development	-	-	-	-	-
Multifamily housing	96	68	437	418	71
Residential	1,508	1,353	4,980	4,791	490
Home equity	1,148	1,016	204	189	156
Commercial and industrial	1,212	1,155	-	-	-
Other consumer	-	-	31	30	30
Total	$ 17,017	$ 11,672	$ 5,710	$ 5,458	$ 777

The following table sets forth average recorded investment and interest income recognized on impaired loans for the year ended December 31, 2022 *(in thousands)*:

	2022	
	Average Recorded Investment	Interest Income Recognized
Real Estate:		
Commercial	$ 11,971	$ 49
Construction and development	-	-
Multifamily housing	496	17
Residential	6,779	268
Home equity	1,321	49
Commercial and industrial	1,334	51
Other consumer	35	-
Total	$ 21,936	$ 434

Troubled Loan Modifications
The Company had no troubled modified loans to borrowers experiencing financial difficulties during the year ended December 31, 2023.

TDR Loans
The following table presents loans by classes that were restructured as TDRs that occurred during the year ended December 31, 2022. The Pre-Restructure Outstanding Recorded Investment is equal to the outstanding balance immediately prior to restructure. The Post-Restructure Outstanding Recorded Investment is equal to the outstanding balance immediately after restructure *(in thousands)*:

	Number of Loans	Pre-Restructure Outstanding Recorded Investment	Post-Restructure Outstanding Recorded Investment
2022			
Real Estate:			
Commercial	5	$ 3,744	$ 3,736
Home equity	6	236	235
Commercial and industrial	1	264	262
Total	12	$ 4,244	$ 4,233

For the year ended December 31, 2022, the restructure of the terms of TDR loans included, but were not limited to, the deferral of past due interest or principal, implementing A/B note structure, redemption of past due taxes associated with real estate collateral, reduction of interest rates, extending maturities and restructure of amortization schedules. Typically, principal balances, past due interest prior to pay off or surrender of the property is not forgiven. Restructures involving a reduction of the stated interest rate of the loan were for periods ranging from three months to less than two years. Restructures involving an extension of the maturity date were for periods generally ranging from three months to one year. During the year ended December 31, 2022, the TDR loans described above decreased the allowance for credit losses by $351,000 and there were charge-offs of $174,000.

The following table presents by class, loans restructured as a TDR during the year ended December 31, 2022, for which there was a payment default within 12 months following the restructure *(in thousands)*:

	2022	
	Number of Loans	Recorded Investment
Real Estate:		
Commercial	1	$ 61
Home equity	1	16
Total	2	$ 77

During the year ended December 31, 2022, TDR loans that subsequently defaulted as described above had no increase to the allowance for credit losses.

The following table presents a summary of the recorded balance of TDR loans outstanding as of December 31, 2022 *(in thousands)*:

	2022
In compliance with structured terms	$ 8,879
Not in compliance with restructured terms	119
Total restructured loans	$ 8,998
Related allowance for credit losses	$ 544

At December 31, 2022, the Company had no outstanding commitments to lend additional funds to borrowers whose loan terms have been restructured as TDRs. All TDR loans are considered impaired loans and are included in the impaired loan tables above. TDR loans on nonaccrual status at December 31, 2022 were $30,000.

Allowance for Credit Losses

The Company's allowance for credit losses on loans for the year ended December 31, 2023, is presented under ASC 326. The Company's allowance for credit losses on loans for the year ended December 31, 2022, is presented under the incurred loss impairment model. Refer to the "New Accounting Pronouncements" section of Note 1 for more information. At December 31, 2023, the Company maintained a reserve for unfunded loan commitments totaling $250,000, which is included in accrued interest payable and other liabilities on the accompanying Consolidated Balance Sheet. As part of the adoption of ASU 326, the Company recorded an initial adjustment to the reserve for unfunded loan commitments of $410,000. The provision for credit losses on unfunded loan commitments totaled $(160,000) for the year ended December 31, 2023.

The following table presents by loan class the changes in the allowance for credit losses for the years ended December 31, 2023 and 2022 *(in thousands)*:

	Beginning Balance	Impact upon Adoption of ASC 326	Provision for (Release of) Credit Losses	Charge-offs	Recoveries	Ending Balance	ACL Off Balance Sheet Credit Exposures
2023							
Real Estate:							
Commercial	$ 4,195	$ (2)	$ 1,003	$ (3,216)	$ 49	$ 2,029	$ 1
Construction and development	868	(145)	(591)	-	20	152	72
Multifamily housing	6,069	(1)	3,110	-	7	9,185	-
Residential	2,866	-	(1,094)	-	4	1,776	-
Home equity	1,003	(259)	(190)	(81)	69	542	175
Commercial and industrial	283	(3)	416	(129)	-	567	2
Municipal leases	-	-	1	-	-	1	-
Other consumer	31	-	124	(202)	61	14	-
Total	$ 15,315	$ (410)	$ 2,779	$ (3,628)	$ 210	$ 14,266	$ 250

	Beginning Balance	Provision (Credit) for Loan Losses	Charge-offs	Recoveries	Ending Balance
2022					
Real Estate:					
Commercial	$ 4,265	$ 1,425	$ (1,576)	$ 81	$ 4,195
Construction and development	908	(39)	(1)	-	868
Multifamily housing	5,285	781	-	3	6,069
Residential	2,742	27	-	97	2,866
Home equity	910	30	-	63	1,003
Commercial and industrial	289	(311)	-	305	283
Municipal leases	3	(3)	-	-	-
Other consumer	41	129	(222)	83	31
Total	$ 14,443	$ 2,039	$ (1,799)	$ 632	$ 15,315

The following table sets forth by loan class, the balance in the allowance for credit losses and the recorded investment in loans as of December 31, 2023 and 2022 *(in thousands)*:

	Allowance for Credit Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
December 31, 2023						
Real Estate:						
Commercial	$ -	$ 2,029	$ 2,029	$ 5,978	$ 292,974	$ 298,952
Construction and development	-	152	152	-	28,482	28,482
Multifamily housing	58	9,127	9,185	465	817,115	817,580
Residential	384	1,392	1,776	5,780	209,518	215,298
Home equity	129	413	542	801	43,871	44,672
Commercial and industrial	83	484	567	1,041	18,265	19,306
Municipal leases	-	1	1	-	45	45
Other consumer	13	1	14	13	263	276
Total	$ 667	$ 13,599	$ 14,266	$ 14,078	$ 1,410,533	$ 1,424,611
December 31, 2022						
Real Estate:						
Commercial	$ 30	$ 4,165	$ 4,195	$ 8,110	$ 294,322	$ 302,432
Construction and development	-	868	868	-	49,586	49,586
Multifamily housing	71	5,998	6,069	486	816,240	816,726
Residential	490	2,376	2,866	6,144	189,067	195,211
Home equity	156	847	1,003	1,205	41,615	42,820
Commercial and industrial	-	283	283	1,155	18,866	20,021
Municipal leases	-	-	-	-	98	98
Other consumer	30	1	31	30	283	313
Total	$ 777	$ 14,538	$ 15,315	$ 17,130	$ 1,410,077	$ 1,427,207

NOTE 5 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment as of December 31, 2023 and 2022 *(in thousands)*:

	2023	2022
Land	$ 11,995	$ 12,477
Buildings and improvements	67,235	68,365
Furniture and equipment	37,625	37,709
Construction-in-progress	173	696
Total cost	117,028	119,247
Less: accumulated depreciation and amortization	(70,783)	(69,812)
Premises and equipment, net	$ 46,245	$ 49,435

The Company leases certain banking facilities under noncancelable operating leases that expire on various dates from 2024 through 2028. The leases contain renewal options for varying terms expiring between 2024 through 2031 and require the payment of property taxes, insurance and related expenses. The Company also leases certain equipment under cancelable and noncancelable leases with terms of up to three years. Total rent expense under operating leases amounted to $377,000 in 2023 and $349,000 in 2022. Aggregate amounts of minimum rental commitments under noncancelable operating leases, excluding renewal options, are $294,000. For each of the years subsequent to December 31, 2023, amounts of minimum rental commitments are $99,000 (2024), $68,000 (2025), $60,000 (2026), $38,000 (2027) and $29,000 (2018).

NOTE 6 – GOODWILL

The carrying amount of goodwill was $35,348,000 at December 31, 2023 and 2022, respectively. Goodwill has an indefinite useful life and is not amortized, but is tested for impairment at least annually. Impairment exists when the carrying value of goodwill exceeds its fair value. At December 31, 2023 and 2022, the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessments indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment.

NOTE 7 – DEPOSITS

The following table summarizes major categories of deposits at December 31, 2023 and 2022 *(in thousands)*:

	2023	2022
Demand deposits	$ 323,673	$ 363,278
NOW accounts	240,760	269,366
Money market accounts	149,752	162,293
Savings deposits	658,662	677,146
Time deposits	336,903	216,856
Total deposits	$ 1,709,750	$ 1,688,939

Deposits of executive officers, directors and affiliated companies totaled $4,812,000 at December 31, 2023 and $4,304,000 at December 31, 2022.

Interest expense on deposits for the years ended December 31, 2023 and 2022 by major deposit categories are as follows *(in thousands)*:

	2023	2022
NOW accounts	$ 64	$ 76
Money market accounts	37	56
Savings deposits	5,919	742
Time deposits	9,075	1,155
Total interest expense	$ 15,095	$ 2,029

The following table summarizes the scheduled maturities of time deposits at December 31, 2023 *(in thousands)*:

2024	$ 309,883
2025	16,573
2026	3,469
2027	5,579
2028	1,399
Total time deposits	$ 336,903

The aggregate amount of time deposits with balances that exceed the FDIC insurance limit of $250,000 were $121,098,000 and $67,764,000, at December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, the Bank had no brokered deposits.

NOTE 8 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase primarily represent borrowings originated as part of cash management services offered to corporate customers. Substantially all of the borrowings mature in one business day. The securities underlying the agreements are maintained and controlled by the Bank. Information relating to these borrowings for 2023 and 2022 is presented below *(in thousands)*:

	2023	2022
Balance at December 31	$ 108,170	$ 96,441
Average balance during the year	100,840	103,490
Maximum month-end balance during the year	110,673	134,946
Weighted average interest rate for the year	2.86%	.95%

NOTE 9 - BORROWED FUNDS

The Company has a master contract agreement with the FHLBC that provides for borrowing up to a specified percentage of qualified residential and multifamily mortgages. The FHLBC provides both fixed and floating rate advances. Floating rates are indexed on short-term market rates of interest, such as SOFR, federal funds, or Treasury bill rates. Advances with call provisions permit the FHLBC to request payment beginning on the call date and quarterly thereafter. Advances are subject to a prepayment penalty if they are repaid prior to maturity. At December 31, 2023, the FHLBC has issued an irrevocable letter of credit in the amount of $125,000 to the Bank.

At December 31, 2023, the Bank's available and unused portion of this borrowing agreement with the FHLBC was approximately $11,734,000 based on the Bank's current capital stock balance of $4,668,000 as of December 31, 2023. However, if the Bank were to purchase additional stock, the maximum available borrowing capacity totaled approximately $391,684,000.

At December 31, 2023 and 2022, the Bank had the following fixed rate advances *(in thousands)*:

	2023	2022
FHLBC advances - 4.31%, due 01-09-23	$ -	$ 35,000
FHLBC advances - 4.52%, due 12-30-24	10,000	10,000
FHLBC advances - 4.37%, due 01-09-25	4,000	-
FHLBC advances - 4.37%, due 06-30-25	15,000	15,000
FHLBC advances - 4.25%, due 07-07-25	5,000	-
FHLBC advances - 4.18%, due 07-09-25	6,000	-
FHLBC advances - 5.08%, due 10-27-25	5,000	-
FHLBC advances - 4.28%, due 12-29-25	16,000	16,000
FHLBC advances - 4.14%, due 01/06/26	5,000	-
FHLBC advances - 4.07%, due 01-09-26	6,000	-
FHLBC advances - 4.04%, due 07-06-26	5,000	-
FHLBC advances - 3.98%, due 07-09-26	5,000	-
FHLBC advances - 4.16%, due 12-28-26	10,000	10,000
Total borrowed funds	$ 92,000	$ 86,000

NOTE 10 - JUNIOR SUBORDINATED NOTES ISSUED TO CAPITAL TRUSTS

The Company has established Delaware statutory trusts for the sole purpose of issuing trust preferred securities and related trust common securities. The proceeds from such issuances were used by the trusts to purchase junior subordinated notes of the Company, which are the sole asset of each trust. Concurrently with the issuance of the trust preferred securities, the Company issued guarantees for the benefit of the holders of the trust preferred securities. The trust preferred securities are issues that qualify, and are treated by the Company, as either Tier 1 or Tier 2 regulatory capital. The Company wholly owns all of the common securities of each trust. The trust preferred securities issued by each trust rank equally with the common securities in right of payment, except that if an event of default under the indenture governing the notes has occurred and is continuing, the preferred securities will rank senior to the common securities in right of payment. The trusts are not consolidated in the Company's financial statements, but rather the junior subordinated debentures are shown as a liability. The Company's investments in the common stock of the trusts are included in other assets.

The table below summarizes the outstanding junior subordinated notes and the related trust preferred securities issued by each trust as of December 31, 2023 and 2022 *(in thousands)*:

	Marquette Capital Trust I	Marquette Capital Trust I-A
Junior Subordinated Notes:		
Principal balance	$25,774	$30,928
Annual interest rate	3-mo SOFR +.26161 + 1.39%	3-mo SOFR +.26161 + 1.39%
Stated maturity date	March 15, 2036	June 15, 2036
Call date	Quarterly after March 15, 2012	Quarterly after June 15, 2012
Trust Preferred Securities:		
Face value	$25,000	$30,000
Annual distribution rate	3-mo SOFR +.26161 + 1.39%	3-mo SOFR +.26161 + 1.39%
Issuance date	January, 2006	March, 2006
Distribution dates (1)	Quarterly	Quarterly

(1) All cash distributions are cumulative.

The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment or redemptions of the junior subordinated notes at or prior to the stated maturity date or quarterly at the option of the Company. Prior to these respective redemption dates, the junior subordinated notes may be redeemed by the Company (in which case the trust preferred securities would also be redeemed) after the occurrence of certain events that would have a negative tax effect on the Company or the trusts, would cause the trust preferred securities to no longer qualify as regulatory capital, or would result in a trust being treated as an investment company. Any redemption is subject to prior regulatory approval. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated notes.

The Company's obligation under the junior subordinated notes and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of each trust's obligations under the trust preferred securities issued by each trust. The Company has the right to defer payment of interest on the notes and, therefore, distributions on the trust preferred securities, for up to five years, but not beyond the stated maturity date in the table above. During any such deferral period the Company may not pay cash dividends on its common stock and generally may not repurchase its common stock. At December 31, 2023 and 2022, the Company was current on all interest payments due to the junior subordinated notes and the related trust preferred securities.

NOTE 11 - COMMON STOCK

On October 19, 2021, the Company's Board of Directors authorized the repurchase of up to $1,500,000 of its outstanding common stock at prevailing market prices through open market or negotiated transactions. Under this program, the Company repurchased 31,622 shares of common stock for $1,049,000, or an average price of $33.18 per share.

On January 26, 2023, the Company's Board of Directors authorized the repurchase of up to $1,000,000 of its outstanding common stock at prevailing market prices through open market or negotiated transactions. Under this program, the Company repurchased 2,245 shares of common stock for $59,000, or an average price of $26.44 per share.

NOTE 12 - EMPLOYEE BENEFITS

The Bank has a non-contributory employee stock ownership plan ("ESOP") and a savings incentive plan under section 401(k) of the Internal Revenue Code. These plans cover substantially all full-time employees who have completed age and service requirements. Contributions to the ESOP are made by the Bank in accordance with resolutions passed by its board of directors. ESOP contribution expense was $401,000 in 2023 and $432,000 in 2022. Under the savings incentive plan, the employee contributions are partially matched by the Bank. Total expense associated with the savings plan amounted to $339,000 in 2023 and $331,000 in 2022.

As of December 31, 2023 and 2022, the ESOP held 257,272 and 244,571 shares, all of which were allocated to participants. The estimated fair value of the ESOP shares was approximately $6,946,000 and $7,337,000 at December 31, 2023 and 2022, respectively. At retirement or separation, a participant may elect to receive a distribution of ESOP benefits in cash or shares of the Company common stock. If a participant receives a distribution of shares of the Company common stock, they have two options to put back the shares to the Company at fair value. The first put option period begins on the date the stock is distributed and extends for a period of 60 days. The second put option is for a period of 60 days after an ESOP valuation is completed in the following plan year. If either option is exercised, the Company may repay this obligation over a five-year period.

NOTE 13 - DEFERRED COMPENSATION PLANS

The Marquette Bank Directors' and Employees' Deferred Compensation Plan (the "DCP") was established to enable directors and certain officers the opportunity to defer a portion of their fees and cash compensation paid by the Bank as a means of maximizing the effectiveness and flexibility of compensation arrangements. Under the DCP, participants invest their deferred compensation in shares of the Company's common stock. The purchase price per share is based on the fair market value as determined by an independent third-party valuation firm. Pursuant to the DCP, the Company issued 18,713 and zero common shares in 2023 and 2022, respectively.

The Marquette National Corporation 2010 Equity Incentive Plan (the "EIP") was established to promote the long-term financial success of the Company by providing a means to retain and reward individuals who contribute to such success. In 2017, the Company's Board of Directors approved equity grants in the form of restricted stock units ("RSU") of 9,636. Each RSU vests over a five-year period and each participant was distributed one share of the Company's common stock for each RSU vested. The 2017 grants were fully vested in 2022 – common stock and/or cash was distributed to the grant recipients in 2022. There were no equity grants made under the EIP in 2023 and 2022.

The Company classifies the cost basis of its common stock issued and held in trust in connection with the DCP and EIP as treasury stock. The Company also classifies the cost basis of its related deferred compensation obligations, in the same amounts, as equity instruments (deferred compensation).

The Company and the Bank have deferred compensation agreements with certain directors and officers. The deferred compensation is to be paid to the individuals or their heirs over a period of ten or fifteen years commencing at various dates as designated in the agreements. The Company and the Bank record a liability for these obligations in an amount sufficient to provide for the value of annuities that will fund required payments under deferred compensation agreements. Expense for 2023 and 2022 amounted to $360,000 and $436,000, respectively. As of December 31, 2023 and 2022, the accrued liability relating to these agreements totaled $5,570,000 and $5,963,000, respectively.

NOTE 14 - INCOME TAXES

The components of income tax expense (benefit) for the years ended December 31, 2023 and 2022 are as follows *(in thousands)*:

	2023	2022
Current:		
Federal	$ 536	$ 1,911
State	609	372
Total current	1,145	2,283
Deferred:		
Federal	3,141	(3,701)
State	1,125	(1,324)
Total deferred tax	4,266	(5,025)
Total income tax expense (benefit)	$ 5,411	$ (2,742)

A reconciliation of the federal statutory income tax to the Company's income tax benefit for the years ended December 31, 2023 and 2022 is as follows *(in thousands)*:

	2023	**2022**
Federal income tax	$ 4,522	$ (1,198)
Increase (decrease) in taxes due from:		
Tax-exempt interest income, net	(59)	(163)
Tax-exempt dividend income	(30)	(33)
Premium income not subject to tax	(144)	(249)
Income from bank owned life insurance	(280)	(315)
ESOP dividends paid	(60)	(57)
State income taxes, net	1,616	(428)
Other, net	(154)	(299)
Total income tax expense (benefit)	$ 5,411	$ (2,742)

Differences between the amounts reported in the consolidated financial statements and the tax bases of assets and liabilities result in temporary differences for which deferred tax assets and liabilities have been recorded. The tax effects of temporary differences which comprise the significant portions of the Company's deferred tax assets and deferred tax liabilities as of December 31, 2023 and 2022 are as follows *(in thousands)*:

	2023	**2022**
Deferred tax assets:		
Allowance for credit losses	$ 4,137	$ 4,366
Reserve for unfunded commitments	10	10
Investment securities credit losses	5	6
Other real estate owned	-	65
Interest on nonaccrual loans	238	346
Deferred compensation	1,707	1,933
Accrued expenses	291	370
Charitable contributions	6	6
Unrealized loss on securities, AFS	13,437	16,628
Total deferred tax assets	19,831	23,730
Deferred tax liabilities:		
Depreciation	(2,402)	(2,672)
1031 Deferred Gain	(131)	(131)
Market value adjustment on equity securities	(8,927)	(4,516)
FHLB stock	(225)	(225)
Deferred loan origination costs	(1,691)	(1,657)
Mortgage servicing rights	(67)	(92)
Prepaid expenses	(255)	(845)
Goodwill	(73)	(73)
Purchase accounting adjustments	(237)	(239)
Unrealized gain on securities, AFS	-	-
Total deferred tax liabilities	(14,008)	(10,450)
Net deferred tax assets	$ 5,823	$ 13,280

Management believes that it is more likely than not that the deferred tax assets (liabilities) included in the accompanying Consolidated Balance Sheets will be fully utilized. Therefore, no valuation allowance is required at December 31, 2023.

The Company is subject to U.S. Federal income tax as well as income tax for the State of Illinois. The Company is no longer subject to examinations by taxing authorities for years prior to 2020.

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES

Credit

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include lines of credit, letters of credit and other commitments to extend credit. Each of these instruments involves, to varying degrees, elements of credit, interest rate and liquidity risk in excess of the amounts recognized in the Consolidated Balance Sheets. The Company uses the same credit policies and requires similar collateral in approving lines of credit and commitments and issuing letters of credit as it does in making loans. The exposure to credit losses on financial instruments is represented by the contractual amount of these instruments.

The off-balance-sheet financial instruments whose contract amounts represent credit risk and the related reserve for reserve for letters of credit at December 31, 2023 and 2022 are as follows *(in thousands)*:

	2023	2022
Commitments to extend credit:		
Real Estate:		
Commercial	$ 4,178	$ 253
Construction and development	12,750	2,049
Multifamily housing	900	2,605
Residential	13,548	15,409
Home equity	1,260	-
Commercial and industrial	-	325
Total	$ 32,636	$ 20,641
Unused lines of credit:		
Real Estate:		
Commercial	$ 6,532	$ 7,529
Construction and development	26,799	54,215
Multifamily housing	1,528	2,387
Residential	-	-
Home equity	56,947	56,520
Commercial and industrial	16,681	16,147
Total	$ 108,487	$ 136,798
Letters of credit	$ 5,543	$ 8,332
Reserve for letters of credit	$ 35	$ 35

Commitments to originate credit represent approved loans that generally are expected to be funded within 90 days. Lines of credit are agreements by which the Company agrees to provide a borrowing accommodation up to a stated amount as long as there is no violation of any condition established in the loan agreement. The borrower may periodically reduce or retire amounts drawn under a line and subsequently redraw these amounts. Both commitments to originate credit and lines of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the lines and some commitments are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Company to guarantee the financial performance of customers to third parties. Standby letters of credit are primarily issued to facilitate trade or support borrowing arrangements and generally expire in one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending credit facilities to customers. The maximum amount of credit that would be extended under letters of credit is equal to the total off-balance-sheet contract amount of such instruments.

In 2023 and 2022, there was no activity in the reserve for letters of credit.

Concentrations of Credit Risks
In addition to financial instruments with off-balance-sheet risk, the Company is exposed to varying risks associated with concentrations of credit. Concentrations of credit risk generally exist if an individual or number of counterparties is engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by economic or other conditions. Credit risk is affected by a variety of factors including the credit-worthiness of the borrower or other party, the sufficiency of underlying collateral, the enforceability of third party guarantees, changing economic and industry conditions and concentrations of credit by loan type, terms or geographic area, changes in the financial condition of the borrower or other party, and by credit and underwriting policies.

The Company conducts substantially all of its lending activities with customers located in the Chicago metropolitan area. A major portion of loans are secured by various forms of collateral including real estate, business assets, and consumer property, although borrower cash flow is the primary source of repayment. It is the policy of the Company to review each prospective credit in order to determine an adequate level of security or collateral to obtain prior to making a loan. There are risks inherent in making any loan, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and risks resulting from changes in economic and industry conditions. The Company attempts to minimize credit risk through prudent loan application approval procedures, careful monitoring of the concentration of loans within specific industries and periodic independent reviews of outstanding loans. Since the Company's borrowers and its loan collateral have geographic concentration in the Chicago metropolitan area, the Company has exposure to a decline in the local economy and real estate market.

A majority of the Company’s loan portfolio is secured by commercial properties consisting of multifamily housing and non-owner commercial real estate loans originated in the Chicago market.

At December 31, 2023, the loan portfolio included $818 million in multifamily housing loans, or 56% of total loans, and $263 million in non-owner occupied nonresidential real estate loans, or 18% of total loans. These commercial real estate loans represented 604% of the Bank’s $180 million total risk-based capital at December 31, 2023, and thus are considered a concentration of credit for regulatory purposes.

Litigation
The Company is a defendant in certain 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 matters is not expected to have a material adverse effect on the consolidated financial condition or results of operations.

NOTE 16 – MORTGAGE BANKING

Commitments to fund certain mortgage loans (interest rate locks) to be sold into the secondary market for the future delivery of mortgage loans to third party investors are considered derivatives. It is the Company’s practice to enter into non-mandatory forward commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitments to fund the loans. The notional amount of interest rate locks as of December 31, 2023 and 2022 was $8,240,000 and $5,430,000, respectively. The fair values of these interest rate locks were not material to these consolidated financial statements.

The Company sells mortgage loans on a non-recourse basis. In connection with the loan sales, the Company makes representations and warranties customary in the industry relating to, among other things, compliance with laws, regulations and program standards, and to accuracy of information. If there is a breach of the representations and warranties by the Company, typically the Company corrects these flaws. If the flaws cannot be corrected, the Company may be required to repurchase these loans. As of December 31, 2023 and 2022, no amounts have been recorded as liabilities for the Company’s potential obligations under these recourse agreements.

NOTE 17 - 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 the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability. These unobservable inputs are derived from other valuation methodologies, including discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. If the inputs used to provide the evaluation are unobservable and/or there is very little, if any, market activity for the security or similar securities, the securities would be considered Level 3 securities. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Assets and Liabilities Measured at Fair Value

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Debt Securities Available for Sale: The fair values of securities available for sale is determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1) or 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). If the securities could not be priced using quoted market prices, observable market activity or comparable trades and the financial market was considered not active, the securities were classified as Level 3.

The securities included in Level 3 are the Company's trust preferred CDOs. On a quarterly basis, management monitors the underlying collateral and credit rating of each security. At December 31, 2023 and 2022, the fair value of trust preferred CDOs is based on a discounted cash flow model used by an independent structured credit valuation firm. Due to current market conditions, as well as the limited trading activity of these securities, the fair value of trust preferred CDOs is highly sensitive to assumption changes and market volatility.

Equity Securities and Exchange Traded Funds: The fair values of securities available for sale is determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1). If the securities could not be priced using quoted market prices, observable market activity was used to estimate fair value (Level 2).

Individually Evaluated Loans: The fair value of individually evaluated loans with specific allocations of the allowance for credit losses is generally based on the fair value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. A majority of the collateral securing individually evaluated loans is real estate for which updated appraisals or broker evaluations are received at least annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business. Individually evaluated loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other Real Estate Owned: 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. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized. Fair value is commonly based on recent real estate appraisals or broker evaluations which are updated no less frequently than annually. Appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Appraisals for both collateral dependent loans and real estate owned are performed by certified appraisers whose qualifications and licenses have been reviewed by the Company. Once received, a member of the Credit Department reviews the assumptions and approaches utilized in the appraisal, as well as the overall fair value, in comparison with independent data sources such as recent market data of industry wide statistics. Typically appraised values are not adjusted by management and are deemed to be fair value unless other information suggests that the value of the collateral is less than the appraised value.

The following table sets forth the Company's financial assets that were accounted for at fair value on a recurring basis as of December 31, 2023 and 2022 *(in thousands)*:

	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	Total Fair Value
December 31, 2023				
Securities available for sale:				
Agency residential mortgage-backed securities	$ -	$ 242,030	$ -	$ 242,030
US Governmental Agencies	-	51,772	-	51,772
US Treasury	30,462	-	-	30,462
State and municipal obligations	-	27,093	-	27,093
Trust preferred collateralized debt obligations	-	-	5,633	5,633
Corporate and other	-	1,550	-	1,550
Total debt securities available for sale	$ 30,462	$ 322,445	$ 5,633	$ 358,540
Equity securities and exchange traded funds	$ 51,922	$ 788	$ -	$ 52,710
December 31, 2022				
Securities available for sale:				
Agency residential mortgage-backed securities	$ -	$ 270,729	$ -	$ 270,729
US Governmental Agencies	-	53,946	-	53,946
US Treasury	35,736	-	-	35,736
State and municipal obligations	-	50,021	-	50,021
Trust preferred collateralized debt obligations	-	-	5,443	5,443
Corporate and other	-	1,550	-	1,550
Total debt securities available for sale	$ 35,736	$ 376,246	$ 5,443	$ 417,425
Equity securities and exchange traded funds	$ 32,179	$ 639	$ -	$ 32,818

There were no transfers between Level 1 and Level 2 during 2023 and 2022. Changes in Level 3 assets (trust preferred CDOs) measured at fair value on a recurring basis for the years ended December 31, 2023 and 2022 are as follows *(in thousands)*:

	2023	2022
Balance, beginning of year	$ 5,443	$ 5,641
Principal paydowns	(92)	(83)
Total gains (losses) (realized/unrealized)		
Included in earnings:		
Interest income on securities	11	11
Included in other comprehensive income (loss)	271	(126)
Balance, end of year	$ 5,633	$ 5,443

The following table presents quantitative information about the Level 3 fair value measurements at December 31, 2023 and 2022 (*in thousands)*:

December 31, 2023	**Fair Value**	**Valuation Techniques**	**Observable Inputs**	**Range of Qualitative Information (Weighted Average)**
Trust preferred CDOs (1)	$ 5,633	Discounted cash flow	Cumulative defaults	3% - 100% (7%)
			Loss given defaults	85% - 100% (91%)
			Recoveries	0% - 15% (9%)
			Cure given deferrals	0% - 0% (0%)
December 31, 2022				
Trust preferred CDOs (1)	$ 5,443	Discounted cash flow	Cumulative defaults	3% - 100% (8%)
			Loss given defaults	85% - 100% (91%)
			Recoveries	0% - 15% (9%)
			Cure given deferrals	0% - 0% (0%)

(1) The significant unobservable inputs used in the fair value measurement of the Company's CDOs are probabilities of specific-issuer defaults and specific-issuer recovery assumptions. Significant increases in specific-issuer default assumptions or decreases in specific-issuer recovery assumptions would result in a significantly lower fair value measurement. Conversely, decreases in specific-issuer default assumptions or increases in specific-issuer recovery assumptions would result in a higher fair value measurement.

Assets measured at fair value on a nonrecurring basis as of December 31, 2023 and 2022 are included in the table below *(in thousands)*:

	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	Total Fair Value
December 31, 2023				
Individually evaluated loans:				
Real Estate:				
Commercial	$ -	$ -	$ -	$ -
Multifamily housing	-	-	348	348
Residential	-	-	1,091	1,091
Home equity	-	-	33	33
Commercial and industrial	-	-	-	-
	$ -	$ -	$ 1,472	$ 1,472
Other real estate owned:				
Commercial real estate	$ -	$ -	$ 497	$ 497
Land	-	-	-	-
Total other real estate owned	$ -	$ -	$ 497	$ 497
December 31, 2022				
Impaired loans:				
Real Estate:				
Commercial	$ -	$ -	$ -	$ -
Multifamily housing	-	-	347	347
Residential	-	-	1,248	1,248
Home equity	-	-	33	33
Commercial and industrial	-	-	-	-
	$ -	$ -	$ 1,628	$ 1,628
Other real estate owned:				
Commercial real estate	$ -	$ -	$ 200	$ 200
Land	-	-	237	237
Total other real estate owned	$ -	$ -	$ 437	$ 437

At December 31, 2023, individually evaluated loans subject to nonrecurring fair value measurement had a principal balance of $1,791,000 with a valuation allowance of $319,000, resulting in a credit to provision for credit losses of $(42,000) for the year ended December 31, 2023. At December 31, 2022, impaired loans subject to nonrecurring fair value measurement had a principal balance of $1,988,000 with a valuation allowance of $360,000, resulting in an additional provision for credit losses of $15,000 for the year ended December 31, 2022.

Fair Value Disclosure of Financial Instruments

As a financial institution, most of the Company's assets and liabilities are considered financial instruments. However, many of the Company's financial instruments lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction. The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment was used by the Company in interpreting market data to develop the estimates of fair value. In addition, significant estimations and present value calculations were used by the Company for purposes of this disclosure. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value amounts. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. Furthermore, the aggregate fair value amounts presented do not represent the underlying value of the Company. The methods and assumptions to estimate the fair value disclosures for other financial instruments are described below.

The carrying values of cash and cash equivalents, accrued interest receivable, demand deposits, NOW accounts, money market accounts, savings deposits, federal funds purchased, FHLB floating rate advances, notes payable and interest payable are assumed to approximate fair value since these assets and liabilities have no stated maturity. It was not practicable to determine the fair value of FRB or FHLBC stock due to restrictions placed on its transferability.

Loans held for sale in the secondary market are carried at the estimated fair value. The fair value measurement of a loan held for sale is based on the current secondary market prices for similar loans, which is considered a Level 2 measurement.

Net loans with stated maturities have been valued using present value discounted cash flow techniques. The discount rates used to calculate the fair values of loans were the applicable risk-adjusted spreads to the U.S. Treasury curve to approximate current entry-value interest rates applicable to each loan category. No adjustment was made to the entry-value interest rates for changes in credit of performing loans for which there are no known credit concerns. The Company believes that the risk factor embedded in the entry-value interest rates results in a fair valuation of such loans on an entry-value basis. It is assumed that the fair value of floating rate loans approximates the recorded book value. For real estate loans, contractual cash flows were adjusted for anticipated prepayments. For loans delinquent 90 days or more and nonaccrual loans, fair value is assumed to equal the recorded book value less any specific valuation allowances that have been allocated to such loans. As previously described above, individually evaluated loans are valued at the lower of cost or fair value.

Time deposits with stated maturities have been valued using present value discounted cash flow techniques. The discount rates used to calculate the fair value of time deposits were the market rates currently offered for deposits of similar remaining maturities. Fixed-rate FHLB advances have been valued using present value discounted cash flow techniques. The discount rates used to calculate the fair value of fixed-rate FHLB advances were the market rates currently offered for advances of similar remaining maturities.

The fair value of junior subordinated notes issued to capital trusts were valued based on present value discounted cash flow techniques. The discount rates used to calculate fair values were new issue market rates for trust preferred with similar maturities.

The following table sets forth the carrying amounts and estimated fair values of the Company's financial instruments as of December 31, 2023 and 2022 *(in thousands)*:

	2023		2022	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:				
Cash and cash equivalents	$160,565	$160,565	$ 53,852	$ 53,852
Loans held for sale	2,294	2,340	526	537
Debt securities available for sale	358,540	358,540	417,425	417,425
Debt securities held to maturity, at cost	1,463	1,479	1,471	1,485
Equity securities and exchange traded funds, at fair value	52,710	52,710	32,818	32,818
FHLBC and FRB stock	7,851	*	7,454	*
Loans, net	1,410,345	1,296,729	1,411,892	1,333,490
Accrued interest receivable	4,279	4,279	4,261	4,261
Financial Liabilities:				
Demand deposits	323,673	323,673	363,278	363,278
NOW, money market and savings deposits	1,049,174	1,049,174	1,108,805	1,108,805
Time deposits	336,903	334,722	216,856	212,496
Securities sold under agreements to repurchase	108,170	107,921	96,441	96,261
Borrowed funds	92,000	91,583	86,000	85,842
Subordinated notes issued to capital trusts	56,702	53,549	56,702	51,562
Accrued interest payable	2,745	2,745	667	667

** Not available*

NOTE 18 - REGULATORY CAPITAL

The Bank is subject to regulatory capital requirements administered by the FRB or state agency that involves the quantitative measure of their assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. Quantitative measures established by regulations to ensure capital adequacy requires the Bank to maintain minimum dollar amounts and ratios of such to risk weighted assets (as defined in the regulations and set forth in the table below) of Total Capital, Tier 1 Capital and Common Equity Tier 1 Capital and Tier 1 Capital to Average Assets. Failure to meet minimum capital requirements may cause regulatory bodies to initiate certain discretionary and/or mandatory actions that, if undertaken, could have a direct material effect on the Bank's financial statements.

The FRB and the FDIC issued final rules implementing the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act changes. The rules revise minimum capital requirements and adjust prompt corrective action thresholds. The final rules revise the regulatory capital elements, add a new common equity Tier I capital ratio, increase the minimum Tier 1 capital ratio requirements and implement a new capital conservation buffer.

The following table sets forth the actual and required capital amounts and ratios of the Bank as of December 31, 2023 and 2022 *(in thousands)*:

	Actual		Minimum for Capital Adequacy Purposes		Minimum Capital Adequacy with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023								
Tier I Capital to Average Assets	$ 165,755	7.88%	$ 84,117	4.000%	*	*	$ 105,146	5.000%
CET1 Capital to Risk Weighted Assets	165,755	13.58%	54,906	4.500%	77,784	6.375%	79,309	6.500%
Tier I Capital to Risk Weighted Assets	165,755	13.58%	73,208	6.000%	96,086	7.875%	97,611	8.000%
Total Capital to Risk Weighted Assets	180,306	14.78%	97,611	8.000%	120,489	9.875%	122,014	10.000%
December 31, 2022								
Tier I Capital to Average Assets	$ 163,521	8.01%	$ 81,652	4.000%	*	*	$ 102,065	5.000%
CET1 Capital to Risk Weighted Assets	163,521	12.31%	59,779	4.500%	84,687	6.375%	86,348	6.500%
Tier I Capital to Risk Weighted Assets	163,521	12.31%	79,706	6.000%	104,614	7.875%	106,274	8.000%
Total Capital to Risk Weighted Assets	178,871	13.46%	106,274	8.000%	131,182	9.875%	132,843	10.000%

** Not applicable*

Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. During 2024, the Bank could declare dividends of 2024 net profits plus $8,523,000 at the date of the dividend declaration.

Management believes that the Bank met all capital adequacy requirements at December 31, 2023 and 2022. The most recent notifications from the federal banking agencies categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum Tier I and total risk-based capital ratios and Tier I leverage ratios as set forth in the table above. As of December 31, 2023, there are no conditions or events that management believes have changed the capital category of the Bank.

MARQUETTE NATIONAL CORPORATION

Directors

Marquette Bank

Terese M. Best
Vice Chairman of the Board
Chief Operating Officer & Chief Risk Officer
Caspian Capital LP

John G. Byrnes, CPA
Former Market President
BMO Harris Bank

James F. Capraro
Principal
Capraro Consulting

Mary Acker Klingenberger
Former President
Mother McAuley Liberal Arts High School &
Former Market President BMO Harris Bank

Paul M. McCarthy
Chairman of the Board

George S. Moncada
President & CEO

Barry M. Sabloff
Former Executive Vice President
Bank One N.A.

Randall R. Schwartz
Former Chairman, CEO & President
First Personal Financial Corp. & First Personal Bank

William G. Sullivan
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Randall R. Schwartz
Former Chairman, CEO & President
First Personal Financial Corp. & First Personal Bank

William G. Sullivan
Attorney
Clark Hill PLC

Malachy Walsh
Communications Consultant

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May mean a lot tomorrow

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