

**INSCORP, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2023 and 2022

INSCORP, INC.  
Nashville, Tennessee

CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022

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## INDEPENDENT AUDITOR'S REPORT

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, 2023 and 2022, 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, 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.

***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.

***Emphasis of Matter***

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2023, InsCorp, Inc. has changed its method of accounting for credit losses due to the adoption of Financial Accounting Standards Board Accounting Standards Codification No. 326, Financial Instruments – Credit Losses (ASC 326). InsCorp, Inc. adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

***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.

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(Continued)

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.

### ***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  
March 29, 2024

INSCORP, INC.  
CONSOLIDATED BALANCE SHEETS  
December 31, 2023 and 2022

<i>December 31,</i>	<b>2023</b>	<b>2022</b>
<b>Assets</b>		
Cash and due from financial institutions	\$ 7,688,427	\$ 5,313,713
Federal funds sold	134	98,488
Interest-bearing deposits in financial institutions	49,756,664	18,226,421
Cash and cash equivalents	57,445,225	23,638,622
Securities available for sale	58,161,928	40,784,609
Loans, net of allowance for credit losses of \$9,125,988 and \$8,777,809 as of December 31, 2023 and 2022, respectively	672,431,847	639,604,234
Premises and equipment, net	12,714,700	13,028,056
Restricted equity securities	8,889,670	8,495,652
Bank owned life insurance	14,065,249	13,720,604
Accrued interest receivable	3,296,906	2,495,851
Goodwill	1,090,971	1,090,971
Deferred tax asset	2,601,439	1,485,278
Other assets	6,392,527	7,676,373
<b>Total assets</b>	<b>\$ 837,090,462</b>	<b>\$ 752,020,250</b>
<b>Liabilities and shareholders' equity</b>		
Liabilities		
Deposits		
Non-interest-bearing	\$ 70,417,831	\$ 87,842,925
Interest-bearing	615,778,062	488,684,011
Total deposits	686,195,893	576,526,936
Federal Home Loan Bank advances	45,000,000	67,000,000
Federal funds purchased and repurchase agreements	-	15,000,000
Subordinated debentures, net	17,348,476	17,330,217
Note payable and line of credit	8,750,000	7,500,000
Accrued interest payable	5,374,329	1,035,720
Other liabilities	4,564,812	3,787,154
<b>Total liabilities</b>	<b>767,233,510</b>	<b>688,180,027</b>
Shareholders' equity		
Common stock, no par value; 5,000,000 shares authorized; 2,874,558 shares issued in 2023 and 2,890,011 issued in 2022	29,230,374	29,443,359
Retained earnings	41,726,972	34,810,188
Accumulated other comprehensive loss	(1,100,394)	(413,324)
<b>Total shareholders' equity</b>	<b>69,856,952</b>	<b>63,840,223</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 837,090,462</b>	<b>\$ 752,020,250</b>

See accompanying notes to the consolidated financial statements.

INSCORP, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
Years Ended December 31, 2023 and 2022

<i>Years Ended December 31,</i>	<b>2023</b>	<b>2022</b>
<b>Interest income</b>		
Loans, including fees	\$ 41,943,837	\$ 28,858,130
Taxable securities	2,415,494	1,136,247
Federal funds sold and other	1,848,468	420,912
<b>Total interest income</b>	<b>46,207,799</b>	<b>30,415,289</b>
<b>Interest expense</b>		
Deposits	20,038,792	5,399,845
Subordinated debentures	1,508,917	1,094,549
Federal Home Loan Bank advances and other	739,504	802,623
<b>Total interest expense</b>	<b>22,287,213</b>	<b>7,297,017</b>
<b>Net interest income</b>	<b>23,920,586</b>	<b>23,118,272</b>
Credit loss expense - loans	355,278	670,000
Credit loss expense - off-balance sheet credit exposures	(40,278)	-
<b>Credit loss expense</b>	<b>315,000</b>	<b>670,000</b>
<b>Net interest income after credit loss expense</b>	<b>23,605,586</b>	<b>22,448,272</b>
<b>Noninterest income</b>		
Service charges on deposit accounts	252,294	208,665
Income on bank owned life insurance	344,645	322,331
Gain (loss) on interest rate caps and floors	(381,889)	2,789,123
Other	1,329,417	1,155,755
<b>Total noninterest income</b>	<b>1,544,467</b>	<b>4,475,874</b>
<b>Noninterest expense</b>		
Salaries and employee benefits	9,434,201	8,401,901
Occupancy and equipment	1,561,695	1,563,416
Marketing and advertising	519,317	524,450
Professional services	231,241	194,540
Data processing	381,535	857,948
Other	2,344,484	2,071,106
<b>Total noninterest expense</b>	<b>14,472,473</b>	<b>13,613,361</b>
<b>Income before income taxes</b>	<b>10,677,580</b>	<b>13,310,785</b>
Income tax expense	2,273,200	2,975,000
<b>Net income</b>	<b>\$ 8,404,380</b>	<b>\$ 10,335,785</b>
Earnings per share:		
Basic	\$ 2.92	\$ 3.59
Diluted	\$ 2.85	\$ 3.51

See accompanying notes to the consolidated financial statements.

INSCORP, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
Years Ended December 31, 2023 and 2022

<i>Years Ended December 31,</i>	<b>2023</b>	<b>2022</b>
<b>Net income</b>	\$ 8,404,380	\$ 10,335,785
Other comprehensive income:		
Unrealized holding loss on securities	(271,754)	(3,550,541)
Tax Effect	67,939	887,635
Net of tax	(203,815)	(2,662,906)
Unrealized holding gain (loss) on cash flow hedges	(644,340)	2,232,799
Tax Effect	161,085	(553,936)
Net of tax	(483,255)	1,678,863
Total other comprehensive loss	(687,070)	(984,043)
<b>Comprehensive income</b>	\$ 7,717,310	\$ 9,351,742

See accompanying notes to the consolidated financial statements.

INSCORP, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
Years Ended December 31, 2023 and 2022

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Value			
<b>Balance at January 1, 2022</b>	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 loss	-	-	-	(984,043)	(984,043)
<b>Balance at December 31, 2022</b>	2,890,011	29,443,359	34,810,188	(413,324)	63,840,223
Cumulative change in accounting principle (Note 1)	-	-	(493,000)	-	(493,000)
Balance at January 1, 2023 (as adjusted for change in accounting principle)	2,890,011	29,443,359	34,317,188	(413,324)	63,347,223
Purchase of common stock	(33,069)	(669,085)	-	-	(669,085)
Stock compensation expense	-	378,033	-	-	378,033
Exercise of stock options	2,300	25,640	-	-	25,640
Vested restricted stock units	12,573	-	-	-	-
Issuance of common stock	2,743	52,427	-	-	52,427
Dividends paid on common stock	-	-	(994,596)	-	(994,596)
Net income	-	-	8,404,380	-	8,404,380
Other comprehensive loss	-	-	-	(687,070)	(687,070)
<b>Balance at December 31, 2023</b>	2,874,558	\$ 29,230,374	\$ 41,726,972	\$ (1,100,394)	\$ 69,856,952

See accompanying notes to the consolidated financial statements.

INSCORP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2023 and 2022

<i>Years Ended December 31,</i>	<b>2023</b>	<b>2022</b>
<b>Operating activities</b>		
Net income	\$ 8,404,380	\$ 10,335,785
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation of premises and equipment	569,175	551,313
Net amortization of securities	(126,791)	(37,996)
Credit loss expense - loans	355,278	670,000
Credit loss expense - off-balance sheet credit exposures	(40,278)	-
Stock compensation expense	378,033	325,477
Deferred income taxes	(887,137)	473,787
Income from bank owned life insurance	(344,645)	(322,331)
Gain on sale of premises and equipment	-	(12,000)
Net change in:		
Accrued interest receivable and other assets	482,791	(3,744,058)
Accrued interest payable and other liabilities	4,033,205	3,778,947
<b>Net cash from operating activities</b>	<b>12,824,011</b>	<b>12,018,924</b>
<b>Investing activities</b>		
Purchase of securities available for sale	(24,742,522)	(27,369,351)
Proceeds from sales, calls, and maturities of securities available for sale	7,238,499	6,183,147
Net change in loans	(33,196,891)	(96,835,843)
Purchase of restricted securities, net	(394,018)	(941,450)
Purchases of premises and equipment, net	(255,819)	(222,066)
<b>Net cash from investing activities</b>	<b>(51,350,751)</b>	<b>(119,185,563)</b>
<b>Financing activities</b>		
Net change in deposits	109,668,957	(8,183,209)
Net change in federal funds purchased	(15,000,000)	11,000,000
Proceeds from Federal Home Loan Bank advances	45,000,000	40,000,000
Repayments of Federal Home Loan Bank advances	(67,000,000)	(5,000,000)
Net change in other short term borrowings	-	(1,403,916)
Proceeds from note payable	1,250,000	5,000,000
Proceeds from exercise of common stock options	25,640	128,400
Dividends paid on common stock	(994,596)	(1,227,195)
Purchase of common stock	(669,085)	(49,639)
Issuance of common stock	52,427	114,711
<b>Net cash from financing activities</b>	<b>72,333,343</b>	<b>40,379,152</b>
<b>Net change in cash and cash equivalents</b>	<b>33,806,603</b>	<b>(66,787,487)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>23,638,622</b>	<b>90,426,109</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 57,445,225</b>	<b>\$ 23,638,622</b>
Supplemental cash flow information:		
Interest paid	\$ 17,948,604	\$ 6,741,892
Income taxes paid	\$ 2,195,000	\$ 3,150,000

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, 2023, 45% 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 March 29, 2024, which is the date the financial statements were available to be issued.

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

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.

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income.

Allowance for Credit Losses – Available for Sale Securities: For available for sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security’s amortized cost basis is written down to fair value through income. For debt securities available for sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

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

As of December 31, 2023, there is no allowance for credit losses recorded on available for sale securities.

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 Credit Losses - Loans: The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The Company's management assesses the adequacy of the allowance on a quarterly basis. This assessment includes procedures to estimate the allowance and test the adequacy and appropriateness of the resulting balance. The level of the allowance is based upon management's evaluation of historical default and loss experience, current and projected economic and environmental conditions such as changes in unemployment rates, property values, or other relevant factors, underwriting standards, portfolio mix, delinquency level, asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' ability to repay a loan (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, industry and peer institution loan quality indications and other pertinent factors, including regulatory recommendations.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exists. The Company has identified the following portfolio segments and measures the allowance for credit losses using the following methods:

- *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.
- *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

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. Individual evaluations are generally performed for large loans which have experienced significant credit deterioration. Such loans are evaluated for credit losses based on either discounted cash flows or the fair value of collateral. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral, less selling costs. For loans for which foreclosure is not probable, but for which repayment is expected to be provided substantially through the operation or sale of the collateral, the Company has elected the practical expedient under ASC 326 to estimate expected credit losses based on the fair value of collateral, with selling costs considered in the event sale of the collateral is expected. Loans for which terms have been modified are evaluated using these same individual evaluation methods.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The Company uses a model developed by a third party as the primary tool in estimating the allowance for credit losses. The Company's model applies the Weighted-Average Remaining Maturity ("WARM") method of estimating credit losses and relies on data and assumptions supplied by management. The remaining life of each loan segment is calculated based on the contractual term adjusted by prepayments. The lifetime loss rate is calculated by multiplying the average loss rate by the weighted average remaining life. Additionally, a forward looking adjustment is made based on reasonable and supportable economic forecasts.

The estimated credit losses for all loan segments are adjusted for changes in qualitative factors not inherently considered in the quantitative analyses. The qualitative categories and the measurements used to quantify the risks within each of these categories are subjectively selected by management but measured by objective measurements period over period. The data for each measurement may be obtained from internal or external sources. The current period measurements are evaluated and assigned a factor commensurate with the current level of risk relative to past measurements over time. The resulting qualitative adjustments are applied to the relevant collectively evaluated loan portfolios. These adjustments are based upon quarterly trend assessments in portfolio concentrations, policy exceptions, associate retention, loan review results, collateral considerations, risk ratings, and competition. The qualitative allowance allocation, as determined by the processes noted above, is increased or decreased for each loan segment based on the assessment of these various qualitative factors. Additional qualitative considerations are made for any identified risk which did not exist within the Company's portfolio historically and therefore may not be adequately addressed through evaluation of such risk factor based on historical portfolio trends as previously discussed.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company, or management has a reasonable expectation at the reporting date that a loan modification will be made to a borrower experiencing financial difficulty.

Accrued interest receivable totaled \$3,012,950 at December 31, 2023 and is excluded from the estimate of credit losses. Additional information related to the factors considered in evaluating credit losses on loans is included in Note 3.

Allowance for Loan Losses (prior to January 1, 2023): 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.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures: The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The following categories of off-balance sheet credit exposures have been identified: unfunded loan commitments, standby letters of credit, and financial guarantees (collectively, "off-balance sheet credit exposures"). The allowance for credit losses on off-balance sheet credit exposures is recorded in other liabilities and adjusted through the credit loss expense – off-balance sheet credit exposures. The estimate may include consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded, as well as reasonable practical expedients or industry practices to assist in the evaluation of estimated funding amounts.

INSCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

As of December 31, 2023, there was \$438,722 in allowance for credit losses on off-balance sheet credit exposures recorded.

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 SBIC Limited Partnerships which provide funding to small business development. The Bank is invested in 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.

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, 2023 and 2022 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.

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(Continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Comprehensive Income (Loss): 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.

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 at 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.

INSCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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, 2023 and 2022.

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.

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.

Adoption of New Accounting Standards: On January 1, 2023, the Company adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held to maturity debt securities. 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 in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available for sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. In adopting the new standard the Company recorded a net decrease to retained earnings of \$493,000 as of January 1, 2023 for the cumulative effect of adopting ASC 326. The transition adjustment includes an increase to the allowance for credit losses – loans of \$14,000 and an increase to the allowance for credit losses – off-balance sheet credit exposures of \$479,000.

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(Continued)

INSCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The following table illustrates the impact of ASC 326 as of the date of adoption.

	As reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
<b>Assets:</b>			
Allowance for credit losses - loans	\$ (8,791,809)	\$ (8,777,809)	\$ 14,000
<b>Liabilities:</b>			
Allowance for credit losses - off-balance sheet credit exposures	479,000	-	479,000
Retained earnings	34,317,188	34,810,188	(493,000)

**NOTE 2 - SECURITIES**

The following table summarizes the amortized cost and fair value of securities available for sale at December 31, 2023 and 2022 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, 2023</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities available for sale:</b>				
U.S. Government sponsored entities and agencies	\$ 6,013,865	\$ 304,330	\$ -	\$ 6,318,195
Mortgage-backed securities - residential	22,254,123	115	(1,564,282)	20,689,956
Collateralized mortgage obligations	31,224,767	49,341	(2,217,272)	29,056,836
Corporate bonds	2,500,000	-	(403,059)	2,096,941
	<b>\$ 61,992,755</b>	<b>\$ 353,786</b>	<b>\$ (4,184,613)</b>	<b>\$ 58,161,928</b>

<i>December 31, 2022</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities available for sale:</b>				
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
	<b>\$ 44,343,682</b>	<b>\$ 9,571</b>	<b>\$ (3,568,644)</b>	<b>\$ 40,784,609</b>

There were no pledged securities at December 31, 2023 and December 31, 2022.

There were no sales and calls of securities for the years ended December 31, 2023 and 2022.

(Continued)

INSCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022

**NOTE 2 – SECURITIES** (Continued)

The amortized cost and fair value of the securities available for sale at December 31, 2023 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, 2023</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Maturity		
Available for sale		
One to five years	\$ 6,013,865	\$ 6,318,195
Five to ten years	2,500,000	2,096,941
Mortgage-backed securities - residential	22,254,123	20,689,956
Collateralized mortgage obligations	31,224,767	29,056,836
	<u>\$ 61,992,755</u>	<u>\$ 58,161,928</u>

At December 31, 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 shareholders' equity.

Securities with unrealized losses for which an allowance for credit losses has not been recorded at year-end 2023, 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, 2023</u>	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Available for sale						
Mortgage-backed securities - residential	\$ 3,264,164	\$ (60,582)	\$ 17,376,752	\$ (1,503,700)	\$ 20,640,916	\$ (1,564,282)
Collateralized mortgage obligations	9,994,734	(486,605)	13,232,376	(1,730,667)	23,227,110	(2,217,272)
Corporate bonds	2,096,941	(403,059)	-	-	2,096,941	(403,059)
Total temporarily impaired	<u>\$ 15,355,839</u>	<u>\$ (950,246)</u>	<u>\$ 30,609,128</u>	<u>\$ (3,234,367)</u>	<u>\$ 45,964,967</u>	<u>\$ (4,184,613)</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 and it is more likely than not that management would not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in market interest rates and illiquidity instead of credit quality. The fair value is expected to recover as the securities approach their maturity dates and/or market rates change. As a result, the Company has determined that an allowance for credit losses for debt securities is not necessary as of December 31, 2023. In determining the allowance for credit losses for debt securities, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an allowance for credit losses is necessary involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

(Continued)

INSCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022

**NOTE 2 – SECURITIES** (Continued)

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

<i>December 31, 2022</i>	<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	16,849,689	(874,724)	5,776,707	(954,073)	22,626,396	(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	\$ 25,315,517	\$ (1,582,032)	\$ 11,334,648	\$ (1,986,612)	\$ 36,650,165	\$ (3,568,644)

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.

**NOTE 3 - LOANS**

Loans at year-end were as follows:

	2023	2022
Real estate:		
Construction	\$ 92,669,189	\$ 68,520,828
Commercial	307,559,439	318,662,269
Residential	66,840,556	71,443,967
Total real estate	467,069,184	458,627,064
Commercial	208,486,095	180,710,698
Consumer and other loans	6,002,556	9,044,281
	681,557,835	648,382,043
Less: Allowance for credit losses	(9,125,988)	(8,777,809)
Loans, net	\$ 672,431,847	\$ 639,604,234

(Continued)

INSCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022

**NOTE 3 – LOANS** (Continued)

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2023 and the activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2022:

<i>December 31, 2023</i>	Real Estate Loans			Commercial	Consumer and		Unallocated	Total
	Construction	Commercial	Residential		Other			
Allowance for credit losses:								
Beginning balance, prior to adoption of ASC 326	\$ 1,011,593	\$ 3,586,070	\$ 721,635	\$ 2,812,937	\$ 94,519	\$ 551,055	\$ 8,777,809	
Impact of adopting ASC 326	(297,209)	(333,977)	668,276	454,101	73,864	(551,055)	14,000	
Credit loss expense	509,365	(681,468)	(237,075)	824,444	(59,988)	-	355,278	
Loans charged-off	-	-	-	(21,600)	-	-	(21,600)	
Recoveries	-	-	-	501	-	-	501	
<b>Total ending allowance balance</b>	<b>\$ 1,223,749</b>	<b>\$ 2,570,625</b>	<b>\$ 1,152,836</b>	<b>\$ 4,070,383</b>	<b>\$ 108,395</b>	<b>\$ -</b>	<b>\$ 9,125,988</b>	

  

<i>December 31, 2022</i>	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	
<b>Total ending allowance balance</b>	<b>\$ 1,011,593</b>	<b>\$ 3,586,070</b>	<b>\$ 721,635</b>	<b>\$ 2,812,937</b>	<b>\$ 94,519</b>	<b>\$ 551,055</b>	<b>\$ 8,777,809</b>	

(Continued)

INSCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022

**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. 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			
	Construction	Commercial	Residential	Commercial	Other	Unallocated	Total
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
<b>Total ending allowance balance</b>	<b>\$ 1,011,593</b>	<b>\$ 3,586,070</b>	<b>\$ 721,635</b>	<b>\$ 2,812,937</b>	<b>\$ 94,519</b>	<b>\$ 551,055</b>	<b>\$ 8,777,809</b>
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
<b>Total ending loans balance</b>	<b>\$ 68,520,828</b>	<b>\$ 318,662,269</b>	<b>\$ 71,443,967</b>	<b>\$ 180,710,698</b>	<b>\$ 9,044,281</b>	<b>\$ -</b>	<b>\$ 648,382,043</b>

(Continued)

INSCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022

**NOTE 3 – LOANS** (Continued)

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

<i>December 31, 2022</i>	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment
With no related allowance recorded:				
Construction	\$ -	\$ -	\$ -	\$ -
Commercial real estate	796,973	796,973	-	818,572
Residential	666,800	666,800	-	682,393
<b>Subtotal</b>	<b>1,463,773</b>	<b>1,463,773</b>	<b>-</b>	<b>1,500,965</b>
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	-	-	-	-
<b>Subtotal</b>	<b>833,069</b>	<b>833,069</b>	<b>297,000</b>	<b>861,365</b>
<b>Total</b>	<b>\$ 2,296,842</b>	<b>\$ 2,296,842</b>	<b>\$ 297,000</b>	<b>\$ 2,362,330</b>

The recorded investment in loans excludes accrued interest receivable and loan origination fees, due to immateriality at year-end 2022. For purposes of this disclosure, the unpaid principal balance is reduced for net charge-offs.

	December 31, 2022	
	Interest Income Recognized	Cash-basis Interest-income Recognized
With no related allowance recorded:		
Construction	\$ -	\$ -
Commercial real estate	67,780	41,080
Residential	42,570	33,007
Commercial	-	-
<b>Subtotal</b>	<b>110,350</b>	<b>74,087</b>
With an allowance recorded:		
Commercial real estate	13,866	10,251
Residential	32,365	35,601
Commercial	-	-
<b>Subtotal</b>	<b>46,231</b>	<b>45,852</b>
<b>Total</b>	<b>\$ 156,581</b>	<b>\$ 119,939</b>

Nonaccrual loans and loans past due over 89 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Impaired loans included commercial loans that are individually evaluated for impairment and deemed impaired (i.e. individually classified impaired loans). The sum of nonaccrual loans and loans past due over 89 days still on accrual will differ from the total impaired loan amount.

(Continued)

INSCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022

**NOTE 3 – LOANS** (Continued)

The following tables present the amortized costs basis of loans on nonaccrual status and loans past due over 89 days still accruing as of December 31, 2023:

	December 31, 2023		
	Nonaccrual with no allowance for credit loss	Nonaccrual with allowance for credit loss	Loans past due over 89 days still accruing
Real estate:			
Commerical	\$ 7,055,880	\$ 171,550	\$ -
Residential	71,584	199,390	-
Commercial	198	-	-
<b>Total</b>	<b>\$ 7,127,662</b>	<b>\$ 370,940</b>	<b>\$ -</b>

The Company recognized \$127,353 of interest income on nonaccrual loans during the year ended December 31, 2023.

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	
	Nonaccrual	Loans Past Due 90+ Days Still Accruing
Real estate:		
Commercial real estate	\$ 987,476	\$ -
Residential	1,309,366	-
Commercial	198	-
<b>Total</b>	<b>\$ 2,297,040</b>	<b>\$ -</b>

The following tables present the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2023:

<i>December 31, 2023</i>	Real Estate	Business Assets	Vehicles	Other
Real estate:				
Commercial	\$ 896,267	\$ -	\$ -	\$ -
Residential	270,974	-	-	-
Commercial	198	-	-	-
<b>Total</b>	<b>\$ 1,167,439</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

(Continued)

INSCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022

**NOTE 3 – LOANS** (Continued)

The following table presents the aging of the recorded investment in past due loans as of December 31, 2023 and 2022 by class of loans:

<i>December 31, 2023</i>	30-89 Days Past Due	90+ Days Past Due	Total Past Due	Loans Not Past Due	Total Loans
Real estate:					
Construction	\$ -	\$ -	\$ -	\$ 92,669,189	\$ 92,669,189
Commercial real estate	-	-	-	307,559,439	307,559,439
Residential	211,442	-	211,442	66,629,114	66,840,556
Commercial	-	198	198	208,485,897	208,486,095
Consumer	-	-	-	6,002,556	6,002,556
<b>Total</b>	<b>\$ 211,442</b>	<b>\$ 198</b>	<b>\$ 211,640</b>	<b>\$ 681,346,195</b>	<b>\$ 681,557,835</b>

<i>December 31, 2022</i>	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
<b>Total</b>	<b>\$ 1,789,293</b>	<b>\$ 191,539</b>	<b>\$ 1,980,832</b>	<b>\$ 646,401,211</b>	<b>\$ 648,382,043</b>

Occasionally, the Company modifies loans to borrowers in financial distress by providing term extensions, principal forgiveness, interest rate reductions, or other-than-insignificant payment delays. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

During the year ended December 31, 2023, a commercial real estate loan with an amortized cost basis of \$6,331,163 was experiencing financial difficulty and was modified by the granting of a six month payment deferral. The amortized cost basis of the loan represents 3.05% of the total class of loans as of December 31, 2023. The Company has not committed to lend any additional amounts to the related borrowers.

The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. All such loans that have been modified in the last 12 months are current in accordance with modified payment terms.

No loans had a payment default during the year ended December 31, 2023 that were modified in the twelve months prior to that default to borrowers experiencing financial difficulty.

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

(Continued)

**NOTE 3 – LOANS** (Continued)

**Troubled Debt Restructurings:** The Company had troubled debt restructurings of \$24,412 included in impaired loans as of December 31, 2022. 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 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. 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. 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.

**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.

INSCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 3 – LOANS** (Continued)

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

<i>As of December 31, 2023</i>	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total
	2023	2022	2021	2020	2019	Prior		
<b>Construction:</b>								
Risk Rating								
Pass	\$ 2,987,469	\$ 50,649,606	\$32,972,993	\$ 917,810	\$ 3,841,791	\$ 1,299,520	\$ -	\$ 92,669,189
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
<b>Total construction loans</b>	<b>\$ 2,987,469</b>	<b>\$ 50,649,606</b>	<b>\$32,972,993</b>	<b>\$ 917,810</b>	<b>\$ 3,841,791</b>	<b>\$ 1,299,520</b>	<b>\$ -</b>	<b>\$ 92,669,189</b>
<b>Construction loans:</b>								
Current period gross write offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Commercial real estate:</b>								
Risk Rating								
Pass	\$ 6,157,415	\$ 82,703,377	\$47,545,728	\$13,862,708	\$27,786,261	\$ 122,276,520	\$ -	\$ 300,332,009
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	6,574,297	653,133	-	7,227,430
Doubtful	-	-	-	-	-	-	-	-
<b>Total commercial real estate loans</b>	<b>\$ 6,157,415</b>	<b>\$ 82,703,377</b>	<b>\$47,545,728</b>	<b>\$13,862,708</b>	<b>\$34,360,558</b>	<b>\$ 122,929,653</b>	<b>\$ -</b>	<b>\$ 307,559,439</b>
<b>Commercial real estate loans:</b>								
Current period gross write offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Residential real estate:</b>								
Risk Rating								
Pass	\$ 7,494,217	\$ 26,586,149	\$ 7,757,907	\$ 7,190,776	\$ 6,854,067	\$ 10,686,466	\$ -	\$ 66,569,582
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	270,974	-	270,974
Doubtful	-	-	-	-	-	-	-	-
<b>Total residential real estate loans</b>	<b>\$ 7,494,217</b>	<b>\$ 26,586,149</b>	<b>\$ 7,757,907</b>	<b>\$ 7,190,776</b>	<b>\$ 6,854,067</b>	<b>\$ 10,957,440</b>	<b>\$ -</b>	<b>\$ 66,840,556</b>
<b>Residential real estate loans:</b>								
Current period gross write offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(Continued)

INSCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022

<i>As of December 31, 2023, continued</i>	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total
	2023	2022	2021	2020	2019	Prior		
<b>Commercial:</b>								
Risk Rating								
Pass	\$49,248,837	\$ 47,735,744	\$46,303,950	\$13,533,408	\$10,801,652	\$ 40,862,306	\$ -	\$ 208,485,897
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	198	-	198
<b>Total commercial loans</b>	<b>\$49,248,837</b>	<b>\$ 47,735,744</b>	<b>\$46,303,950</b>	<b>\$13,533,408</b>	<b>\$10,801,652</b>	<b>\$ 40,862,504</b>	<b>\$ -</b>	<b>\$ 208,486,095</b>
<b>Commercial loans:</b>								
Current period gross write offs	\$ -	\$ -	\$ (21,600)	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Consumer and other:</b>								
Risk Rating								
Pass	\$ 28,186	\$ 582,372	\$ 104,356	\$ 291,045	\$ 15,136	\$ 4,981,461	\$ -	\$ 6,002,556
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
<b>Total consumer and other loans</b>	<b>\$ 28,186</b>	<b>\$ 582,372</b>	<b>\$ 104,356</b>	<b>\$ 291,045</b>	<b>\$ 15,136</b>	<b>\$ 4,981,461</b>	<b>\$ -</b>	<b>\$ 6,002,556</b>
<b>Consumer and other loans:</b>								
Current period gross write offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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
<b>Real estate</b>					
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
<b>Total</b>	<b>\$ 646,085,003</b>	<b>\$ -</b>	<b>\$ 2,296,842</b>	<b>\$ 198</b>	<b>\$ 648,382,043</b>

(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.

Individually Evaluated Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for credit 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, 2023 and 2022

**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, 2023 and 2022 using level 2 inputs are summarized below:

	2023	2022
	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 2)
<b>Assets:</b>		
Securities available for sale:		
U.S Government sponsored-entites and agencies	\$ 6,318,195	\$ 72,785
Mortgage-backed securities - residential	20,689,956	22,626,396
Collateralized mortgage-obligations	29,056,836	15,585,428
Corporate bonds	2,096,941	2,500,000
	\$ 58,161,928	\$ 40,784,609
Interest rate floors	\$ 462,311	\$ -
Interest rate swaps	1,616,253	2,101,679
Cash flow hedge	2,363,634	3,007,974
<b>Total</b>	<b>\$ 62,604,126</b>	<b>\$ 45,894,262</b>
<b>Liabilities:</b>		
Interest rate swaps	\$ 1,616,253	\$ 2,101,679
<b>Total</b>	<b>\$ 1,616,253</b>	<b>\$ 2,101,679</b>

Assets and Liabilities Measured on a Non-Recurring Basis

Assets measured at fair value on a non-recurring basis at December 31, 2023 and 2022 using significant unobservable inputs (level 3) are summarized below:

	2023	2022
	Significant Other Observable Inputs (Level 3)	Significant Other Observable Inputs (Level 3)
<b>Assets:</b>		
Individually evaluated impaired loans:		
Commercial real estate	\$ 45,751	\$ 44,504
Residential	165,848	491,565

(Continued)

INSCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 4 - FAIR VALUE** (Continued)

Individually evaluated loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$370,941, with a valuation allowance of \$160,000, resulting in a \$12,000 decrease in credit loss expense for the year ended December 31, 2023. 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 \$48,000 decrease in provision for loan losses for the year ended December 31, 2022.

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, 2023 and 2022:

	Fair Value	Techniques	Valuation Unobservable Input(s)	Range
<i>As of December 31, 2023</i>				
Individually evaluated impaired loans -				
Commercial real estate	\$ 45,751	Market approach	Discount to allow for market value of assets	20%
Residential	\$ 165,848	Market approach	Discount to allow for market value of assets	25%
	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%

(Continued)

INSCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022

**NOTE 4 - FAIR VALUE (Continued)**

The carrying amounts and estimated fair values of financial instruments not carried at fair value, at December 31, 2023 and 2022 are as follows (\$ in thousands):

<i>As of December 31, 2023</i>	Carrying Amount	Level 1	Level 2	Level 3	Total Value
<b>Financial assets</b>					
Cash and cash equivalents	\$ 57,445	\$ 57,445	-	-	\$ 57,445
Loans, net	672,432	-	-	639,559	639,559
Restricted equity securities	8,890	N/A	N/A	N/A	N/A
Accrued interest receivable	3,297	-	238	3,059	3,297
<b>Financial liabilities</b>					
Deposits	686,196	255,452	429,819	-	685,271
Federal Home Loan Bank advances	45,000	-	44,583	-	44,583
Subordinated debentures	17,348	-	17,348	-	17,348
Note payable and line of credit	8,750	-	8,750	-	8,750
Accrued interest payable	5,374	-	5,374	-	5,374
<b>As of December 31, 2022</b>					
<b>Financial assets</b>					
Cash and cash equivalents	\$ 23,639	\$ 23,639	-	-	\$ 23,639
Loans, net	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
<b>Financial liabilities</b>					
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
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

**NOTE 5 - PREMISES AND EQUIPMENT**

Year-end premises and equipment were as follows:

<i>December 31,</i>	<b>2023</b>	<b>2022</b>
Land	\$ 3,468,334	\$ 3,468,334
Buildings	11,103,294	11,073,730
Furniture, equipment, and automobiles	3,638,316	3,412,061
Total	18,209,944	17,954,125
Less accumulated depreciation	(5,495,244)	(4,926,069)
	<u>\$ 12,714,700</u>	<u>\$ 13,028,056</u>

Depreciation expense was \$569,175 and \$551,313 for 2023 and 2022.

(Continued)

INSCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022

**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, 2023, before considering renewal options are as follows:

Year Ending December 31,		
2024	\$	221,415
2025		294,205
Total	\$	515,620

**NOTE 6 - RESTRICTED EQUITY SECURITIES**

At December 31, 2023 and 2022, the Company had the following equity investments in restricted equity securities:

<i>December 31,</i>	<b>2023</b>	<b>2022</b>
Federal Home Loan Bank Stock	\$ 2,656,100	\$ 3,158,500
Federal Reserve Bank Stock	1,374,530	1,374,530
Investment in Southeast Community Capital	300,000	300,000
Investment in Pharos Partners III-A, L.P., and IV-A, L.P.	2,663,418	2,020,376
Investment in Caltius V	963,386	1,043,527
Investment in Capital Alignment Partners III, L.P.	470,339	547,536
Investment in TCOS	1,183	1,183
Investment in Live Oak 3	327,434	-
Investment in Banctech Ventures, L.P.	133,280	-
Investment in Affordable Housing Resources	-	50,000
Total	\$ 8,889,670	\$ 8,495,652

**NOTE 7 - DEPOSITS**

Time deposits that meet or exceed the FDIC Insurance limit of \$250,000 at year-end 2023 and 2022 were \$105,747,000 and \$89,707,400. The Company had brokered deposits of approximately \$117,329,252 and \$86,844,214 at year-end 2023 and 2022.

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

Year Ending December 31,		
2024	\$	304,534,020
2025		96,070,479
2026		19,827,635
2027		10,205,106
2028		120,793

(Continued)

INSCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022

**NOTE 8 - FEDERAL HOME LOAN BANK ADVANCES**

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

<i>December 31,</i>	<b>2023</b>	<b>2022</b>
Maturities May 2024 through May 2025, fixed at rates from 0.76% to 0.85%, with an average rate of 0.80%	\$ 15,000,000	\$ 27,000,000
Short term advances with maturities January 2024 through March 2024, fixed at rates from 5.48% to 5.60%, with an average rate of 5.55%	30,000,000	40,000,000
<b>Total</b>	<b>\$ 45,000,000</b>	<b>\$ 67,000,000</b>

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 \$133,968,000 at year-end 2023 and commercial real estate mortgage loans totaling \$140,315,000 at year-end 2022. Based on the eligible collateral and the Company's holdings of FHLB stock, the Company is eligible to borrow up to a total of \$40,023,000 at year-end 2023.

Required principal payments are as follows:

Year Ending December 31,	
2024	\$ 41,000,000
2025	4,000,000
	<b>\$ 45,000,000</b>

**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, during which time the Company will make quarterly interest payments based on three month Secured Overnight Financing Rate (SOFR) plus 3.21% until maturity on December 31, 2028.

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, during which time the Company will make quarterly interest payments based on three month SOFR plus 2.87% until maturity on October 31, 2031.

As of December 31, 2023 and 2022, total unamortized debt issuance costs were \$147,980 and \$169,783, respectively. The Company had subordinated debt outstanding as of December 31, 2023 and 2022, totaling \$17,348,476 and \$17,330,217, respectively, net of unamortized debt issuance costs.

INSCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**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. In 2023, credit availability under the LOC was increased to \$9,500,000. Quarterly interest payments at the *Wall Street Journal* prime rate minus 0.25% (8.50% as of December 31, 2023) 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, 2023 and 2022, the line had a balance of \$8,750,000 and \$7,500,000, respectively. The loan agreement requires: a Federal Deposit Insurance Corporation capitalization rating of "Well Capitalized", Tier 1 leverage ratio of at least 8%, adjusted Texas ratio of less than or equal to 25%, return on average assets ratio of at least 0.55% and a loan to value ratio of less than or equal to 40%. The Company was in compliance with all requirements as of December 31, 2023.

The Company had approximately \$73,100,000 in available lines of credit for federal funds (or the equivalent thereof) with correspondent banks at December 31, 2023.

**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 \$234,894 and \$223,269 in matching contributions and no discretionary contributions in 2023 and 2022.

**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:

	2023	2022
Current Federal	\$ 2,748,390	\$ 2,285,607
Current State	411,947	215,606
Deferred Federal	(692,190)	342,393
Deferred State	(194,947)	131,394
<b>Income Tax Expense</b>	<b>\$ 2,273,200</b>	<b>\$ 2,975,000</b>

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

	2023	2022
Asset (liability)		
Allowance for credit losses	\$ 2,499,737	\$ 2,294,080
Accumulated depreciation	(332,054)	(302,430)
FHLB stock basis	(33,996)	(33,996)
Fair market value adjustments	(123,384)	(904,689)
Unrealized losses on available for sale securities	957,707	889,768
Unrealized holding gain on cash flow hedges	(590,911)	(751,996)
Deferred loan fees	211,286	240,123
Nonaccrual loan interest income	33,284	14,475
Other, net	(20,230)	39,943
<b>Balance at end of year</b>	<b>\$ 2,601,439</b>	<b>\$ 1,485,278</b>

(Continued)

INSCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022

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**NOTE 12 - INCOME TAXES** (Continued)

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, 2023 and 2022, there was no valuation allowance recorded.

A reconciliation of the amount computed by applying the federal statutory rate (21% for 2023 and 2022) to pretax income with income tax expense (benefit) follows:

	2023	2022
Tax expense at statutory rate	\$ 2,242,292	\$ 2,795,265
Increase (decrease) in taxes resulting from		
State income taxes (benefit), net of federal benefit	171,430	274,130
Tax-exempt income	(15,595)	(14,337)
Other	(124,927)	(80,058)
Income tax expense	\$ 2,273,200	\$ 2,975,000

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 2020.

**NOTE 13 - RELATED PARTY TRANSACTIONS**

There were no loans to executive officers and directors of the Company and their related interests at year-end 2023. The aggregate amount of loans to executive officers and directors of the Company and their related interests was approximately \$137,610 at year-end and 2022.

The aggregate amount of deposits from executive officers and directors of the Company and their related interests were approximately \$438,572 and \$569,013 at year-end 2023 and 2022.

**NOTE 14 - STOCK-BASED COMPENSATION**

In 2023, the Company has two share based compensation plans as described below. Total compensation cost that has been charged against income for those plans was \$378,033 and \$325,477 for 2023 and 2022.

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.

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INSCORP, INC.  
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**NOTE 14 - STOCK-BASED COMPENSATION** (Continued)

There were no options granted for the year ended December 31, 2023.

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

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

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

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at beginning of year	303,000	\$ 15.76	5.63
Granted	-	-	-
Exercised	(2,300)	11.15	
Forfeited or expired	(2,450)	18.68	
Outstanding at end of year	298,250	\$ 15.77	4.63
Vested or expected to vest	298,250	\$ 15.77	4.63
Exercisable at end of year	237,984	\$ 14.91	3.87

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

	2023	2022
Intrinsic value of options exercised	\$ 30,275	\$ 96,890
Cash received from option exercises	25,640	128,900
Weighted average fair value of options granted	-	6.08

As of December 31, 2023, there was \$279,576 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 2023, the Company granted 27,505 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 2028.

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**NOTE 14 - STOCK-BASED COMPENSATION** (Continued)

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

Non-vested units	Shares	Weighted- Average Grant-Date Fair Value
Non-vested at January 1, 2023	62,067	\$ 18.80
Granted	27,505	20.53
Forfeited	(1,558)	19.39
Vested	(12,573)	17.64
Non-vested at December 31, 2023	75,441	\$ 19.61

As of December 31, 2023, there was \$1,396,931 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.

**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, 2023, 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 2023 and 2022, 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.

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INSCORP, INC.  
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**NOTE 15 - REGULATORY CAPITAL MATTERS** (Continued)

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
<b>As of December 31, 2023</b>						
Total capital to risk weighted assets	\$ 103,640	13.54%	\$ 61,242	8.00%	\$ 76,553	10.00%
Tier 1 to risk weighted assets	\$ 94,075	12.29%	\$ 45,932	6.00%	\$ 61,242	8.00%
Common Equity Tier 1	\$ 94,075	12.29%	\$ 34,449	4.50%	\$ 49,759	6.50%
Tier 1 to average assets	\$ 94,075	11.37%	\$ 33,103	4.00%	\$ 41,379	5.00%
<b>As of December 31, 2022</b>						
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%

**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 2024, the Bank could, without prior approval, declare dividends of approximately \$18,906,000 plus any of 2024 net profits retained to the date of the dividend declaration.

**NOTE 16 - DERIVATIVES**

The Company utilizes interest rate swap, cash flow hedges, and interest rate caps and floors 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 rate caps and floors 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 rate caps and floors agreements.

Cash Flow Hedges: Funding hedges with notional amounts totaling \$80 million and \$30 million, as of December 31, 2023 and 2022, respectively, 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, 2023 and 2022 were \$32,111,051 and \$36,080,755. 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 floors as of December 31, 2023 was \$350,000,000.

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INSCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 16 – DERIVATIVES** (Continued)

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:

	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Derivatives designated as hedges	\$ 80,000,000	\$ 2,363,634	\$ 30,000,000	\$ 3,007,974
Derivatives not designated as hedging Instruments:				
Interest rate swaps related to customer loans	32,111,051	1,616,253	36,080,755	2,101,679
Interest rate floors	350,000,000	381,889	-	-
Total included in other assets		<u>\$ 4,361,776</u>		<u>\$ 5,109,653</u>
<u>Included in other liabilities:</u>				
Derivatives not designated as hedging Instruments:				
Interest rate swaps related to customer loans	\$ 32,111,051	<u>\$ 1,616,253</u>	\$ 36,080,755	<u>\$ 2,101,679</u>
Total included in other liabilities		<u>\$ 1,616,253</u>		<u>\$ 2,101,679</u>

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

	2023		
	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	\$ (644,340)	\$ -	\$ -
	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	\$ -	\$ -

The Company's consolidated statements of income included income of \$628,354 and \$315,042, for the years ended December 31, 2023 and 2022, respectively, in interest expense on Federal Home Loan Bank advances and other borrowings related to these cash flow hedges. There were no reclassifications from accumulated other comprehensive loss into earnings during the years ended December 31, 2023 or 2022.

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INSCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 16 – DERIVATIVES** (Continued)

The effect of the interest rate floors 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	
		2023	2022
Interest rate floors related to loan customers	Other income (expense)	\$ (381,889)	\$ 2,789,123
Total		\$ (381,889)	\$ 2,789,123

Maturities at December 31, 2023 ranged from 2.20 to 11.84 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.

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

	2023	2022
Unused lines of credit and letters of credit	\$ 100,963,137	\$ 150,527,000
Performance standby letters of credit	\$ 3,266,000	\$ 2,103,000

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**NOTE 18 - EARNINGS PER SHARE**

The factors used in the earnings per share computation follow:

	2023	2022
<b>Basic</b>		
Net income available to common shareholders	\$ 8,404,380	\$ 10,335,785
Weighted average common shares outstanding	2,873,433	2,876,498
Basic earnings per common share	\$ 2.92	\$ 3.59
<b>Diluted</b>		
Net income available to common shareholders	\$ 8,404,380	\$ 10,335,785
Weighted average common shares outstanding for basic earnings per common share	2,873,433	2,876,498
Add: Dilutive effects of assumed exercises of stock options and restricted stock units	76,185	69,399
Average shares and dilutive potential common shares	2,949,618	2,945,897
Diluted earnings per common share	\$ 2.85	\$ 3.51

Stock options of 63,250 and restricted stock units of 21,005 were not considered when computing diluted earnings per common share for the year ended December 31, 2023, as they were antidilutive. 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.