# INSCORP, INC.

## CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

INSCORP, INC.
Nashville, Tennessee

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

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# INDEPENDENT AUDITOR'S REPORT

The Board of Directors
InsCorp, Inc.
Nashville, Tennessee

***Report on the Financial Statements***

We have audited the accompanying consolidated financial statements of InsCorp, Inc., which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of InsCorp, Inc. as of December 31, 2015 and 2014, 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.



Crowe Horwath LLP

Franklin, Tennessee
March 29, 2016

INSCORP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from financial institutions | $ 1,781,620 | $ 1,577,395 |
| Interest-bearing deposits in financial institutions | 19,705,730 | 12,819,943 |
| Cash and cash equivalent | 21,487,350 | 14,397,338 |
| Bank owned certificates of deposit | - | 250,064 |
| Securities available for sale | 19,964,492 | 14,366,779 |
| Loans held for sale | 6,691,207 | 2,448,498 |
| Loans, net of allowance of $3,239,841 in 2015 and $2,740,313 in 2014 | 252,424,313 | 214,391,448 |
| Premises and equipment, net | 7,942,475 | 5,297,746 |
| Restricted equity securities | 2,982,138 | 2,712,373 |
| Bank owned life insurance | 4,492,629 | 4,367,262 |
| Accrued interest receivable | 958,332 | 671,986 |
| Goodwill | 1,240,971 | 1,240,971 |
| Deferred tax asset | 969,551 | 803,182 |
| Other assets | 546,020 | 585,585 |
| Total assets | $ 319,699,478 | $ 261,533,232 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Liabilities | | |
| Deposits | | |
| Noninterest-bearing | $ 15,281,778 | $ 18,272,118 |
| Interest-bearing | 234,153,079 | 181,004,997 |
| Total deposits | 249,434,857 | 199,277,115 |
| Federal Home Loan Bank advances | 35,150,000 | 34,650,000 |
| Federal funds purchased | 2,035,000 | - |
| Note payable and line of credit | 5,486,697 | 3,283,526 |
| Accrued interest payable | 457,542 | 313,590 |
| Other liabilities | 1,533,027 | 450,783 |
| Total liabilities | 294,097,123 | 237,975,014 |
| Shareholders' equity | | |
| Non-cumulative preferred stock, Series A; 3,000 shares authorized; $3,000,000 liquidation value; 3,000 shares issued and outstanding in 2015 and 2014 | 3,000,000 | 3,000,000 |
| Common stock, no par value; 5,000,000 shares authorized; 1,809,019 shares issued in 2015 and 2014 | 17,137,912 | 17,107,049 |
| Retained earnings | 5,475,834 | 3,393,931 |
| Accumulated other comprehensive income (loss) | (11,391) | 57,238 |
| Total shareholders' equity | 25,602,355 | 23,558,218 |
| Total liabilities and shareholders' equity | $ 319,699,478 | $ 261,533,232 |

See accompanying notes to consolidated financial statements.

INSCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years Ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| Interest income | | |
| Loans, including fees | $ 12,105,093 | $ 10,040,650 |
| Taxable securities | 339,888 | 345,527 |
| Federal funds sold and other | 142,824 | 113,297 |
| Total interest income | 12,587,805 | 10,499,474 |
| Interest expense | | |
| Deposits | 2,120,565 | 1,549,628 |
| Federal Home Loan Bank advances and other | 757,339 | 720,678 |
| Total interest expense | 2,877,904 | 2,270,306 |
| Net interest income | 9,709,901 | 8,229,168 |
| Provision for loan losses | 699,000 | 330,000 |
| Net interest income after provision for loan losses | 9,010,901 | 7,899,168 |
| Noninterest income | | |
| Service charges on deposit accounts | 96,818 | 85,044 |
| Mortgage banking income | 2,365,179 | 643,940 |
| Income on bank owned life insurance | 125,367 | 128,648 |
| Gain on sale of securities | 11,156 | - |
| Other | 145,220 | 62,268 |
| Total noninterest income | 2,743,740 | 919,900 |
| Noninterest expense | | |
| Salaries and employee benefits | 4,772,361 | 3,526,220 |
| Occupancy and equipment | 497,866 | 452,594 |
| Marketing and advertising | 338,168 | 280,731 |
| Professional services | 256,085 | 233,878 |
| Data processing fees | 292,408 | 254,175 |
| Other | 1,780,727 | 1,044,970 |
| Total noninterest expense | 7,937,615 | 5,792,568 |
| Income before income taxes | 3,817,026 | 3,026,500 |
| Income tax expense | 1,376,500 | 1,042,830 |
| Net income | 2,440,526 | 1,983,670 |
| Preferred stock dividends | (33,000) | (30,000) |
| Net income available to common shareholders | $ 2,407,526 | $ 1,953,670 |

(Continued)

INSCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years Ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| Net income | $ 2,440,526 | $ 1,983,670 |
| Other comprehensive income (loss): | | |
| Unrealized holding gain (loss) on securities | (103,986) | 254,016 |
| Net unrealized gain (loss) | (103,986) | 254,016 |
| Tax effect | 35,357 | (86,366) |
| Total other comprehensive income (loss) | (68,629) | 167,650 |
| Comprehensive income | $ 2,371,897 | $ 2,151,320 |

See accompanying notes to consolidated financial statements.

INSCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2015 and 2014

| | Preferred Stock | | Common Stock | | Retained | Accumulated Other Comprehensive | Total Shareholders' |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Earnings | Income (Loss) | Equity |
| Balance at January 1, 2014 | 3,000 | $ 3,000,000 | 1,809,019 | $ 17,082,617 | $ 1,693,524 | $ (110,412) | $ 21,665,729 |
| Stock compensation expense | - | - | - | 24,432 | - | - | 24,432 |
| Dividends paid on preferred stock | - | - | - | - | (30,000) | - | (30,000) |
| Dividends paid on common stock | - | - | - | - | (253,263) | - | (253,263) |
| Net income | - | - | - | - | 1,983,670 | - | 1,983,670 |
| Other comprehensive income | - | - | - | - | - | 167,650 | 167,650 |
| Balance at December 31, 2014 | 3,000 | 3,000,000 | 1,809,019 | 17,107,049 | 3,393,931 | 57,238 | 23,558,218 |
| Stock compensation expense | - | - | - | 30,863 | - | - | 30,863 |
| Dividends paid on preferred stock | - | - | - | - | (33,000) | - | (33,000) |
| Dividends paid on common stock | - | - | - | - | (325,623) | - | (325,623) |
| Net income | - | - | - | - | 2,440,526 | - | 2,440,526 |
| Other comprehensive income | - | - | - | - | - | (68,629) | (68,629) |
| Balance at December 31, 2015 | 3,000 | $ 3,000,000 | 1,809,019 | $ 17,137,912 | $ 5,475,834 | $ (11,391) | $ 25,602,355 |

See accompanying notes to consolidated financial statements.

INSCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| Cash flows from operating activities | | |
| Net income | $ 2,440,526 | $ 1,983,670 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation of premises and equipment | 229,986 | 202,097 |
| Net amortization of securities | 92,609 | 95,629 |
| Provision for loan losses | 699,000 | 330,000 |
| Amortization of core deposit intangibles | - | 7,100 |
| Stock compensation expense | 30,863 | 24,432 |
| Deferred income taxes | (131,013) | (65,399) |
| Income from bank owned life insurance | (125,367) | (128,648) |
| Gain on sale of securities | (11,156) | - |
| Gain on sale of premises and equipment | (6,986) | - |
| Net change in: | | |
| Loans held for sale | (4,242,709) | (1,549,798) |
| Accrued interest receivable and other assets | 3,283 | (24,092) |
| Accrued interest payable and other liabilities | 1,226,196 | 304,466 |
| Net cash from operating activities | 205,232 | 1,179,457 |
| Cash flows from investing activities | | |
| Purchases of securities available for sale | (14,721,125) | (4,499,580) |
| Proceeds from sales, calls, and maturities of securities available for sale | 8,937,974 | 7,178,188 |
| Proceeds from sales, calls, and maturities of securities held to maturity | - | 1,000,000 |
| Net change in loans | (38,731,865) | (42,840,495) |
| Purchase of restricted securities | (269,765) | (350,554) |
| Purchases of premises and equipment, net | (2,867,729) | (499,820) |
| Net cash used for investing activities | (47,652,510) | (40,012,261) |
| Cash flows from financing activities | | |
| Net change in deposits | 50,157,742 | 29,755,686 |
| Net change in federal funds purchased | 2,035,000 | - |
| Proceeds from Federal Home Loan Bank advances | 8,000,000 | 2,000,000 |
| Repayments of Federal Home Loan Bank advances | (7,500,000) | (1,000,000) |
| Proceeds from note payable and line of credit | 2,500,000 | 3,283,526 |
| Repayments of note payable | (296,829) | - |
| Dividends paid on common stock | (325,623) | (253,263) |
| Dividends paid on preferred stock | (33,000) | (30,000) |
| Net cash from financing activities | 54,537,290 | 33,755,949 |
| Net change in cash and cash equivalents | 7,090,012 | (5,076,855) |
| Cash and cash equivalents, beginning of year | 14,397,338 | 19,474,193 |
| Cash and cash equivalents, end of year | $ 21,487,350 | $ 14,397,338 |
| Supplemental cash flow information: | | |
| Interest paid | $ 2,733,952 | $ 2,121,895 |
| Income taxes paid | 1,007,000 | 937,000 |

See accompanying notes to 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. Finworth Mortgage, LLC is a mortgage loan subsidiary whose business is the origination and sales of mortgage loans on the secondary market. Activities of other subsidiaries are not considered to be significant in relation to the consolidated financial statements. All significant 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, 2015, 47% 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, 2016, 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, and federal funds purchased.

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 gain and loses recorded in earnings.

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

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

(Continued)

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

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are sold with servicing rights released. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

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

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

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

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when based on current information and events; it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified with a concession granted, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) and classified as impaired.

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

(Continued)

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

Commercial and commercial real estate loans that meet certain size requirements are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral less selling costs if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

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

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

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

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

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

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.

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

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

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

Due to the added risks associated with loans which are graded as watch, special mention or substandard that are not classified as impaired, an additional analysis is performed to determine whether an allowance is needed that is not fully captured by the historical loss experience. While historical loss experience by loss segment and migration of loans into higher risk classifications are considered, the following factors are also considered in determining the level of needed allowance on such loans: the historical loss rates (or severity) of loans specifically classified as watch, special mention, substandard, or doubtful; and the trends in collateral on the loans included within these calculations. This analysis indicated the need for an additional $77,510 of allowance for loan loss at December 31, 2015. At December 31, 2014, this amount was determined to be $92,656. As of December 31, 2015, the Company had an additional unallocated allowance of $397,983. The unallocated allowance at December 31, 2014 was $405,535. The Company calculated that the amount in the unallocated allowance is appropriate given the nature of the loan portfolio. The Company will continue to closely monitor its economic environment and loan portfolio and make adjustments where appropriate.

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

Federal Home Loan Bank (FHLB) and Federal Reserve Bank Stock: The Bank is a member of the 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. 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.

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 resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. 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.

(Continued)

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

Other intangible assets consist of core deposit intangible assets arising from whole bank and branch acquisitions and are amortized on an accelerated method over their estimated useful lives, which range from 7 to 10 years. Goodwill as of December 31, 2015 and 2014 is $1,240,971. The Company has $1,090,971 of goodwill recorded at InsCorp, Inc. and $150,000 of goodwill recorded at Finworth Mortgage LLC at December 31, 2015 and 2014.

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 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 awards. 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.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive loss. Other comprehensive loss includes unrealized gains and losses on securities available for sale which are also recognized as separate components of 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: The Company has entered into derivative transactions in which the Company earns a fee by providing the Company's commercial loan customers the ability to swap from variable to fixed, or fixed to variable interest rates. Under these agreements, the Company enters into a variable or fixed rate loan agreement with its customer in addition to a swap agreement. The swap agreement effectively swaps the customer's variable rate to a fixed rate or vice versa. The Company then enters into a corresponding swap agreement with a third party in order to swap its exposure on the variable to fixed rate swap with the Company's customer. The agreements are considered stand-alone derivatives and changes in the fair value of derivatives are reported in earnings.

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

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

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, 2015 and 2014.

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.

**NOTE 2 - SECURITIES**

The following table summarizes the amortized cost and fair value of securities available for sale and securities held to maturity at December 31, 2015 and 2014 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income and gross unrecognized gains and losses:

| 2015 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Available for Sale | | | | |
| U.S. Government sponsored entities and agencies | $ 2,146,850 | $ 2,654 | $ (11,259) | $ 2,138,245 |
| Mortgage-backed securities-residential | 7,112,713 | 8,808 | (69,219) | 7,052,302 |
| Collateralized mortgage obligations | 10,722,190 | 83,160 | (31,405) | 10,773,945 |
| Total | $ 19,981,753 | $ 94,622 | $ (111,883) | $ 19,964,492 |
| 2014 | | | | |
| Available for Sale | | | | |
| U.S. Government sponsored entities and agencies | $ 1,500,000 | $ - | $ (23,965) | $ 1,476,035 |
| Mortgage-backed securities-residential | 4,651,514 | 22,749 | (59,036) | 4,615,227 |
| Collateralized mortgage obligations | 8,128,540 | 149,136 | (2,159) | 8,275,517 |
| Total | $ 14,280,054 | $ 171,885 | $ (85,160) | $ 14,366,779 |

(Continued)

**NOTE 2 – SECURITIES** (Continued)

Securities carried at $19,964,492 and $14,366,779 at year-end 2015 and 2014, were pledged to secure Federal Home Loan Bank advances.

The proceeds from sales and calls of securities and the associated gains and losses are listed below:

| | 2015 | 2014 |
|---|---|---|
| Proceeds | $ 1,191,608 | $ - |
| Gross gains | 11,156 | - |
| Gross losses | - | - |

The tax provision related to these net realized gain was $4,239 in 2015.

The amortized cost and fair value of the securities available for sale at December 31, 2015 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.

| Maturity | Amortized Cost | Fair Value |
|---|---|---|
| Available for sale | | |
| One to five years | $ 1,148,604 | $ 1,137,345 |
| Five to ten years | 998,246 | 1,000,900 |
| Mortgage-backed securities – residential | 7,112,713 | 7,052,302 |
| Collateralized mortgage obligations | 10,722,190 | 10,773,945 |
| Total | $ 19,981,753 | $ 19,964,492 |

At year end 2015 and 2014, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Securities with unrealized losses at year end 2015 and 2014, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| 2015 | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Available for sale | | | | | | |
| US Government sponsored entities and agencies | $ 1,137,346 | $ (11,259) | $ - | $ - | $ 1,137,346 | $ (11,259) |
| Mortgage-backed securities residential | 5,550,215 | (56,216) | 607,703 | (13,002) | 6,220,917 | (69,219) |
| Collateralized mortgage obligations | 7,005,726 | (31,405) | - | - | 7,005,726 | (31,405) |
| Total temporarily impaired | $ 13,693,267 | $ (98,880) | $ 607,703 | $ (13,002) | $ 14,363,989 | $ (111,883) |

(Continued)

**NOTE 3 - LOANS**

Loans at year end were as follows:

| | 2015 | 2014 |
|---|---|---|
| Real estate: | | |
| Construction | $ 32,111,822 | $ 27,583,686 |
| Residential | 23,281,111 | 20,935,681 |
| Commercial | 120,216,861 | 118,171,057 |
| Total real estate | 175,609,794 | 166,690,424 |
| Commercial | 71,061,810 | 42,455,035 |
| Consumer and other loans | 8,992,550 | 7,986,302 |
| | 255,664,154 | 217,131,761 |
| Less: Allowance for loan losses | (3,239,841) | (2,740,313) |
| Loans, net | $ 252,424,313 | $ 214,391,448 |

(Continued)

**NOTE 3 – LOANS** (Continued)

The following tables present the activity in the allowance for loan losses by portfolio segment for the years ending December 31, 2015 and 2014:

| | Real Estate Loans | | | | | | |
|---|---|---|---|---|---|---|---|
| December 31, 2015 | Construction | Commercial | Residential | Commercial | Consumer and Other | Unallocated | Total |
| Allowance for loan losses: | | | | | | | |
| Beginning balance | $ 417,479 | $ 1,072,690 | $ 132,725 | $ 631,350 | $ 80,534 | $ 405,535 | $ 2,740,313 |
| (Credit) provision for loan losses | (37,436) | (168,167) | 17,732 | 895,335 | (912) | (7,552) | 699,000 |
| Loans charged-off | - | - | - | (204,171) | - | - | (204,171) |
| Recoveries | - | - | 4,642 | 57 | - | - | 4,699 |
| Total ending allowance balance | $ 380,043 | $ 904,523 | $ 155,099 | $ 1,322,571 | $ 79,622 | $ 397,983 | $ 3,239,841 |
| December 31, 2014 | | | | | | | |
| Allowance for loan losses: | | | | | | | |
| Beginning balance | $ 356,941 | $ 1,079,495 | $ 121,356 | $ 415,693 | $ 127,323 | $ 409,780 | $ 2,510,588 |
| (Credit) provision for loan losses | 60,538 | (6,805) | 7,084 | 320,217 | (46,789) | (4,245) | 330,000 |
| Loans charged-off | - | - | - | (104,560) | - | - | (104,560) |
| Recoveries | - | - | 4,285 | - | - | - | 4,285 |
| , Total ending allowance balance | $ 417,479 | $ 1,072,690 | $ 132,725 | $ 631,350 | $ 80,534 | $ 405,535 | $ 2,740,313 |

(Continued)

**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, 2015 and 2014. For purposes of this disclosure, recorded investment in loans excludes accrued interest receivable and deferred fees and costs.

| | Real Estate Loans | | | | | | |
|---|---|---|---|---|---|---|---|
| December 31, 2015 | Construction | Commercial | Residential | Commercial | Consumer and Other | Unallocated | Total |
| Allowance for loan losses: | | | | | | | |
| Ending allowance balance attributable to loans: | | | | | | | |
| Individually evaluated for impairment | $ - | $ 88,000 | $ - | $ 487,000 | $ - | $ - | $ 575,000 |
| Collectively evaluated for impairment | 380,043 | 816,523 | 155,099 | 835,571 | 79,622 | 397,983 | 2,664,841 |
| Total ending allowance balance | $ 380,043 | $ 904,523 | $ 155,099 | $ 1,322,571 | $ 79,622 | $ 397,983 | $ 3,239,841 |
| Loans: | | | | | | | |
| Loans individually evaluated for impairment | $ - | $ 2,372,013 | $ - | $ 1,624,402 | $ - | $ - | $ 3,996,415 |
| Loans collectively evaluated for impairment | 32,111,822 | 117,844,848 | 23,281,111 | 69,437,408 | 8,992,550 | - | 251,667,739 |
| Total ending loans balance | $ 32,111,822 | $ 120,216,861 | $ 23,281,111 | $ 71,061,810 | $ 8,992,550 | $ - | $ 255,664,154 |
| December 31, 2014 | | | | | | | |
| Allowance for loan losses: | | | | | | | |
| Ending allowance balance attributable to loans: | | | | | | | |
| Individually evaluated for impairment | $ - | $ 299,000 | $ - | $ 61,000 | $ - | $ | $ 360,000 |
| Collectively evaluated for impairment | 417,479 | 773,690 | 132,725 | 570,350 | 80,534 | 405,535 | 2,380,313 |
| Total ending allowance balance | $ 417,479 | $ 1,072,690 | $ 132,725 | $ 631,350 | $ 80,534 | $ 405,535 | $ 2,740,313 |
| Loans: | | | | | | | |
| Loans individually evaluated for impairment | $ - | $ 3,665,305 | $ - | $ 131,387 | $ - | $ - | $ 3,796,692 |
| Loans collectively evaluated for impairment | 27,583,686 | 114,505,752 | 20,935,681 | 42,323,648 | 7,986,302 | - | 213,335,069 |
| Total ending loans balance | $ 27,583,686 | $ 118,171,057 | $ 20,935,681 | $ 42,455,035 | $ 7,986,302 | $ - | $ 217,131,761 |

(Continued)

**NOTE 3 – LOANS** (Continued)

The following tables present information related to impaired loans by class of loans as of and for the years ended December 31, 2015 and 2014:

| December 31, 2015 | Unpaid Principal Balance | Recorded Investment | Allowance for Loan Losses Allocated | Average Recorded Investment |
|---|---|---|---|---|
| With no allowance recorded: | | | | |
| Commercial real estate | $ 1,383,520 | $ 1,383,520 | $ - | $ 1,423,985 |
| Subtotal | 1,383,520 | 1,383,520 | - | 1,423,985 |
| With an allowance recorded: | | | | |
| Commercial real estate | 988,493 | 988,493 | 88,000 | 1,710,723 |
| Commercial | 1,624,402 | 1,624,402 | 487,000 | 425,590 |
| Subtotal | 2,612,895 | 2,612,895 | 575,000 | 2,136,313 |
| Total | $ 3,996,415 | $ 3,996,415 | $ 575,000 | $ 3,560,298 |
| December 31, 2014 | | | | |
| With no allowance recorded: | | | | |
| Commercial real estate | $ 1,461,453 | $ 1,461,453 | $ - | $ 1,489,382 |
| Subtotal | 1,461,453 | 1,461,453 | - | 1,489,382 |
| With an allowance recorded: | | | | |
| Commercial real estate | 2,203,852 | 2,203,852 | 299,000 | 2,223,719 |
| Commercial | 131,387 | 131,387 | 61,000 | 160,533 |
| Subtotal | 2,335,239 | 2,335,239 | 360,000 | 2,384,252 |
| Total | $ 3,796,692 | $ 3,796,692 | $ 360,000 | $ 3,873,634 |

| | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Interest Income Recognized | Cash-basis Interest income Recognized | Interest Income Recognized | Cash-basis Interest income Recognized |
| With no related allowance recorded: | | | | |
| Commercial real estate | $ 81,321 | $ 81,665 | $ 80,999 | $ 86,325 |
| | 81,231 | 81,665 | 80,999 | 86,325 |
| With an allowance recorded: | | | | |
| Commercial real estate | 100,547 | 105,789 | 138,385 | 139,876 |
| Commercial | 71,750 | 60,602 | 4,948 | 4,948 |
| Subtotal | 172,297 | 166,391 | 143,333 | 144,824 |
| Total | $ 253,528 | $ 248,056 | $ 224,332 | $ 231,149 |

(Continued)

**NOTE 3 – LOANS** (Continued)

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

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, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Nonaccrual | 90+ Days Past Due Still Accruing | Nonaccrual | 90+ Days Past Due Still Accruing |
| Real Estate: | | | | |
| Residential | $ 52,789 | $ - | $ 91,061 | $ - |
| Commercial | 285,106 | - | 250,701 | - |
| Total | $ 337,895 | $ - | $ 341,762 | $ - |

Commercial loans of $180,455 were over 90 days past due as of December 31, 2015. The Company had $32,948 of commercial loans past due 30 to 89 days as of December 31, 2015. The Company had residential real estate loans of $60,490 and commercial loans of $121,053 over 90 days past due as of December 31, 2014. The Company did not have any loans past due 30 to 89 days as of December 31, 2014.

The Company had troubled debt restructurings of $2,491,400 and $3,797,000 included in impaired loans as of December 31, 2015 and 2014. The Company has allocated $148,000 and $360,000 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2015 and 2014. 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, 2015 or 2014. 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, 2015 or 2014. 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.

(Continued)

**NOTE 3 – LOANS** (Continued)

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

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

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

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

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

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

| December 31, 2015 | Pass | Special Mention | Substandard | Doubtful | Total |
|---|---|---|---|---|---|
| Real Estate | | | | | |
| Construction | $ 32,111,822 | $ - | $ - | $ - | $ 32,111,822 |
| Residential | 22,997,786 | - | 283,325 | - | 23,281,111 |
| Commercial | 117,521,268 | - | 2,695,593 | - | 120,216,861 |
| Commercial | 69,502,315 | - | 1,559,495 | - | 71,061,810 |
| Consumer and Other | 8,992,550 | - | - | - | 8,992,550 |
| Total | $ 251,125,741 | $ - | $ 4,538,413 | $ - | $ 255,664,154 |

(Continued)

**NOTE 3 – LOANS** (Continued)

| December 31, 2014 | Pass | Special Mention | Substandard | Doubtful | Total |
|---|---|---|---|---|---|
| Real Estate | | | | | |
| Construction | $ 27,583,686 | $ - | $ - | $ - | $ 27,583,686 |
| Residential | 20,844,620 | - | 91,061 | - | 20,935,681 |
| Commercial | 115,254,589 | - | 2,916,468 | - | 118,171,057 |
| Commercial | 41,006,777 | 1,197,557 | 250,701 | - | 42,455,035 |
| Consumer and Other | 7,969,032 | - | 17,270 | - | 7,986,302 |
| Total | $ 212,658,704 | $ 1,197,557 | $ 3,275,500 | $ - | $ 217,131,761 |

**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).

Derivatives: The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2).

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. 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.

(Continued)

**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, 2015 and 2014 using level 2 inputs are summarized below: ($ in thousands)

| | 2015 Significant Other Observable Inputs (Level 2) | 2014 Significant Other Observable Inputs (Level 2) |
|---|---|---|
| Assets: | | |
| Available for sale securities: | | |
| U.S. Government sponsored-entities and agencies | $ 2,138,245 | $ 1,476,035 |
| Mortgage-backed securities-residential | 7,052,302 | 4,615,227 |
| Collateralized mortgage-obligations | 10,773,945 | 8,275,517 |
| Total | $ 19,964,492 | $ 14,366,779 |
| Assets: | | |
| Interest rate swap | $ 13,723 | $ 92,000 |
| Interest rate caps | $ 2,478 | $ 75,000 |
| Liabilities: | | |
| Interest rate swap | $ 13,723 | $ 92,000 |

Assets and Liabilities Measured on a Non-Recurring Basis

Assets measured at fair value on a non-recurring basis at December 31, 2015 and 2014 using significant unobservable inputs (level 3) are summarized below: ($ in thousands)

| | 2015 Significant Other Observable Inputs (Level 3) | 2014 Significant Other Observable Inputs (Level 3) |
|---|---|---|
| Assets: | | |
| Impaired loans: | | |
| Commercial real estate | $ 900,000 | $ 1,905,000 |
| Commercial | 1,138,000 | 70,000 |

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $2,613,000, with a valuation allowance of $575,000, resulting in $215,000 of additional provision for loan losses for the year ended December 31, 2015. At December 31, 2014, impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $2,335,000, with a valuation allowance of $360,000, resulting in no additional provision for loan losses for the year ended December 31, 2014.

(Continued)

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

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, 2015 and 2014:

| December 31, 2015 | Fair Value | Valuation Technique(s) | Unobservable Input(s) | Range (Weighted Average) |
|---|---|---|---|---|
| Impaired loans – Commercial real estate | $ 900,000 | Income approach | Capitalization rates | 8.25% - 8.50% (8.38%) |
| Commercial | 1,138,000 | Market approach | Discount to allow for market value of assets | 20.92% |
| December 31, 2014 | | | | |
| Impaired loans – Commercial real estate | $ 1,905,000 | Income approach | Capitalization rates | 8.25% - 10.00% (9.07%) |
| Commercial | 70,000 | Market approach | Discount to allow for market value of assets | 50.00% |

Carrying amount and estimated fair values of financial instruments at year end were as follows:
($ in thousands):

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Financial assets: | | | | |
| Cash and cash equivalents | $ 21,487 | $ 21,487 | $ 14,397 | $ 14,397 |
| Bank owned certificate of deposit | - | - | 250 | 250 |
| Securities available for sale | 19,964 | 19,964 | 14,367 | 14,367 |
| Loans, net | 252,424 | 265,250 | 214,391 | 219,959 |
| Loans held for sale | 6,691 | 6,896 | 2,448 | 2,448 |
| Restricted equity securities | 2,982 | N/A | 2,712 | N/A |
| Accrued interest receivable | 958 | 958 | 672 | 672 |
| Interest rate swap | 14 | 14 | 92 | 92 |
| Interest rate caps | 2 | 2 | 75 | 75 |
| Financial liabilities: | | | | |
| Deposits | 249,435 | 249,502 | 199,277 | 199,689 |
| Federal Home Loan Bank advances | 35,150 | 35,367 | 34,650 | 35,131 |
| Federal funds purchased | 2,035 | 2,035 | - | - |
| Note payable and line of credit | 5,487 | 5,621 | 3,284 | 3,499 |
| Accrued interest payable | 458 | 458 | 314 | 314 |
| Interest rate swap | 14 | 14 | 92 | 92 |

(Continued)

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

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk including consideration of widening credit spreads. The methods utilized to estimate fair value of loans do not necessarily represent an exit price. Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of restricted equity securities due to restrictions placed on its transferability. The fair value of off-balance-sheet items is not considered material. The methodologies used for estimation of fair values of available for sale securities and impaired loans are as previously described.

**NOTE 5 - PREMISES AND EQUIPMENT**

| Year-end premises and equipment were as follows: | 2015 | 2014 |
|---|---|---|
| Land | $ 3,468,334 | $ 1,815,363 |
| Building | 3,270,691 | 3,233,330 |
| Furniture, equipment and automobiles | 1,828,834 | 1,705,789 |
| Construction in process | 1,039,691 | - |
| | 9,596,397 | 6,754,482 |
| Less: Accumulated depreciation | 1,664,922 | 1,456,736 |
| | $ 7,942,629 | $ 5,297,746 |

Depreciation expense was $229,986 and $202,097 for 2015 and 2014.

As of December 31 2015, construction in process consists of costs incurred during 2015 for a new location in Brentwood, Tennessee. This project is approximately 15% complete and is in the planning phase, with estimated completion in late 2016.

**NOTE 6 - RESTRICTED EQUITY SECURITIES**

At December 31, 2015 and 2014, the Company had the following equity investments in restricted equity securities:

| | 2015 | 2014 |
|---|---|---|
| Federal Home Loan Bank Stock | $ 1,374,700 | $ 1,374,700 |
| Federal Reserve Bank Stock | 685,800 | 640,800 |
| Investment in Southeast Community Capital | 300,000 | 300,000 |
| Investment in The Housing Fund | 173,619 | 177,645 |
| Investment in Pharos Capital | 448,019 | 219,228 |
| | $ 2,982,138 | $ 2,712,373 |

(Continued)

## NOTE 7 - DEPOSITS

Time deposits that meet or exceed the FDIC Insurance limit of $250,000 at year end 2015 and 2014 were $45,576,442 and $37,745,162. The Company had brokered deposits of approximately $29,799,000 and $30,752,000 at year-end 2015 and 2014.

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

| | |
|---|---|
| 2016 | $ 79,305,749 |
| 2017 | 40,177,949 |
| 2018 | 14,776,183 |
| 2019 | 57,998 |
| 2020 | 42,579 |

## NOTE 8 - FEDERAL HOME LOAN BANK ADVANCES

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

| | 2015 | 2014 |
|---|---|---|
| Maturities July 2016 to January 2020, fixed at rates from 0.81% to 4.60%, with an average rate of 1.63% | $ 35,150,000 | $ 34,650,000 |

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by securities totaling $19,964,492 and $14,366,779, commercial real estate mortgage loans totaling $54,167,581 and $56,730,114, and first residential mortgage loans totaling $10,409,862 and $8,710,088 under a blanket pledge agreement at year-end 2015 and 2014. Based on the eligible collateral and the Company's holdings of FHLB stock, the Company is eligible to borrow up to a total of $27,280,000 at year-end 2015.

Payments over the next five years are as follows:

| | |
|---|---|
| 2016 | $ 4,900,000 |
| 2017 | 16,250,000 |
| 2018 | 6,000,000 |
| 2019 | 6,000,000 |
| 2020 | 2,000,000 |

Prepayment fees totaled $95,675 and were expensed during 2015. There were no modified rates or terms on FHLB advances in 2015 and 2014.

## NOTE 9 - OTHER BORROWINGS

During 2014, the Company entered into a term loan agreement in the amount of $3,500,000 with another financial institution with the primary purpose of providing capital to InsBank. The loan is a ten year fully amortizing instrument at 4.16%. Payments are made quarterly from dividends paid by the bank to the Company. At December 31, 2015 and 2014 the outstanding balance on the note was $2,986,697 and $3,283,526. Collateral for the loan is stock of the Company’s subsidiary, InsBank.

(Continued)

**NOTE 9 - OTHER DEBT** (Continued)

Required principal payments over the next five years and thereafter are as follows:

| | |
|---|---|
| 2016 | $ 309,146 |
| 2017 | 322,749 |
| 2018 | 336,578 |
| 2019 | 351,000 |
| 2020 and thereafter | 1,667,224 |

In addition, the Company entered into a line of credit (LOC) for $2,500,000 with the same financial institution. The interest rate the 30 day LIBOR rate plus 2.75% (3.18% at December 31, 2015). The scheduled maturity of the LOC is March 15, 2019. Collateral for the loan is 100% of the common stock of InsBank. As of December 31, 2015, the line had a balance of $2,500,000. There was no balance on the LOC at December 31, 2014.

The Company had approximately $24.1 million in available lines of credit for federal funds (or the equivalent thereof) with correspondent banks at December 31, 2015. As of December 31, 2015, there were $2,035,000 in outstanding federal funds purchased with a rate of 1.20%

**NOTE 10 - 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 $77,468 and $63,144 in matching contributions and no discretionary contributions in 2015 and 2014.

**NOTE 11 - INCOME TAXES**

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

| | 2015 | 2014 |
|---|---|---|
| Current Federal | $ 1,329,861 | $ 1,009,417 |
| Current State | 177,653 | 98,812 |
| Deferred Federal | (52,304) | (27,066) |
| Deferred State | (78,710) | (38,333) |
| Income tax expense | $ 1,376,500 | $ 1,042,830 |

(Continued)

**NOTE 11 - INCOME TAXES** (Continued)

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

| | 2015 | 2014 |
|---|---|---|
| Asset (liability) | | |
| Allowance for loan losses | $ 1,187,814 | $ 1,015,621 |
| Accumulated depreciation | (281,132) | (271,863) |
| FHLB stock basis | (49,808) | (49,408) |
| Fair market value adjustments | 28,801 | 1,177 |
| Unrealized (gains) losses on available for sale securities | 5,869 | (29,487) |
| Other, net | 78,007 | 137,142 |
| Balance at end of year | $ 969,551 | $ 803,182 |

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, 2015 and 2014, there was no valuation allowance recorded.

A reconciliation of the amount computed by applying the federal statutory rate (34%) to pretax income with income tax expense (benefit) follows:

| | 2015 | 2014 |
|---|---|---|
| Tax expense at statutory rate | $ 1,297,791 | $ 1,029,010 |
| Increase (decrease) in taxes resulting from | | |
| State income taxes, net of federal benefit | 65,302 | 39,916 |
| Tax-exempt income | (32,917) | (36,706) |
| Other | 46,324 | 10,610 |
| Income tax expense | $ 1,376,500 | $ 1,042,830 |

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 2012.

**NOTE 12 - RELATED PARTY TRANSACTIONS**

The aggregate amount of loans to executive officers and directors of the Company and their related interests were approximately $14,342,749 and $14,369,640 at year end 2015 and 2014.

The aggregate amount of deposits from executive officers and directors of the Company and their related interests were approximately $2,209,602 and $2,162,979 at year end 2015 and 2014.

**NOTE 13 - STOCK-BASED COMPENSATION**

The Company has a share based compensation plan as described below. Total compensation cost that has been charged against income for the plan was $30,863 and $24,432 for 2015 and 2014. The total income tax benefit was $11,728 and $9,325.

(Continued)

**NOTE 13 - STOCK-BASED COMPENSATION** (Continued)

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 19% 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.

A summary of the activity in the stock option plan for 2015 follows:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term |
|---|---|---|---|
| Outstanding at beginning of year | 268,968 | $ 8.88 | |
| Granted | - | - | |
| Exercised | - | - | |
| Forfeited or expired | 1,750 | 7.10 | |
| Outstanding at end of year | 267,218 | $ 8.90 | 5.22 |
| Vested or expected to vest | 267,218 | $ 8.90 | 5.22 |
| Exercisable at end of year | 219,218 | $ 8.52 | 4.41 |

As of December 31, 2015, there was $20,907 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 2.9 years.

**NOTE 14 - 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 final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Capital amounts and ratios for December 31, 2014 are calculated using Basel I rules. Management believes as of December 31, 2015, the Company and Bank meet all capital adequacy requirements to which they are subject.

(Continued)

**NOTE 14 - REGULATORY CAPITAL MATTERS** (Continued)

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 2015 and 2014, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts and ratios for the Bank are presented below at year end.
($ in thousands)

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| 2015 | | | | | | |
| Total capital to risk weighted assets | $ 30,201 | 11.77% | $ 22,475 | 8.00% | $ 28,094 | 10.00% |
| Tier 1 to risk weighted assets | $ 29,828 | 10.62% | $ 16,857 | 6.00% | $ 22,475 | 8.00% |
| Common Equity Tier 1 | $ 29,828 | 10.62% | $ 12,642 | 4.50% | $ 18,261 | 6.50% |
| Tier 1 to average assets | $ 29,828 | 9.55% | $ 12,500 | 4.00% | $ 15,625 | 5.00% |
| 2014 | | | | | | |
| Total capital to risk weighted assets | $ 28,134 | 11.76% | $ 19,132 | 8.00% | $ 23,915 | 10.00% |
| Tier 1 to risk weighted assets | $ 25,394 | 10.62% | $ 9,566 | 4.00% | $ 14,349 | 6.00% |
| Tier 1 to average assets | $ 25,394 | 9.88% | $ 10,280 | 4.00% | $ 12,850 | 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 2016, the Bank could, without prior approval, declare dividends of approximately $3,579,000 plus any of 2016 net profits retained to the date of the dividend declaration.

**NOTE 15 - INTEREST RATE SWAPS**

During 2015 and 2014, the Company entered into interest rate swaps for the benefit of its customers. The notional amount of these customer derivative instrument and the offsetting counterparty derivative instruments were $8,828,312 and $8,828,312 as of December 31, 2015. At December 31, 2014, the notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were $5,852,309 and $5,852,309.

(Continued)

**NOTE 15 - INTEREST RATE SWAPS** (Continued)

Maturities at December 31, 2015 ranged from 2 years to 10 years. Since the swaps are structured to offset each other, changes in fair value, while recorded, have no material net earnings impact. The current fair value of the swaps was approximately $14,000 and $92,000 at December 31, 2015 and 2014, and is included in other assets and other liabilities for the value of each of the swaps.

During 2015 and 2014, the Company also entered into interest cap agreements as free standing derivative instruments to protect against rapidly increasing interest rates. The notional amount of these free standing derivative instruments were $50,000,000 and $60,000,000 as of December 31, 2015 and 2014, respectively. Maturities at December 31, 2015 ranged from 1 to 2 years. The current fair value of the instruments was approximately $2,000 at December 31, 2015 and is included in other assets. A corresponding credit (charge) is made to non-interest income is made when the fair value of the interest cap changes.

The Company is exposed to losses if a counterparty fails to make its payments under a contract in which the Bank is in the receiving status. Although collateral or other security is not obtained, credit risk is minimized by monitoring the credit standing of the counterparties. Management anticipates the counterparties will be able to fully satisfy their obligations under these agreements.

**NOTE 16 – 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:

| | 2015 | 2014 |
|---|---|---|
| Commitments to extend credit | $ 3,135,000 | $ 3,711,000 |
| Unused lines of credit and letters of credit | 53,022,000 | 30,558,000 |
| Performance standby letters of credit | 1,263,000 | 1,066,000 |

**NOTE 17 - PREFERRED STOCK**

On September 27, 2011, as part of the Small Business Lending Fund (“SBLF”), the Company entered into a Small Business Lending Fund Securities Purchase Agreement (“SBLF Purchase Agreement”) with the United States Department of the Treasury (“Treasury”). Under the SBLF Purchase Agreement, the Company issued 3,000 shares of preferred stock series A to the Treasury. The preferred stock series A shares qualify as Tier 1 capital and dividends are paid quarterly. The initial dividend rate was 5%. After the first ten quarters of reporting the rate became fixed based on qualified lending growth. The dividend rate at December 31, 2015 and 2014 was 1%. During the years ended December 31, 2015 and 2014, dividends of $33,000 and $30,000 were paid to the Treasury.

**SUPPLEMENTARY INFORMATION**

INSCORP, INC.
CONSOLIDATING BALANCE SHEET
December 31, 2015

| | InsCorp, Inc. | INSBANK | Finworth Mortgage, LLC | IBOT Finance | Elimination Entries | Consolidated |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and due from financial institutions | $ 17,114 | $ 1,781,620 | $ 1,856,304 | $ 9,853 | $ (1,883,271) | $ 1,781,620 |
| Interest-bearing deposits in financial institutions | - | 19,705,730 | - | - | - | 19,705,730 |
| Cash and cash equivalents | 17,114 | 21,487,350 | 1,856,304 | 9,853 | (1,883,271) | 21,487,350 |
| Bank owned certificates of deposit | - | - | - | - | - | - |
| Securities available for sale | - | 19,964,492 | - | - | - | 19,964,492 |
| Loans held for sale | - | - | 6,691,207 | - | | 6,691,207 |
| Loans, net of allowance | - | 259,187,806 | - | - | (6,763,493) | 252,424,313 |
| Premises and equipment, net | - | 7,918,443 | 24,032 | - | - | 7,942,475 |
| Restricted equity securities | - | 2,982,138 | - | - | - | 2,982,138 |
| Bank owned life insurance | - | 4,492,629 | - | - | - | 4,492,629 |
| Investment in subsidiaries | 29,839,318 | 1,522,409 | - | - | (31,361,727) | - |
| Accrued interest receivable | - | 958,332 | - | - | - | 958,332 |
| Goodwill | 1,090,971 | - | 150,000 | - | - | 1,240,971 |
| Deferred tax asset | 134,091 | 835,460 | - | - | - | 969,551 |
| Other assets | 14,878 | 844,549 | 228,441 | - | (541,848) | 546,020 |
| Total assets | $ 31,096,372 | $ 320,193,608 | $ 8,949,984 | $ 9,853 | $ (40,550,339) | $ 319,699,478 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | | |
| Liabilities | | | | | | |
| Deposits | | | | | | |
| Noninterest-bearing | $ - | $ 17,165,049 | $ - | $ - | $ (1,883,271) | $ 15,281,778 |
| Interest-bearing | - | 234,153,079 | - | - | - | 234,153,079 |
| Total deposits | - | 251,318,128 | - | - | (1,883,271) | 249,434,857 |
| Federal Home Loan Bank advances | - | 35,150,000 | - | - | - | 35,150,000 |
| Federal funds purchased and other borrowings | 5,486,697 | 2,035,000 | 6,763,493 | - | (6,763,493) | 7,521,697 |
| Accrued interest payable | 7,320 | 450,222 | - | - | - | 457,542 |
| Other liabilities | - | 1,400,940 | 673,146 | 789 | (541,848) | 1,533,027 |
| Total liabilities | 5,494,017 | 290,354,290 | 7,436,639 | 789 | (9,188,612) | 294,097,123 |
| Shareholders' equity | | | | | | |
| Preferred stock | 3,000,000 | - | - | - | - | 3,000,000 |
| Common stock | 17,137,912 | 59,000 | - | - | (59,000) | 17,137,912 |
| Additional paid-in capital | - | 23,801,000 | 1,657,000 | 29,326 | (25,487,326) | - |
| Retained earnings | 5,475,834 | 5,990,710 | (143,655) | (20,262) | (5,826,793) | 5,475,834 |
| Accumulated other Comprehensive gain | (11,391) | (11,392) | - | - | 11,392 | (11,391) |
| Total shareholders' equity | 25,602,355 | 29,839,318 | 1,513,345 | 9,064 | (31,361,727) | 25,602,355 |
| Total liabilities and shareholders' equity | $ 31,096,372 | $ 320,193,608 | $ 8,949,984 | $ 9,853 | $ (40,550,339) | $ 319,699,478 |

INSCORP, INC.
CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME
Years Ended December 31, 2015

| | InsCorp, Inc. | INSBANK | Finworth Mortgage, LLC | IBOT Finance | Elimination Entries | Consolidated |
|---|---|---|---|---|---|---|
| Interest income | | | | | | |
| Loans, including fees | $ - | $ 12,135,426 | $ 233,554 | $ - | $ (263,887) | $ 12,105,093 |
| Taxable securities | - | 339,888 | - | - | - | 339,888 |
| Federal funds sold and other | 99 | 142,824 | - | - | (99) | 142,824 |
| Total interest income | 99 | 12,618,138 | 233,554 | - | (263,986) | 12,587,805 |
| Interest expense | | | | | | |
| Deposits | - | 2,120,664 | - | - | (99) | 2,120,565 |
| Federal Home Loan Bank advances and other | 155,863 | 601,476 | 263,887 | - | (263,887) | 757,339 |
| Total interest expense | 155,863 | 2,722,140 | 263,887 | - | (263,986) | 2,877,904 |
| Net interest income (expense) | (155,764) | 9,895,998 | (30,333) | - | - | 9,709,901 |
| Provision for loan losses | - | 699,000 | - | - | - | 699,000 |
| Net interest income (expense) after provision for loan losses | (155,764) | 9,196,998 | (30,333) | - | - | 9,010,901 |
| Noninterest income | | | | | | |
| Income from subsidiaries | 2,584,752 | 213,531 | - | - | (2,798,283) | - |
| Service charges on deposit accounts | - | 96,818 | - | - | - | 96,818 |
| Mortgage banking income | - | - | 2,365,179 | - | - | 2,365,179 |
| Income on bank owned life insurance | - | 125,367 | - | - | - | 125,367 |
| Other | - | 234,376 | - | - | (78,000) | 156,376 |
| Total noninterest income | 2,584,752 | 670,092 | 2,365,179 | - | 2,876,283 | 2,743,740 |
| Noninterest expense | | | | | | |
| Salaries and employee benefits | 30,863 | 3,323,722 | 1,417,776 | - | - | 4,772,361 |
| Occupancy and equipment | - | 490,266 | 7,600 | - | - | 497,866 |
| Marketing and advertising | 15,409 | 277,476 | 45,283 | - | - | 338,168 |
| Professional services | 8,140 | 232,836 | 15,109 | - | - | 256,085 |
| Data processing fees | - | 292,408 | - | - | - | 292,408 |
| Other | 4,550 | 1,218,630 | 635,547 | - | (78,000) | 1,780,727 |
| Total noninterest expense | 58,962 | 5,835,338 | 2,121,315 | - | (78,000) | 7,937,615 |
| Income (loss) before income taxes | 2,370,026 | 4,031,752 | 213,531 | - | (2,798,283) | 3,817,026 |
| Income tax expense (benefit) | (70,500) | 1,447,000 | - | - | - | 1,376,500 |
| Net income (loss) | 2,440,526 | 2,584,752 | 213,531 | - | (2,798,283) | 2,440,526 |
| Preferred stock dividends | (33,000) | - | - | - | - | (33,000) |
| Net income (loss) available to common shareholders | $ 2,407,526 | $ 2,584,752 | $ 213,531 | $ - | $ (2,798,283) | $ 2,407,526 |
| Net income (loss) | $ 2,440,526 | $ 2,584,752 | $ 213,531 | $ - | $ (2,798,283) | $ 2,440,526 |
| Other comprehensive gain (loss): | | | | | | |
| Unrealized holding gain on securities | (103,986) | (103,986) | - | - | 103,986 | (103,986) |
| Net unrealized gain | (103,986) | (103,986) | - | - | 103,986 | (103,986) |
| Tax effect | 35,357 | 35,357 | - | - | (35,357) | 35,357 |
| Total other comprehensive loss | (68,629) | (68,629) | - | - | 68,629 | (68,629) |
| Comprehensive income | $ 2,371,897 | $ 2,516,123 | $ 213,531 | $ - | $ 2,866,912 | $ 2,371,897 |

FINWORTH MORTGAGE LLC
(An Indirect Wholly-Owned Subsidiary of Inscorp, Inc.)
TITLE II SINGLE FAMILY PROGRAM LENDER'S ADJUSTED NET WORTH COMPUTATION
December 31, 2015

| | |
|---|---|
| FHA servicing portfolio at December 31, 2015: | $ - |
| FHA originations- FHA-insured Title II loan originations during the fiscal year | 14,470,980 |
| FHA purchases- FHA insured Title II third-party originators during the fiscal year | |
| Total FHA loan activity | $ 14,470,980 |
| FHA-insured Title II loan originations retained at the fiscal year end | - |
| FHA-insured Title II third-party originator purchases retained at the end of the year | - |
| Adjustments | $ - |
| Total adjusted FHA loans activity | $ 14,470,980 |
| Net worth required | $ 1,000,000 |
| Additional net worth required | - |
| Total net worth required measurement (maximum level $2,500,000) | $ 1,000,000 |
| Stockholders' equity (net worth) per balance sheet | $ 1,513,345 |
| Less unacceptable assets: | |
| Intangible Asset, Net of Amortization | 150,000 |
| Other assets | 228,441 |
| Total unacceptable assets | $ 378,441 |
| Adjusted net worth for HUD requirements purposes | $ 1,134,902 |
| Minimum net worth required | $ 1,000,000 |
| Adjusted net worth above amount required | $ 134,902 |