

INSCORP, INC.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

INSCORP, INC.
Nashville, Tennessee

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
InsCorp, Inc.
Nashville, Tennessee

Opinion

We have audited the consolidated financial statements of InsCorp, Inc., which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of InsCorp, Inc. as of December 31, 2022 and 2021, 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.

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 InsCorp, Inc. 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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of InsCorp, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about InsCorp, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Crowe LLP
Crowe LLP

Franklin, Tennessee
April 13, 2023

INSCORP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2022 and 2021

<i>December 31,</i>	2022	2021
Assets		
Cash and due from financial institutions	\$ 5,313,713	\$ 4,679,488
Federal funds sold	98,488	12,000,788
Interest-bearing deposits in financial institutions	18,226,421	73,745,833
Cash and cash equivalents	23,638,622	90,426,109
Securities available for sale	40,784,609	23,089,147
Loans, net of allowance of \$8,777,809 in 2022 and \$8,024,847 in 2021	639,604,234	543,438,391
Premises and equipment, net	13,028,056	13,345,303
Restricted equity securities	8,495,652	7,554,202
Bank owned life insurance	13,720,604	13,398,273
Accrued interest receivable	2,495,851	1,698,174
Goodwill	1,090,971	1,090,971
Deferred tax asset	1,485,278	1,625,366
Other assets	7,676,373	4,729,992
Total assets	\$ 752,020,250	\$ 700,395,928
Liabilities and shareholders' equity		
Liabilities		
Deposits		
Non-interest-bearing	\$ 87,842,925	\$ 79,928,997
Interest-bearing	488,684,011	504,781,148
Total deposits	576,526,936	584,710,145
Federal Home Loan Bank advances	67,000,000	32,000,000
Federal funds purchased and repurchase agreements	15,000,000	4,000,000
Paycheck Protection Program Liquidity Facility	-	1,403,916
Subordinated debentures, net	17,330,217	17,308,414
Note payable and line of credit	7,500,000	2,500,000
Accrued interest payable	1,035,720	480,595
Other liabilities	3,787,154	2,796,131
Total liabilities	688,180,027	645,199,201
Shareholders' equity		
Common stock, no par value; 5,000,000 shares authorized; 2,890,011 shares issued in 2022 and 2,864,538 issued in 2021	29,443,359	28,924,410
Retained earnings	34,810,188	25,701,598
Accumulated other comprehensive income (loss)	(413,324)	570,719
Total shareholders' equity	63,840,223	55,196,727
Total liabilities and shareholders' equity	\$ 752,020,250	\$ 700,395,928

See accompanying notes to the consolidated financial statements.

INSCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2022 and 2021

<i>Years Ended December 31,</i>	2022	2021
Interest income		
Loans, including fees	\$ 28,858,130	\$ 24,394,610
Taxable securities	1,136,247	295,980
Federal funds sold and other	420,912	211,009
Total interest income	30,415,289	24,901,599
Interest expense		
Deposits	5,399,845	4,119,812
Subordinated debentures	1,094,549	991,563
Federal Home Loan Bank advances and other	802,623	571,053
Total interest expense	7,297,017	5,682,428
Net interest income	23,118,272	19,219,171
Provision for loan losses	670,000	1,850,000
Net interest income after provision for loan losses	22,448,272	17,369,171
Noninterest income		
Service charges on deposit accounts	208,665	240,101
Income on bank owned life insurance	322,331	282,881
Gain on interest rate caps	2,789,123	748,280
Net gain on sale of securities (includes \$49,689 accumulated other comprehensive income reclassifications for unrealized gains on securities available for sale for the year ended December 31, 2021)	-	61,829
Other	1,155,755	1,113,518
Total noninterest income	4,475,874	2,446,609
Noninterest expense		
Salaries and employee benefits	8,401,901	7,331,643
Occupancy and equipment	1,563,416	1,346,890
Marketing and advertising	524,450	574,227
Professional services	194,540	234,473
Data processing	857,948	596,773
Other	2,071,106	2,138,902
Total noninterest expense	13,613,361	12,222,908
Income before income taxes	13,310,785	7,592,872
Income tax expense	2,975,000	1,564,200
Net income	\$ 10,335,785	\$ 6,028,672
Earnings per share:		
Basic	\$ 3.59	\$ 2.07
Diluted	\$ 3.51	\$ 2.01

See accompanying notes to the consolidated financial statements.

INSCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2022 and 2021

<i>Years Ended December 31,</i>	2022	2021
Net income	\$ 10,335,785	\$ 6,028,672
Other comprehensive income:		
Unrealized holding gain (loss) on securities	(3,550,541)	(358,171)
Reclassification adjustment for net gains included in net income	-	(61,829)
Tax Effect	887,635	105,000
Net of tax	(2,662,906)	(315,000)
Unrealized holding gain (loss) on cash flow hedges	2,232,799	910,653
Tax Effect	(553,936)	(233,420)
Net of tax	1,678,863	677,233
Total other comprehensive income (loss)	(984,043)	362,233
Comprehensive income	\$ 9,351,742	\$ 6,390,905

See accompanying notes to the consolidated financial statements.

INSCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2022 and 2021

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Value			
Balance at January 1, 2021	2,900,040	\$ 30,508,529	\$ 20,376,550	\$ 208,486	\$ 51,093,565
Purchase of common stock	(134,000)	(2,487,040)	-	-	(2,487,040)
Stock compensation expense	-	217,760	-	-	217,760
Exercise of stock options	86,584	625,246	-	-	625,246
Vested restricted stock units	8,544	-	-	-	-
Issuance of common stock	3,370	59,915	-	-	59,915
Dividends paid on common stock	-	-	(703,624)	-	(703,624)
Net income	-	-	6,028,672	-	6,028,672
Other comprehensive income	-	-	-	362,233	362,233
Balance at December 31, 2021	2,864,538	28,924,410	25,701,598	570,719	55,196,727
Purchase of common stock	(2,657)	(49,639)	-	-	(49,639)
Stock compensation expense	-	325,477	-	-	325,477
Exercise of stock options	11,500	128,400	-	-	128,400
Vested restricted stock units	10,783	-	-	-	-
Issuance of common stock	5,847	114,711	-	-	114,711
Dividends paid on common stock	-	-	(1,227,195)	-	(1,227,195)
Net income	-	-	10,335,785	-	10,335,785
Other comprehensive income	-	-	-	(984,043)	(984,043)
Balance at December 31, 2022	2,890,011	\$ 29,443,359	\$ 34,810,188	\$ (413,324)	\$ 63,840,223

See accompanying notes to the consolidated financial statements.

INSCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

<i>Years Ended December 31,</i>	2022	2021
Operating activities		
Net income	\$ 10,335,785	\$ 6,028,672
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation of premises and equipment	551,313	540,011
Net amortization of securities	(37,996)	56,823
Provision for loan losses	670,000	1,850,000
Stock compensation expense	325,477	217,760
Deferred income taxes	473,787	(21,551)
Net realized gain on sale of securities	-	(61,829)
Income from bank owned life insurance	(322,331)	(282,881)
Gain on sale of premises and equipment	(12,000)	-
Net change in:		
Accrued interest receivable and other assets	(3,744,058)	136,928
Accrued interest payable and other liabilities	3,778,947	(1,140,612)
Net cash from operating activities	12,018,924	7,323,321
Investing activities		
Purchase of securities available for sale	(27,369,351)	(14,470,744)
Proceeds from sales, calls, and maturities of securities available for sale	6,183,147	9,005,641
Net change in loans	(96,835,843)	(27,418,429)
Purchase of restricted securities, net	(941,450)	(942,686)
Purchases of premises and equipment, net	(222,066)	(255,163)
Purchase of bank owned life insurance	-	(3,000,000)
Net cash from investing activities	(119,185,563)	(37,081,381)
Financing activities		
Net change in deposits	(8,183,209)	114,313,814
Net change in federal funds purchased	11,000,000	(3,000,000)
Proceeds from Federal Home Loan Bank advances	40,000,000	9,000,000
Repayments of Federal Home Loan Bank advances	(5,000,000)	(27,000,000)
Net change in other short term borrowings	(1,403,916)	(17,007,784)
Proceeds from note payable	5,000,000	2,500,000
Proceeds from exercise of common stock options	128,400	625,246
Proceeds from subordinated debentures, net	-	9,808,414
Repayments of subordinated debentures	-	(7,500,000)
Debt issuance costs related to subordinated debentures	-	-
Dividends paid on common stock	(1,227,195)	(703,624)
Purchase of common stock	(49,639)	(2,487,040)
Issuance of common stock	114,711	59,915
Net cash from financing activities	40,379,152	78,608,941
Net change in cash and cash equivalents	(66,787,487)	48,850,881
Cash and cash equivalents, beginning of year	90,426,109	41,575,228
Cash and cash equivalents, end of year	\$ 23,638,622	\$ 90,426,109
Supplemental cash flow information:		
Interest paid	\$ 6,741,892	\$ 6,541,146
Income taxes paid	\$ 3,150,000	\$ 1,690,000

See accompanying notes to the consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements include InsCorp, Inc. (“the Company”), and its wholly-owned subsidiary, InsBank (formerly Insurors Bank of Tennessee, “the Bank”). InsBank is the parent company of InsBank Finance, Inc. and Finworth Mortgage, LLC, an InsBank Company. Intercompany transactions and balances have been eliminated in consolidation.

The Bank markets itself to commercial customers, independent insurance agents, their employees and clients, as well as others within the Bank’s market area which encompasses the state of Tennessee. Its primary deposit products are demand and money market deposits and certificates of deposit, and its primary lending products are commercial loans, real estate loans, and lines of credit. Substantially all loans are secured by collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one customer, but there is a concentration in commercial real estate loans. At December 31, 2022, 49% of the Company’s loan portfolio was classified as commercial real estate. The customers’ ability to repay their loans is dependent on the real estate and general economic conditions in the area.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through April 13, 2023, which is the date the financial statements were available to be issued.

Recent events in the banking environment have raised concerns over liquidity and uninsured deposits of financial institutions. Management considers the events to be isolated to specific institutions and does not anticipate any significant or unusual withdrawals of uninsured deposits. In addition, the Company’s risk management framework includes active monitoring of its liquidity position and detailed contingency funding plans to protect the Company in the event of a significant change in liquidity. The Federal Reserve Bank continues to raise interest rates as a part of their efforts to reduce inflation. In a rising interest rate environment, deposits have historically repriced faster than loans resulting in a decrease in the Bank’s net interest margin percentage. The Company may be exposed to compression in its net interest margin percentage which could affect profitability prospectively.

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

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

Securities: Debt securities are classified as held to maturity and carried at amortized cost when management has to the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax. Debt securities that are bought and held for the purpose of selling them in the near future are classified as trading securities and reported at fair value, with unrealized gains and losses recorded in earnings.

Interest income includes amortization of purchase premium or discount. Premium and discounts on securities are amortized on the level-yield method anticipating prepayments, except for mortgage back securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management evaluates securities for other-than-temporary impairment (“OTTI”) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Management assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term.

Interest income on all classes of loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual term of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered in doubt. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

For all classes of loans, all interest accrued but not received for loans placed on nonaccrual are reversed against interest income. Interest received on all classes of loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. 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 allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors.

A loan is 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. Loans for which the terms have been modified with a concession granted, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) and classified as impaired.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral less selling costs if repayment is expected solely from the collateral.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral less cost of disposition. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses. See Note 3.

The historical loss experience used in the general component of the allowance for loan losses is determined by portfolio segment and is based on both a peer group historical average of net charge-offs for each loan segment and the Company's actual loss history. The peer group historical average net charge-off rate is defined using an average of two peer groups from data obtained from the Federal Deposit Insurance Corporation. For both peer groups, the average net charge-off rate is determined by examining the trailing ten years' average net charge-off rate. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified:

Commercial loans include loans for commercial and industrial purposes to business enterprises that are not secured by real estate. These loans are typically made on the basis of the borrower's ability to repay from the cash flow of the borrower's business and are generally secured by accounts receivable, inventory, and equipment. The collateral securing loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Residential Real Estate loans include loans secured by residential real estate, including single-family and multi-family dwellings. Mortgage title insurance and hazard insurance are normally required. Adverse economic conditions in the Company's market area may reduce borrowers' ability to repay these loans and may reduce the collateral securing these loans.

Commercial Real Estate loans include loans secured by non-residential real estate and improvements thereon. Often these loans are made to single borrowers or groups of related borrowers, and the repayment of these loans largely depends on the results of operations and management of these properties. Adverse economic conditions may affect the repayment ability of these loans.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction loans include loans to finance the process of improving loans preparatory to erecting new structures or the on-site construction of industrial, commercial, residential or farm buildings. Construction loans also include loans secured by vacant land, except land known to be used or usable for agricultural purposes. Construction loans generally are made for relatively short terms. They generally are more vulnerable to changes in economic conditions. Further, the nature of these loans is such that they are more difficult to evaluate and monitor.

The risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value upon completion of the project and the estimated cost (including interest) of the project. Periodic site inspections are made on construction loans to substantiate draw requests.

Consumer and Other loans include loans to individuals for household, family and other personal expenditures that are not secured by real estate. Consumer loans are generally secured by customer vehicles and other household goods. The collateral securing consumer loans may depreciate over time.

Due to the added risks associated with loans which are graded as watch, special mention or substandard that are not classified as impaired, an additional analysis is performed to determine whether an allowance is needed that is not fully captured by the historical loss experience. While historical loss experience by loss segment and migration of loans into higher risk classifications are considered, the following factors are also considered in determining the level of needed allowance on such loans: the historical loss rates (or severity) of loans specifically classified as watch, special mention, substandard, or doubtful; and the trends in collateral on the loans included within these calculations. This analysis indicated the need for an additional \$309,479 of allowance for loan loss at December 31, 2022. At December 31, 2021, this amount was determined to be \$408,202. As of December 31, 2022, the Company had an additional unallocated allowance of \$551,055. The unallocated allowance at December 31, 2021 was \$537,684. The Company calculated that the amount in the unallocated allowance is appropriate given the nature of the loan portfolio. The Company will continue to closely monitor its economic environment and loan portfolio and make adjustments where appropriate.

Premises and Equipment: Premises and equipment are stated at cost, less accumulated depreciation and amortization. Leasehold improvements are amortized over the shorter of the lease term or the asset's useful life. Furniture, equipment, and automobiles are depreciated principally on the straight-line method over the estimated useful lives of the assets.

Restricted Equity Securities: The Bank is a member of the Federal Home Loan Bank (FHLB) system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. The Bank is also a member of its regional Federal Reserve Bank (FRB). FHLB and FRB stock are carried at cost, classified as restricted equity securities, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. The Bank is invested in three SBIC Limited Partnerships which provide funding to small business development. The Bank is invested in two Community Development Financial Institutions Fund investments which provide funding to promote economic revitalization in distressed communities throughout the United States.

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

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill and Other Intangible Assets: Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the balance sheet. Goodwill as of December 31, 2022 and 2021 is \$1,090,971.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in net deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

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.

Benefit Plans: Employee 401(k) plan expense is the amount of matching contribution determined at the discretion of the Board of Directors.

Stock Based Compensation: Compensation cost is recognized for stock options and restricted stock units issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Corporation’s common stock at the date of grant is used for restricted stock units. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company’s accounting policy is to recognize forfeitures as they occur.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive loss. Other comprehensive loss includes unrealized gains and losses on securities available for sale and unrealized gains and losses on cash flow hedges which are also recognized as separate components of shareholders’ equity.

Off-Balance Sheet Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby 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: At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company’s intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (“fair value hedge”), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (“cash flow hedge”), or (3) an instrument with no hedging designation (“stand-alone derivative”). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings fair value changes. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. Changes in the fair value of derivative that do not qualify for hedge accounting are reported currently in earnings, as non-interest income.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transaction at the inception of the hedging relationship. This documentation included linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both that the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

The Company has entered into derivative transactions in which the Company earns a fee by providing the Company's commercial loan customers the ability to swap from variable to fixed, or fixed to variable interest rates. Under these agreements, the Company enters into a variable or fixed rate loan agreement with its customer in addition to a swap agreement. The swap agreement effectively swaps the customer's variable rate to a fixed rate or vice versa. The Company then enters into a corresponding swap agreement with a third party in order to swap its exposure on the variable to fixed rate swap with the Company's customer.

The agreements are considered stand-alone derivatives and changes in the fair value of derivatives are reported in earnings.

The Company is exposed to losses if a counterparty fails to make its payments under a contract in which the Company is in the receiving status. In this situation, the Company receives collateral from the counterparty for the fair market value of the derivative. Also, the Company minimizes its credit risk by monitoring the credit standing of the counterparties. We anticipate the counterparties will be able to fully satisfy their obligations under these agreements.

Contingencies: Contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements and no loss contingencies have been recorded in the financial statements.

Restrictions on Cash: Included in cash and due from banks is cash on hand or on deposit with the Federal Reserve Bank which is required to meet regulatory reserve and clearing requirements as of December 31, 2022 and 2021.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments: Fair value 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, prepayment, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

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

Newly Issued, Not Yet Effective Accounting Standards: ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326)"

In June 2016, FASB issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss ("CECL") model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor.

Transition:

- For debt securities with other-than-temporary impairment (OTTI), the guidance will be applied prospectively,
- For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective.

The standard will be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For calendar year-end public business entities ("PBE") that are not SEC filers, it is effective for March 31, 2023 Interim Financial Statements.

The Company is currently evaluating the impact of this new accounting standard on the consolidated financial statements.

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 2 - SECURITIES

The following table summarizes the amortized cost and fair value of securities available for sale at December 31, 2022 and 2021 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income and gross unrecognized gains and losses:

<i>December 31, 2022</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. Government sponsored entities and agencies	\$ 73,329	\$ -	\$ (544)	\$ 72,785
Mortgage-backed securities - residential	24,455,193	-	(1,828,797)	22,626,396
Collateralized mortgage obligations	17,315,160	9,571	(1,739,303)	15,585,428
Corporate bonds	2,500,000	-	-	2,500,000
	\$ 44,343,682	\$ 9,571	\$ (3,568,644)	\$ 40,784,609

<i>December 31, 2021</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
U.S. Government sponsored entities and agencies	\$ 213,071	\$ 1,390	\$ -	\$ 214,461
Mortgage-backed securities - residential	9,351,486	120,456	(73,959)	9,397,983
Collateralized mortgage obligations	12,033,122	79,355	(135,774)	11,976,703
Corporate bonds	1,500,000	-	-	1,500,000
	\$ 23,097,679	\$ 201,201	\$ (209,733)	\$ 23,089,147

There were no pledged securities at December 31, 2022 and December 31, 2021.

There were no sales and calls of securities for the year ended December 31, 2022. The proceeds from sales and calls of securities were \$2,243,498, which resulted in gains of \$61,829 for the year ended December 31, 2021.

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 2 – SECURITIES (Continued)

The amortized cost and fair value of the securities available for sale at December 31, 2022 are shown by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity, mortgage-backed securities and collateralized mortgage obligations, are shown separately.

<u>December 31, 2022</u>	Amortized Cost	Fair Value
Maturity		
Available for sale		
One to five years	\$ 73,329	\$ 72,785
Five to ten years	2,500,000	2,500,000
Mortgage-backed securities - residential	24,455,193	22,626,396
Collateralized mortgage obligations	17,315,160	15,585,428
	<u>\$ 44,343,682</u>	<u>\$ 40,784,609</u>

At December 31, 2022 and 2021, 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 shareholders' equity.

Securities with unrealized losses at year-end 2022 and 2021, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

<u>December 31, 2022</u>	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available for sale						
U.S. Government sponsored entities and agencies	\$ 72,785	\$ (544)	\$ -	\$ -	\$ 72,785	\$ (544)
Mortgage-backed securities - residential	16,846,167	(874,724)	5,776,707	(954,073)	22,622,874	(1,828,797)
Collateralized mortgage obligations	8,393,043	(706,764)	5,557,941	(1,032,539)	13,950,984	(1,739,303)
Total temporarily impaired	<u>\$ 25,311,995</u>	<u>\$ (1,582,032)</u>	<u>\$ 11,334,648</u>	<u>\$ (1,986,612)</u>	<u>\$ 36,646,643</u>	<u>\$ (3,568,644)</u>

<u>December 31, 2021</u>	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available for sale						
U.S. Government sponsored entities and agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mortgage-backed securities - residential	4,868,766	(70,290)	131,722	(3,669)	5,000,488	(73,959)
Collateralized mortgage obligations	7,226,819	(135,774)	-	-	7,226,819	(135,774)
Corporate bonds	-	-	-	-	-	-
Total temporarily impaired	<u>\$ 12,095,585</u>	<u>\$ (206,064)</u>	<u>\$ 131,722</u>	<u>\$ (3,669)</u>	<u>\$ 12,227,307</u>	<u>\$ (209,733)</u>

Unrealized losses on securities have not been recognized into income because the issuers are of high credit quality, management does not intend to sell, it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments and the fair value is expected to recover as the securities approach maturity.

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 3 - LOANS

Loans at year-end were as follows:

	2022	2021
Real estate:		
Construction	\$ 68,520,828	\$ 41,207,115
Commercial	318,662,269	286,759,649
Residential	71,443,967	53,082,999
Total real estate	458,627,064	381,049,763
Commercial	180,710,698	161,904,371
Consumer and other loans	9,044,281	8,509,104
	648,382,043	551,463,238
Less: Allowance for loan losses	(8,777,809)	(8,024,847)
Loans, net	\$ 639,604,234	\$ 543,438,391

There were no loans included in the commercial loans category for the year ended December 31, 2022, made under the Paycheck Protection Program ("PPP Loans") of the Small Business Administration ("SBA"). Included in the commercial loans category for the year ended December 31, 2021, are \$10,436,756 of PPP Loans. PPP Loans are fully government guaranteed with the SBA making prepayments through a provision whereby partial or complete forgiveness is granted based on the nature and extent of each borrower's expenditures in relation to program requirement for payroll-related and other types of expenses. PPP Loans have maximum terms ranging from two to five years. Amounts not forgiven by the SBA will amortize over the applicable remaining loan term. Due to government guarantee and forgiveness provisions, PPP Loans are considered to have no credit risk and receive no risk weighting for capital calculations.

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 3 – LOANS (Continued)

The following tables present the activity in the allowance for loan losses by portfolio segment for the years ending December 31, 2022 and 2021:

December 31, 2022	Real Estate Loans			Commercial	Consumer and		Unallocated	Total
	Construction	Commercial	Residential		Other			
Allowance for loan losses:								
Beginning balance	\$ 515,670	\$ 3,879,514	\$ 584,178	\$ 2,418,828	\$ 88,973	\$ 537,684	\$ 8,024,847	
Provision for loan losses	437,448	(293,444)	112,970	394,109	5,546	13,371	670,000	
Loans charged-off	-	-	(2,109)	-	-	-	(2,109)	
Recoveries	58,475	-	26,596	-	-	-	85,071	
Total ending allowance balance	\$ 1,011,593	\$ 3,586,070	\$ 721,635	\$ 2,812,937	\$ 94,519	\$ 551,055	\$ 8,777,809	
December 31, 2021								
Allowance for loan losses:								
Beginning balance	\$ 201,136	\$ 3,562,639	\$ 524,317	\$ 2,466,327	\$ 81,343	\$ 528,974	\$ 7,364,736	
Provision for loan losses	339,534	316,875	(22,859)	1,200,110	7,630	8,710	1,850,000	
Loans charged-off	(25,000)	-	-	(1,247,609)	-	-	(1,272,609)	
Recoveries	-	-	82,720	-	-	-	82,720	
Total ending allowance balance	\$ 515,670	\$ 3,879,514	\$ 584,178	\$ 2,418,828	\$ 88,973	\$ 537,684	\$ 8,024,847	

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 3 – LOANS (Continued)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2022 and 2021. For purposes of this disclosure, recorded investment in loans excludes accrued interest receivable and deferred fees and costs.

<i>December 31, 2022</i>	Real Estate Loans			Consumer and		Unallocated	Total
	Construction	Commercial	Residential	Commercial	Other		
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	\$ -	\$ 146,000	\$ 151,000	\$ -	\$ -	\$ -	\$ 297,000
Collectively evaluated for impairment	1,011,593	3,440,070	570,635	2,812,937	94,519	551,055	8,480,809
Total ending allowance balance	\$ 1,011,593	\$ 3,586,070	\$ 721,635	\$ 2,812,937	\$ 94,519	\$ 551,055	\$ 8,777,809
Loans:							
Loans individually evaluated for impairment	\$ -	\$ 987,477	\$ 1,309,365	\$ -	\$ -	\$ -	\$ 2,296,842
Loans collectively evaluated for impairment	68,520,828	317,674,792	70,134,602	180,710,698	9,044,281	-	646,085,201
Total ending loans balance	\$ 68,520,828	\$ 318,662,269	\$ 71,443,967	\$ 180,710,698	\$ 9,044,281	\$ -	\$ 648,382,043
<i>December 31, 2021</i>							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	\$ -	\$ 158,000	\$ 187,000	\$ -	\$ -	\$ -	\$ 345,000
Collectively evaluated for impairment	515,670	3,721,514	397,178	2,418,828	88,973	537,684	7,679,847
Total ending allowance balance	\$ 515,670	\$ 3,879,514	\$ 584,178	\$ 2,418,828	\$ 88,973	\$ 537,684	\$ 8,024,847
Loans:							
Loans individually evaluated for impairment	\$ 225,000	\$ 1,040,577	\$ 1,387,243	\$ -	\$ -	\$ -	\$ 2,652,820
Loans collectively evaluated for impairment	40,982,115	285,719,072	51,695,756	161,904,371	8,509,104	-	548,810,418
Total ending loans balance	\$ 41,207,115	\$ 286,759,649	\$ 53,082,999	\$ 161,904,371	\$ 8,509,104	\$ -	\$ 551,463,238

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 3 – LOANS (Continued)

The following tables present information related to impaired loans by class of loans as of and for the years ended December 31, 2022 and 2021:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment
<i>December 31, 2022</i>				
With no related allowance recorded:				
Construction	\$ -	\$ -	\$ -	\$ -
Commercial real estate	796,973	796,973	-	818,572
Residential	666,800	666,800	-	682,393
Subtotal	1,463,773	1,463,773	-	1,500,965
With an allowance recorded:				
Construction	-	-	-	-
Commercial real estate	190,504	190,504	146,000	195,454
Residential	642,565	642,565	151,000	665,911
Commercial	-	-	-	-
Subtotal	833,069	833,069	297,000	861,365
Total	\$ 2,296,842	\$ 2,296,842	\$ 297,000	\$ 2,362,330
<i>December 31, 2021</i>				
With no related allowance recorded:				
Construction	\$ 225,000	\$ 225,000	\$ -	\$ 237,500
Commercial real estate	840,173	840,173	-	1,323,677
Residential	697,985	697,985	-	789,400
Subtotal	1,763,158	1,763,158	-	2,350,577
With an allowance recorded:				
Construction	-	-	-	-
Commercial real estate	200,404	200,404	158,000	207,942
Residential	689,258	689,258	187,000	797,163
Commercial	-	-	-	702,135
Subtotal	889,662	889,662	345,000	1,707,240
Total	\$ 2,652,820	\$ 2,652,820	\$ 345,000	\$ 4,057,817

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 3 – LOANS (Continued)

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality. For purposes of this disclosure, the unpaid principal balance is reduced for net charge-offs.

	December 31, 2022		December 31, 2021	
	Interest Income Recognized	Cash-basis Interest-income Recognized	Interest Income Recognized	Cash-basis Interest-income Recognized
With no related allowance recorded:				
Construction	\$ -	\$ -	\$ 19,500	\$ -
Commercial real estate	67,780	41,080	58,893	55,869
Residential	42,570	33,007	34,572	34,575
Commercial	-	-	-	-
Subtotal	110,350	74,087	112,965	90,444
With an allowance recorded:				
Commercial real estate	13,866	10,251	11,115	15,012
Residential	32,365	35,601	35,549	44,267
Commercial	-	-	-	-
Subtotal	46,231	45,852	46,664	59,279
Total	\$ 156,581	\$ 119,939	\$ 159,629	\$ 149,723

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of year-end:

	December 31, 2022		December 31, 2021	
	Nonaccrual	Loans Past Due 90+ Days Still Accruing	Nonaccrual	Loans Past Due 90+ Days Still Accruing
Real estate:				
Construction	\$ -	\$ -	\$ 225,000	\$ -
Commercial real estate	987,476	-	1,040,576	-
Residential	1,309,366	-	1,387,243	-
Commercial	198	-	1,780	-
Consumer	-	-	-	-
Total	\$ 2,297,040	\$ -	\$ 2,654,599	\$ -

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 3 – LOANS (Continued)

The following table presents the aging of the recorded investment in past due loans as of December 31, 2022 and 2021 by class of loans:

December 31, 2022	30-89 Days Past Due	90+ Days Past Due	Total Past Due	Loans Not Past Due	Total Loans
Real estate:					
Construction	\$ -	\$ -	\$ -	\$ 68,520,828	\$ 68,520,828
Commercial real estate	1,667,983	-	1,667,983	316,994,286	318,662,269
Residential	121,310	191,341	312,651	71,131,316	71,443,967
Commercial	-	198	198	180,710,500	180,710,698
Consumer	-	-	-	9,044,281	9,044,281
Total	\$ 1,789,293	\$ 191,539	\$ 1,980,832	\$ 646,401,211	\$ 648,382,043

December 31, 2021	30-89 Days Past Due	90+ Days Past Due	Total Past Due	Loans Not Past Due	Total Loans
Real estate:					
Construction	\$ -	\$ 225,000	\$ 225,000	\$ 40,982,115	\$ 41,207,115
Commercial real estate	-	-	-	286,759,649	286,759,649
Residential	136,968	384,798	521,766	52,561,233	53,082,999
Commercial	99,740	1,780	101,520	161,802,851	161,904,371
Consumer	-	-	-	8,509,104	8,509,104
Total	\$ 236,708	\$ 611,578	\$ 848,286	\$ 550,614,952	\$ 551,463,238

The Company had troubled debt restructurings of \$99 and \$28,916 included in impaired loans as of December 31, 2022 and 2021. The Company has no specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2022. The Company has allocated \$28,916 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2021. The Company has not committed to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

There were no loans modified as troubled debt restructurings during the years ended December 31, 2022 and 2021. There were no loans modified as a troubled debt restructuring for which there was a payment default within twelve months following the modification during the years ended December 31, 2022 and 2021. A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the company's internal underwriting policy. Deferrals will continue to accrue interest unless they are classified as nonaccrual.

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 3 – LOANS (Continued)

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes all loans individually by classifying the loans as to credit risk. This analysis is performed on all loans at inception, upon renewal, and as circumstances change indicating a change in credit risk. This analysis is performed on a quarterly basis. For residential real estate, consumer, and other loans, this analysis primarily involves monitoring the past due status of these loans and at such time a loan becomes past due, the risk rating of the loan is evaluated. The Company uses the following definitions for risk ratings:

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

<i>December 31, 2022</i>	Pass	Special Mention	Substandard	Doubtful	Total
Real estate					
Construction	\$ 68,520,828	\$ -	\$ -	\$ -	68,520,828
Commercial	317,674,792	-	987,477	-	318,662,269
Residential	70,134,602	-	1,309,365	-	71,443,967
Commercial	180,710,500	-	-	198	180,710,698
Consumer and other	9,044,281	-	-	-	9,044,281
Total	\$ 646,085,003	\$ -	\$ 2,296,842	\$ 198	\$ 648,382,043

<i>December 31, 2021</i>	Pass	Special Mention	Substandard	Doubtful	Total
Real estate					
Construction	\$ 40,982,115	\$ -	\$ 225,000	\$ -	\$ 41,207,115
Commercial	285,719,072	-	1,040,577	-	286,759,649
Residential	51,695,756	-	1,387,243	-	53,082,999
Commercial	161,863,227	-	40,847	297	161,904,371
Consumer and other	8,509,104	-	-	-	8,509,104
Total	\$ 548,769,274	\$ -	\$ 2,693,667	\$ 297	\$ 551,463,238

(Continued)

NOTE 4 - FAIR VALUE

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

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

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

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

The Company used the following methods and significant assumptions to estimate fair value:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quote securities (Level 2 inputs).

Derivatives: The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2). Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices, and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions, and third-party pricing services.

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. 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 independent appraisers to adjust for differences between the comparable sales and income data available for similar loans and collateral underlying such loans. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. 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, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 4 - FAIR VALUE (Continued)

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis at December 31, 2022 and 2021 using level 2 inputs are summarized below:

	<u>2022</u>	<u>2021</u>
	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 2)
Assets:		
Securities available for sale:		
U.S Government sponsored-entites and agencies	\$ 72,785	\$ 214,461
Mortgage-backed securities - residential	22,626,396	9,397,983
Collateralized mortgage-obligations	15,585,428	11,976,703
Corporate bonds	2,500,000	1,500,000
	<u>\$ 40,784,609</u>	<u>\$ 23,089,147</u>
Interest rate caps	\$ -	\$ 1,049,222
Interest rate swap	2,101,679	1,883,488
Cash flow hedge	3,007,974	775,175
	<u>\$ 45,894,262</u>	<u>\$ 26,797,032</u>
Liabilities:		
Interest rate swap	\$ 2,101,679	\$ 1,883,488
Cash flow hedge	-	-
	<u>\$ 2,101,679</u>	<u>\$ 1,883,488</u>

Assets and Liabilities Measured on a Non-Recurring Basis

Assets measured at fair value on a non-recurring basis at December 31, 2022 and 2021 using significant unobservable inputs (level 3) are summarized below:

	<u>2022</u>	<u>2021</u>
	Significant Other Observable Inputs (Level 3)	Significant Other Observable Inputs (Level 3)
Assets:		
Impaired loans:		
Commercial real estate	\$ 44,504	\$ 42,404
Residential	491,565	502,258

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 4 - FAIR VALUE (Continued)

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$883,069, with a valuation allowance of \$297,000, resulting in a \$48,000 decrease in provision for loan losses for the year ended December 31, 2022. Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$889,662, with a valuation allowance of \$345,000, resulting in \$24,000 of additional provision for loan losses after specific charge offs totaling \$1,273,000 for the year ended December 31, 2021.

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2022 and 2021:

	Fair Value	Techniques	Valuation Unobservable Input(s)	Range
<i>As of December 31, 2022</i>				
Impaired loans -				
Commercial real estate	\$ 44,504	Market approach	Discount to allow for market value of assets	20%
Residential	\$ 491,565	Market approach	Discount to allow for market value of assets	20-25%
	Fair Value	Techniques	Valuation Unobservable Input(s)	Range
<i>As of December 31, 2021</i>				
Impaired loans -				
Commercial real estate	\$ 42,404	Market approach	Discount to allow for market value of assets	20%
Residential	\$ 502,258	Market approach	Discount to allow for market value of assets	20-25%

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 4 - FAIR VALUE (Continued)

The carrying amounts and estimated fair values of financial instruments not carried at fair value, at December 31, 2022 and 2021 are as follows (\$ in thousands):

<i>As of December 31, 2022</i>	Carrying Amount	Level 1	Level 2	Level 3	Total Value
Financial assets					
Cash and cash equivalents	\$ 23,639	\$ 23,639	-	-	\$ 23,639
Loans	639,604	-	-	608,131	608,131
Restricted equity securities	8,496	N/A	N/A	N/A	N/A
Accrued interest receivable	2,496	-	121	2,375	2,496
Financial liabilities					
Deposits	576,527	326,403	242,626	-	569,029
Federal Home Loan Bank advances	67,000	-	65,851	-	65,851
Federal funds purchased and repurchase agreements	15,000	15,000	-	-	15,000
Paycheck Protection Program Liquidity Facility	-	-	-	-	-
Subordinated debentures	17,330	-	17,330	-	17,330
Note payable and line of credit	7,500	-	7,500	-	7,500
Accrued interest payable	1,036	-	1,036	-	1,036
As of December 31, 2021					
Financial assets					
Cash and cash equivalents	\$ 90,426	\$ 90,426	-	-	\$ 90,426
Loans	551,463	-	-	552,639	552,639
Restricted equity securities	7,554	N/A	N/A	N/A	N/A
Accrued interest receivable	1,698	-	49	1,649	1,698
Financial liabilities					
Deposits	584,710	360,970	221,587	-	582,557
Federal Home Loan Bank advances	32,000	-	32,321	-	32,321
Federal funds purchased and repurchase agreements	4,000	4,000	-	-	4,000
Paycheck Protection Program Liquidity Facility	1,404	-	1,404	-	1,404
Subordinated debentures	17,308	-	17,308	-	17,308
Note payable and line of credit	2,500	-	2,500	-	2,500
Accrued interest payable	481	-	481	-	481

NOTE 5 - PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:

<i>December 31,</i>	2022	2021
Land	\$ 3,468,334	\$ 3,468,334
Buildings	11,073,730	11,071,244
Furniture, equipment, and automobiles	3,412,061	3,180,481
Total	17,954,125	17,720,059
Less accumulated depreciation	(4,926,069)	(4,374,756)
	\$ 13,028,056	\$ 13,345,303

Depreciation expense was \$551,313 and \$540,011 for 2022 and 2021.

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 5 - PREMISES AND EQUIPMENT (Continued)

The Bank leases a portion of its Brentwood, Tennessee location to an unrelated party. Future minimum rentals at December 31, 2022, before considering renewal options are as follows:

Year Ending December 31,		
2023	\$	221,415
2024		221,415
2025		294,205
Total	\$	737,035

NOTE 6 - RESTRICTED EQUITY SECURITIES

At December 31, 2022 and 2021, the Company had the following equity investments in restricted equity securities:

<i>December 31,</i>	2022	2021
Federal Home Loan Bank Stock	\$ 3,158,500	\$ 2,357,500
Federal Reserve Bank Stock	1,374,530	1,195,800
Investment in Southeast Community Capital	300,000	300,000
Investment in Pharos Capital	2,020,376	2,317,160
Investment in Caltius V	1,043,527	597,540
Investment in CAP Partners III	547,536	700,214
Investment in TCOS	1,183	10,988
Investment in Affordable Housing Resources	50,000	75,000
Total	\$ 8,495,652	\$ 7,554,202

NOTE 7 - DEPOSITS

Time deposits that meet or exceed the FDIC Insurance limit of \$250,000 at year-end 2022 and 2021 were \$89,707,400 and \$94,063,375. The Company had brokered deposits of approximately \$86,844,214 and \$92,478,967 at year-end 2022 and 2021.

Scheduled maturities of time deposits for the next five years were as follows:

Year Ending December 31,		
2023	\$	111,812,018
2024		85,796,899
2025		40,534,429
2026		6,775,659
2027		5,205,058

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 8 - FEDERAL HOME LOAN BANK ADVANCES

At year-end, advances from the Federal Home Loan Bank were as follows:

<i>December 31,</i>	2022	2021
Maturities May 2023 through May 2025, fixed at rates from 0.61% to 0.85%, with an average rate of 0.75%	\$ 27,000,000	27,000,000
Short term advances with maturities January 2023 through April 2023, fixed at rates from 3.84% to 4.75%, with an average rate of 4.38%	40,000,000	5,000,000
Total	\$ 67,000,000	\$ 32,000,000

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized under a blanket pledge agreement by first mortgages for one-to-four family residential, multifamily and commercial real estate loans totaling \$140,315,000 at year-end 2022 and commercial real estate mortgage loans totaling \$117,880,000 and first residential mortgage loans totaling \$27,064,000 at year-end 2021. Based on the eligible collateral and the Company's holdings of FHLB stock, the Company is eligible to borrow up to a total of \$23,087,000 at year-end 2022.

Payments over the next four years are as follows:

Year Ending December 31,	
2023	\$ 52,000,000
2024	11,000,000
2025	4,000,000
2026	-
	\$ 67,000,000

NOTE 9 - SUBORDINATED DEBENTURES

In December 2018, the Company issued \$15,000,000 of ten year subordinated debentures with required quarterly payments of accrued interest.

The subordinated debentures have a fixed rate of interest equal to 6.375% for the initial five year term. The rate is variable for the second five year term.

In December 2021 the Company repurchased \$7,500,000 of the outstanding subordinated debentures and paid a premium of \$262,500 which is included with other noninterest expenses in the consolidated statements of income.

In October 2021, the Company issued \$10,000,000 of ten year subordinated debentures with required semiannual payments of accrued interest.

The subordinated debentures have a fixed rate of interest equate to 3.75% for the initial five year term. The rate is variable for the second five year term.

As of December 31, 2022 and 2021, total unamortized debt issuance costs were \$169,783 and \$191,586, respectively. The Company had subordinated debt outstanding as of December 31, 2022 and 2021, totaling \$17,330,217 and \$17,308,414, respectively, net of unamortized debt issuance costs.

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 10 - OTHER BORROWINGS

Note payable and line of credit

During December 2021, the Company entered into a non revolving line of credit (LOC) for \$7,500,000 with another financial institution. Quarterly interest payments at the *Wall Street Journal* prime rate minus 0.25% (7.50% as of December 31, 2022) began on April 1, 2022. Quarterly principal payments begin on January 1, 2024 based on the balance outstanding at that date. The LOC has a maturity of July 1, 2026. Collateral for the loan was 100% of the common stock of InsBank. As of December 31, 2022 and 2021, the line had a balance of \$7,500,000 and \$2,500,000, respectively.

The Company had approximately \$55,100,000 in available lines of credit for federal funds (or the equivalent thereof) with correspondent banks at December 31, 2022. As of December 31, 2022, outstanding federal funds purchased were \$15,000,000.

Paycheck Protection Program Liquidity Facility ("PPPLF")

The PPPLF is a lending facility offered by the Federal Reserve Banks to facilitate lending to small businesses under the Paycheck Protection Program. Borrowings under the PPPLF are secured by PPP Loans guaranteed by the SBA and mature at the same time as the PPP Loan pledged to secure the extension of credit. The maturity dates of the borrowings will be accelerated if the underlying PPP Loan goes into default and Company sells the PPP Loan to the SBA to realize on the SBA guarantee or if the Company receives any loan forgiveness reimbursement from the SBA for the underlying PPP Loan.

There were no PPLF borrowings outstanding at December 31, 2022. At December 31, 2021, the PPPLF borrowings of \$1,403,916, are secured by PPP Loans totaling \$1,403,916, and bear interest at a fixed rate of 0.35% annually.

NOTE 11 - EMPLOYEE BENEFIT PLAN

The Company's employees are eligible to participate in a 401(k) plan after ninety days of service and attaining the age of 21. The Bank has the option, on an annual basis, to fund a matching contribution based on the employee contributions and to make a discretionary contribution. Employees vest in employer contributions over five years. The Company made \$223,269 and \$178,825 in matching contributions and no discretionary contributions in 2022 and 2021.

NOTE 12 - INCOME TAXES

Income tax expense recognized in each year is made up of current and deferred Federal and State tax amounts shown below:

	2022	2021
Current Federal	\$ 2,285,607	\$ 1,625,078
Current State	215,606	(39,327)
Deferred Federal	342,393	(17,378)
Deferred State	131,394	(4,173)
Income Tax Expense	\$ 2,975,000	\$ 1,564,200

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 12 - INCOME TAXES (Continued)

The tax effect of each type of temporary difference that results in net deferred tax assets and liabilities is as follows:

	2022	2021
Asset (liability)		
Allowance for loan losses	\$ 2,294,080	\$ 2,065,932
Accumulated depreciation	(302,430)	(341,790)
FHLB stock basis	(33,996)	(33,996)
Fair market value adjustments	(904,689)	(162,684)
Unrealized losses on available for sale securities	889,768	2,133
Unrealized holding gain on cash flow hedges	(751,996)	(198,060)
Deferred loan fees	240,123	182,721
Nonaccrual loan interest income	14,475	54,045
Other, net	39,943	57,065
Balance at end of year	\$ 1,485,278	\$ 1,625,366

The need for a valuation allowance is evaluated periodically by management. Factors considered in the evaluation include historical operating results, forecasted future earnings, expansion plans, and other income considerations. As of December 31, 2022 and 2021, there was no valuation allowance recorded.

A reconciliation of the amount computed by applying the federal statutory rate (21% for 2022 and 2021) to pretax income with income tax expense (benefit) follows:

	2022	2021
Tax expense at statutory rate	\$ 2,795,265	\$ 1,594,502
Increase (decrease) in taxes resulting from		
State income taxes (benefit), net of federal benefit	274,130	(34,365)
Tax-exempt income	(14,337)	(17,178)
Other	(80,058)	21,241
Income tax expense	\$ 2,975,000	\$ 1,564,200

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the state of Tennessee as well as various other state income taxes. The Company is no longer subject to examination by taxing authorities for years before 2019.

NOTE 13 - RELATED PARTY TRANSACTIONS

The aggregate amount of loans to executive officers and directors of the Company and their related interests were approximately \$137,610 and \$11,059,978 at year-end 2022 and 2021.

The aggregate amount of deposits from executive officers and directors of the Company and their related interests were approximately \$569,013 and \$2,013,858 at year-end 2022 and 2021.

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 14 - STOCK-BASED COMPENSATION

In 2022, the Company has two share based compensation plans as described below. Total compensation cost that has been charged against income for those plans was \$325,477 and \$217,760 for 2022 and 2021.

Stock Option Plan

The Company's 2001 Statutory-Nonstatutory Stock Option Plan (stock option plan or the Plan), which is shareholder-approved, permits the grant of share options to its employees for up to 15% of the outstanding shares of common stock. The Company believes that such awards better align the interests of its employees with those of its shareholders. Option awards are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant; those option awards have vesting periods of 5 years and have 10-year contractual terms. Currently, the Company has a sufficient number of shares authorized to satisfy expected share option exercises.

The fair value of each option award is estimated on the grant date using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of options granted was determined using the following weighted-average assumptions as of the grant date.

	2022	2021
Risk-free interest rate	3.59%	1.39%
Expected term	8 yr.	8 yr.
Expected stock price volatility	22.31%	17.08%
Dividend yield	1.39%	1.28%

A summary of the activity in the stock option plan for 2022 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at beginning of year	283,500	\$ 14.88	5.97
Granted	33,000	21.52	9.95
Exercised	(11,500)	11.17	
Forfeited or expired	(2,000)	13.00	
Outstanding at end of year	303,000	\$ 15.76	5.63
Vested or expected to vest	303,000	\$ 15.76	5.63
 Exercisable at end of year	 211,617	 \$ 14.46	 4.43

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 14 - STOCK-BASED COMPENSATION (Continued)

Information related to the stock option plan during each year follows:

	2022	2021
Intrinsic value of options exercised	\$ 96,890	\$ 914,355
Cash received from option exercises	128,900	625,246
Weighted average fair value of options granted	6.08	3.29

As of December 31, 2022, there was \$406,521 of total unrecognized compensation cost related to nonvested options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 3.05 years.

Restricted Stock Units

In 2022, the Company granted 37,521 restricted units of common stock. Compensation expense is recognized over the vesting period of the awards based on the value of the stock at issue date. The fair value of the stock was determined by current stock trade activity. These units vest in various increments through 2027.

A summary of the changes in the Company's non-vested units for the year follows:

	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2022	39,337	\$ 17.01
Granted	37,521	19.93
Forfeited	(4,008)	17.34
Vested	(10,783)	16.76
Non-vested at December 31, 2022	62,067	\$ 18.80

As of December 31, 2022, there was \$1,113,640 of total unrecognized compensation cost related to non-vested restricted units granted under the Plan. The cost is expected to be recognized over a weighted-average period of 3.08 years.

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 15 - REGULATORY CAPITAL MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

The net unrealized gain or loss on available for sale securities and cash flow hedges are not included in computing regulatory capital. Management believes as of December 31, 2022, the Bank meets all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2022 and 2021, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts and ratios for the Bank are presented below at year-end. The capital conservation buffer is not included in the required ratios of the table presented below.

(\$ in thousands)

	Actual Regulatory Capital		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022						
Total capital to risk weighted assets	\$ 95,131	13.01%	\$ 58,497	8.00%	\$ 73,121	10.00%
Tier 1 to risk weighted assets	\$ 86,353	11.81%	\$ 43,871	6.00%	\$ 58,495	8.00%
Common Equity Tier 1	\$ 86,353	11.81%	\$ 32,903	4.50%	\$ 47,527	6.50%
Tier 1 to average assets	\$ 86,353	12.01%	\$ 28,760	4.00%	\$ 35,950	5.00%
As of December 31, 2021						
Total capital to risk weighted assets	\$ 79,149	13.23%	\$ 47,860	8.00%	\$ 59,825	10.00%
Tier 1 to risk weighted assets	\$ 71,662	11.98%	\$ 35,891	6.00%	\$ 47,854	8.00%
Common Equity Tier 1	\$ 71,662	11.98%	\$ 26,918	4.50%	\$ 38,882	6.50%
Tier 1 to average assets	\$ 71,662	10.62%	\$ 26,991	4.00%	\$ 33,739	5.00%

Dividend Restrictions - The Company's principal source of funds for dividend payments is dividends received from the Bank. 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 2023, the Bank could, without prior approval, declare dividends of approximately \$16,318,000 plus any of 2023 net profits retained to the date of the dividend declaration.

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 16 - DERIVATIVES

The Company utilizes interest rate swap, cash flow hedges and interest cap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps and interest cap does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap and interest cap agreements.

Cash Flow Hedges: Funding hedges with notional amounts totaling \$30 million as of December 31, 2022 and 2021, were designated as cash flow hedges and were determined to be effective during all periods presented. The Company expects the hedges to remain effective during the remaining terms of the swaps.

Derivatives Not Designated As Hedges: The Company also enters into interest rates swaps with its loan customers. The notional amounts of interest rate swaps with its loan customer as of December 31, 2022 and 2021 were \$36,080,755 and \$31,167,701. The Company enters into corresponding offsetting derivatives with third parties. While these derivatives represent economic hedges, they do not qualify as hedges for accounting purposes. The notional amounts of interest rate caps as of December 31, 2021 was \$175,000,000.

The Company presents derivative position gross on the consolidated balance sheet. The following table reflects the derivatives recorded on the consolidated balance sheet as of December 31:

	2022		2021	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Derivatives designated as hedges	\$ 30,000,000	\$ 3,007,974	\$ 30,000,000	\$ 775,175
Derivatives not designated as hedging				
Instruments:				
Interest rate swaps related to customer loans	\$ 36,080,755	\$ 2,101,679	\$ 31,167,701	\$ 1,883,488
Interest rate caps	-	-	175,000,000	1,049,222
Total included in other assets		\$ 5,109,653		\$ 3,707,885
<u>Included in other liabilities:</u>				
Derivatives designated as hedges	\$ -	\$ -	\$ -	\$ -
Derivatives not designated as hedging				
Instruments:				
Interest rate swaps related to customer loans	36,080,755	2,101,679	31,167,701	1,883,488
Total included in other liabilities		\$ 2,101,679		\$ 1,883,488

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 16 – DERIVATIVES (Continued)

The effect of cash flow hedge accounting on accumulated other comprehensive income for the years ended December 31 are as follows:

	2022		
	Amount of Gain (Loss) Recognized in OCI on Derivative	Location of Gain (Loss) Recognized from OCI into Income	Amount of Gain (Loss) Recognized from OCI into Derivative
Cash flow hedge	\$ 2,232,799	\$ -	\$ -

	2021		
	Amount of Gain (Loss) Recognized in OCI on Derivative	Location of Gain (Loss) Recognized from OCI into Income	Amount of Gain (Loss) Recognized from OCI into Derivative
Cash flow hedge	\$ 910,653	\$ -	\$ -

The Company's consolidated statements of income included gains of \$315,042 for the year ended December 31, 2022, in interest expense on Federal Home Loan Bank advances and other borrowings related to these cash flow hedges. There was no effect of cash flow hedge accounting on the consolidated statement of income for the year ended December 31, 2021. There were no reclassifications from accumulated other comprehensive loss into earnings during the years ended December 31, 2022 or 2021.

The effect of the interest rate cap agreements on the consolidated statements of income for the years ended December 31 are as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
		2022	2021
Interest rate caps related to loan customers	Other income (expense)	\$ 2,789,123	\$ 748,208
Total		\$ 2,789,123	\$ 748,208

Maturities at December 31, 2022 ranged from 2.29 to 12.84 years. Since the swaps are structured to offset each other, changes in fair value, while recorded, have no material net earnings impact.

NOTE 17 - LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment. Commitments to extend credit are generally made for periods of 60 days or less.

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INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 17 - LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES (Continued)

The contractual amounts of financial instruments with off-balance sheet risk were as follows at year-end:

	2022	2021
Unused lines of credit and letters of credit	\$ 150,527,000	\$ 86,154,000
Performance standby letters of credit	\$ 2,103,000	\$ 2,054,000

NOTE 18 - EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

	2022	2021
Basic		
Net income available to common shareholders	\$ 10,335,785	\$ 6,028,672
Weighted average common shares outstanding	2,876,498	2,919,074
Basic earnings per common share	\$ 3.59	\$ 2.07
Diluted		
Net income available to common shareholders	\$ 10,335,785	\$ 6,028,672
Weighted average common shares outstanding for basic earnings per common share	2,876,498	2,919,074
Add: Dilutive effects of assumed exercises of stock options and restricted stock units	69,399	79,876
Average shares and dilutive potential common shares	2,945,897	2,998,950
Diluted earnings per common share	\$ 3.51	\$ 2.01

Stock options of 64,000 and restricted stock units of 8,337 were not considered when computing diluted earnings per common share for the year ended December 31, 2022, as they were antidilutive. Stock options of 146,000 and restricted stock units of 14,046 were not considered when computing diluted earnings per common share for the year ended December 31, 2021, as they were antidilutive.