

Cornerstone Bancorp, Inc. and Subsidiary

**Consolidated Financial Report
December 31, 2023**

Cornerstone Bancorp, Inc. and Subsidiary

Contents

Report Letter	1-2
Consolidated Financial Statements	
Balance Sheet	3
Statement of Income	4
Statement of Comprehensive Income	5
Statement of Stockholders' Equity	6
Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8-35

Independent Auditor's Report

To the Audit Committee
Cornerstone Bancorp, Inc. and Subsidiary

Opinion

We have audited the consolidated financial statements of Cornerstone Bancorp, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheet as of December 31, 2023 and 2022 and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 Audits of the Consolidated Financial Statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

To the Audit Committee
Cornerstone Bancorp, Inc. and Subsidiary

Auditor's Responsibilities for the Audits of the Consolidated 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 audits 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 audits in accordance with GAAS, we:

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

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

Plante & Moran, PLLC

April 5, 2024

Cornerstone Bancorp, Inc. and Subsidiary

Consolidated Balance Sheet

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Assets		
Cash and due from banks	\$ 12,370,630	\$ 13,592,482
Interest-bearing deposits in other financial institutions	<u>187,319,519</u>	<u>207,063,663</u>
Cash and cash equivalents	199,690,149	220,656,145
Investment securities - Available-for-sale (Note 2)	100,398,711	148,706,592
Other securities	3,550,780	3,520,652
Loans held for sale	1,575,181	550,000
Loans, net of allowance for loan losses (Note 3)	639,509,457	600,999,491
Premises and equipment (Note 4)	4,022,234	4,092,611
Accrued interest receivable	2,461,152	2,321,302
Investment in joint venture (Note 1)	58,273	50,000
Other assets	<u>7,529,261</u>	<u>8,213,678</u>
Total assets	<u>\$ 958,795,198</u>	<u>\$ 989,110,471</u>
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing deposits	\$ 314,489,364	\$ 349,301,957
Interest-bearing deposits	<u>542,589,800</u>	<u>534,774,158</u>
Total deposits (Note 5)	857,079,164	884,076,115
Securities sold under agreements to repurchase	4,124,080	15,251,301
Junior subordinated debentures (Note 6)	10,310,000	10,310,000
Borrowing facilities (Note 10)	7,763,158	12,763,158
Accrued interest payable	560,642	386,655
Other liabilities	<u>5,711,948</u>	<u>4,959,543</u>
Total liabilities	885,548,992	927,746,772
Stockholders' Equity		
Preferred Stock - \$0.001 par value:		
Authorized - 500,000 shares at December 31, 2023 and 2022	-	-
No shares issued or outstanding at December 31, 2023 or 2022		
Common stock - \$0.001 par value:		
Authorized - 1,350,000 shares at December 31, 2023 and 2022		
Issued - 994,088 shares at December 31, 2023 and 2022		
Outstanding - 985,039 and 994,088 shares at December 31, 2023 and 2022, respectively	994	994
Additional paid-in capital	34,070,334	34,063,334
Retained earnings	44,954,827	34,187,956
Accumulated other comprehensive loss, net of tax	(5,038,210)	(6,888,585)
Unearned stock-based compensation	(134,167)	-
Treasury stock - 9,049 and 0 shares at December 31, 2023 and 2022, respectively	<u>(607,572)</u>	<u>-</u>
Total stockholders' equity	<u>73,246,206</u>	<u>61,363,699</u>
Total liabilities and stockholders' equity	<u>\$ 958,795,198</u>	<u>\$ 989,110,471</u>

Cornerstone Bancorp, Inc. and Subsidiary

Consolidated Statement of Income

	Year Ended	
	December 31, 2023	December 31, 2022
Interest Income		
Loans, including fees	\$ 35,202,551	\$ 28,635,357
Investment securities	3,115,540	2,914,602
Interest-bearing deposits in other financial institutions	<u>10,738,478</u>	<u>4,108,637</u>
Total interest income	49,056,569	35,658,596
Interest Expense		
Deposits	13,400,165	2,393,667
Securities sold under agreements to repurchase	169,082	58,294
Junior subordinated debentures	731,053	545,752
Borrowing facilities	<u>579,965</u>	<u>663,432</u>
Total interest expense	<u>14,880,265</u>	<u>3,661,145</u>
Net Interest Income - Before provision for loan losses	34,176,304	31,997,451
Provision for Credit Losses (Note 3)	<u>54,200</u>	<u>-</u>
Net Interest Income - After provision for credit losses	34,122,104	31,997,451
Noninterest Income		
Service charges on deposits	803,766	833,948
Trust fees	3,579,658	3,510,546
Gains on sales of loans held for sale	238,675	626,324
Other operating income	<u>579,282</u>	<u>1,021,351</u>
Total noninterest income	5,201,381	5,992,169
Noninterest Expenses		
Salaries and employee benefits (Notes 8 and 9)	17,638,933	17,169,022
Occupancy (Note 4)	1,400,768	1,452,921
Data processing	1,590,362	1,424,460
Mortgage commissions and third-party fees	144,904	409,967
Legal, audit, and professional fees	769,222	427,753
Regulatory assessments	588,775	523,079
Other operating expense	<u>1,872,250</u>	<u>1,906,780</u>
Total noninterest expenses	<u>24,005,214</u>	<u>23,313,982</u>
Income - Before income tax expense	15,318,271	14,675,638
Income Tax Expense (Note 7)	<u>4,440,600</u>	<u>4,193,200</u>
Net Income	<u>\$ 10,877,671</u>	<u>\$ 10,482,438</u>

Cornerstone Bancorp, Inc. and Subsidiary

Consolidated Statement of Comprehensive Income

	Year Ended	
	December 31, 2023	December 31, 2022
Net Income	\$ 10,877,671	\$ 10,482,438
Other Comprehensive Loss:		
Unrealized holding gain (loss) on investment securities - Available-for-sale	2,634,186	(10,105,842)
Unrealized holding (loss) gain on interest rate swap	(46,065)	1,155,184
Tax effect	<u>(737,746)</u>	<u>2,551,443</u>
Other Comprehensive Income (Loss) - Net of tax	<u>1,850,375</u>	<u>(6,399,215)</u>
Comprehensive Income	<u>\$ 12,728,046</u>	<u>\$ 4,083,223</u>

Cornerstone Bancorp, Inc. and Subsidiary

Consolidated Statement of Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Unearned Stock- Based Compensation	Treasury Stock	Total Stockholders' Equity
Balance - January 1, 2022	\$ 994	\$ 34,063,334	\$ 23,705,518	\$ (489,370)	\$ (415,273)	\$ -	\$ 56,865,203
Net income	-	-	10,482,438	-	-	-	10,482,438
Other comprehensive loss, net of tax	-	-	-	(6,399,215)	-	-	(6,399,215)
Stock compensation expense	-	-	-	-	415,273	-	415,273
Balance - December 31, 2022	994	34,063,334	34,187,956	(6,888,585)	-	-	61,363,699
Net income	-	-	10,877,671	-	-	-	10,877,671
Cumulative-effect of adoption of Current Expected Credit Losses (CECL) Accounting Standard	-	-	(110,800)	-	-	-	(110,800)
Other comprehensive income, net of tax	-	-	-	1,850,375	-	-	1,850,375
Redemption - 13,049 shares of common stock	-	-	-	-	-	(876,572)	(876,572)
Issuance - 2,000 shares of common stock	-	3,500	-	-	-	134,500	138,000
Grant - 2,000 shares of restricted common stock	-	3,500	-	-	(138,000)	134,500	-
Stock compensation expense	-	-	-	-	3,833	-	3,833
Balance - December 31, 2023	\$ 994	\$ 34,070,334	\$ 44,954,827	\$ (5,038,210)	\$ (134,167)	\$ (607,572)	\$ 73,246,206

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Consolidated Statement of Cash Flows

	Year Ended	
	December 31, 2023	December 31, 2022
Cash Flows from Operating Activities		
Net income	\$ 10,877,671	\$ 10,482,438
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization on premises and equipment	401,416	442,338
Provision for credit losses	54,200	-
Amortization and accretion on securities - Net	644,059	580,271
Gain on sale of other real estate owned	-	(434,127)
Change in fair value of community reinvestment fund	(30,128)	225,964
Gains on sales of loans held for sale	(238,675)	(626,324)
Originations of loans held for sale	(18,196,916)	(48,595,122)
Proceeds from sale of loans held for sale	17,168,597	50,443,771
Deferred income tax benefit	(205,701)	(271,218)
Stock-based compensation	3,833	415,273
Change in operating assets and liabilities:		
Accrued interest receivable	(139,850)	(455,593)
Deferred loan fees	(59,854)	(726,927)
Investment in joint venture	(8,273)	-
Other assets	87,474	(196,334)
Accrued interest payable	173,987	347,530
Other liabilities	606,238	(217,274)
Net cash provided by operating activities	11,138,078	11,414,666
Cash Flows from Investing Activities		
Activity in investment securities - available-for-sale:		
Maturities, prepayments, and calls	52,299,586	53,382,703
Purchases	(2,001,578)	(104,753,230)
Purchase of other securities	-	(112,700)
Net change in loans	(38,208,299)	(14,040,131)
Proceeds from sale of other real estate owned	-	1,046,722
Additions to premises and equipment	(331,039)	(112,477)
Net cash provided by (used in) investing activities	11,758,670	(64,589,113)
Cash Flows from Financing Activities		
Net change in deposits	(26,996,951)	33,492,772
Net change in securities sold under agreements to repurchase	(11,127,221)	5,767,146
Repayments of borrowings under term notes	(5,000,000)	(5,000,000)
Redemption of treasury stock	(876,572)	-
Issuance of treasury stock	138,000	-
Net cash (used in) provided by financing activities	(43,862,744)	34,259,918
Net Change in Cash and Cash Equivalents	(20,965,996)	(18,914,529)
Cash and Cash Equivalents - Beginning of year	220,656,145	239,570,674
Cash and Cash Equivalents - End of year	<u>\$ 199,690,149</u>	<u>\$ 220,656,145</u>
Supplemental Cash Flow and Noncash Information		
Cash paid for:		
Interest	14,706,278	3,313,615
Income taxes	4,617,426	4,142,850
Noncash transactions		
Loans held-for-sale transferred to loans, net	-	2,809,922

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Note 1 - Nature of Business and Significant Accounting Policies

Nature of Operations - Cornerstone Bancorp, Inc. (the "Corporation") and its wholly owned subsidiary, Cornerstone National Bank & Trust Company (the "Bank"), provide a variety of financial services to individuals and businesses in the Chicago metropolitan area through their main office in Palatine, Illinois, and branch offices in Crystal Lake, Deer Park, Naperville, and Schaumburg, Illinois. Their primary deposit products are demand deposits, savings, money market, and term certificate accounts, and their primary lending products are commercial and commercial mortgage loans. The Corporation has a mortgage banking operation in which residential mortgage loans are originated and sold to the secondary market. Concentrations in the markets in which the Bank does business represent a potential for significant impact should adverse economic events occur within this limited market.

The Bank offers title insurance services to its customers through Suburban National Title Services, LLC ("Suburban") and is a 50% owner of this entity. Suburban is considered a variable interest entity. Only variable interest entities for which the Bank is the primary beneficiary are required to be consolidated in the Bank's financial statements under accounting principles generally accepted in the United States of America. Management has evaluated the Bank's relationship with Suburban and has concluded that the Bank is not the primary beneficiary of this entity because the Bank does not have unilateral decision-making rights or the sole power to direct the activities that most significantly impact Suburban's economic performance.

Use of Estimates - In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses and the classification of unrealized losses between other comprehensive income and earnings on investment securities.

Adoption of New Accounting Pronouncements – On January 1, 2023, the Corporation adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU provides financial statement users with more useful information about the expected credit losses on financial instruments held by the Corporation to enhance the users' decision-making process. The ASU requires the Corporation to evaluate its allowance for credit losses using a Current Expected Credit Losses (CECL) model. CECL utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans when the loan is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. CECL replaced the Corporation's previous model which generally require that a loss be incurred before it is recognized. CECL also applies to credit exposures on off-balance-sheet loan commitments, standby letters of credit, and other similar instruments not recognized as derivative financial instruments.

The Corporation adopted ASU No. 2016-13 using the modified retrospective method for all financial assets measured at cost, and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under Topic 326, while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Corporation recorded a net decrease to retained earnings and an increase to other liabilities of \$110,800 as of January 1, 2023 for the cumulative effect of adoption.

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

On January 1, 2023, the Corporation adopted ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. The amendments in this update eliminate the accounting guidance and related disclosures for TDRs by creditors and enhance disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. The ASU also requires the Corporation to disclose current-period gross write-offs by year of origination for loans and investments in leases.

Basis of Presentation and Consolidation - The consolidated financial statements include the accounts of the Corporation and the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents - For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold which have original maturities within 90 days.

Investment Securities - Debt securities are classified as "available for sale" and are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss).

Purchase premiums and discounts are recognized in interest income using the effective interest method over the terms of the securities. For purchase premiums and discounts on noncallable debt securities, the amounts are recognized into income over the term of the securities. For premiums on callable debt securities, the premium is amortized into income over the period until the first call date. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For available-for-sale debt securities in an unrealized loss position, management first assesses whether the Corporation intends to, or will likely be required to, sell the security prior to the recovery of its amortized cost basis. If either of the above criteria is met, management adjusts the security's amortized cost basis down to fair value through charge to earnings. When the criteria above are not met, management will evaluate whether the decline in fair value is the result of credit deterioration of the issuer or other factors. If this analysis indicates that a credit loss exists, a discounted cash flow analysis at the security level is performed to establish an allowance for credit losses through a charge to earnings. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss), net of taxes. Prior to the adoption of ASU No. 2016-13, any required adjustments due to credit impairment of an available-for-sale debt security was recorded as a direct adjustment to the amortized cost of that security.

Other Securities - Other securities consist of Federal Home Loan Bank and Federal Reserve Bank Stock and the Corporation's investment in a Community Reinvestment Act mutual fund ("CRA Fund"). The stock investments are carried at cost and periodically evaluated for impairment. The investment in the CRA Fund is carried at fair value, and any changes in fair value are recorded through the Statement of Income.

Loans Held for Sale - Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized in a valuation allowance by charges to income. For the years ended December 31, 2023 and 2022, the majority of such loans were sold to three investors.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loans - The Corporation grants mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans in the Chicago metropolitan area. The ability of the Corporation's debtors to honor their contracts is partially dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances adjusted for chargeoffs, the allowance for credit losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment to the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these 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.

Loans are considered delinquent when customers fail to make their payments in accordance with the contractual loan agreement. If a loan matures and principal remains outstanding, the loan is considered delinquent until the loan is paid off or renewed.

Gross loans are reported at the Corporation's recorded investment. The recorded investment is the borrower's principal balance less partial charge-offs, if any.

Allowance for Credit Losses on Loans – The allowance for credit losses on loans ("ACL") is an estimate of the expected credit losses on the loans held for investment. Loan losses are charged against the ACL when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the ACL.

The ACL methodology consists of measuring loans on a collective (pool) basis when similar characteristics exist. The Corporation has identified eight loan portfolio segments and measures the ACL using the Weighted-Average Remaining Maturity ("WARM") method. The loan portfolio segments are loans secured by commercial real estate, loans secured by single-family residences, loans secured by multi-family residences, construction and land development loans, loans secured by farmland, commercial and industrial loans, and consumer loans. Under the WARM methodology, historical loss rates are adjusted for current conditions, loan prepayment estimates, and reasonable and supportable forecasts. Following the economic forecast period, loss rates revert back to historical loss rates over a reasonable period of time. Additional adjustments for qualitative factors are included to quantify the risks that are not included in the historical loss rates or economic projections. The data for the allowance calculation may be obtained from internal or external sources.

The qualitative factors applied to each loan portfolio consist of the impact of other internal and external qualitative and credit market factors as assessed by management through a detailed loan review, ACL analysis, and credit discussions. These internal and external qualitative and credit market factors include:

- Changes in the volume and severity of past due loans and other similar conditions;
- Changes in the nature and volume of the portfolio and terms of loans;
- Changes in lending policies and procedures, including changes in underwriting standards and collections, charge offs, and recovery practices;
- Changes in the experience, depth, and ability of lending management;
- Changes in national, regional, and local economic conditions;
- Changes in the level of competition and regulatory requirements;

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

- Changes in the levels of concentrations of credit;
- Commentary from regulatory examinations and external loan review engagements.

The impact of the above internal and external qualitative and credit market risk factors is assessed within predetermined ranges to adjust the ACL totals calculated.

The Corporation also reviews loans that do not share risk characteristics on an individual basis. This includes nonperforming loans. If a loan is determined to be collateral-dependent, expected credit losses are determined based on the fair value of the collateral at the reporting date, less costs to sell, as appropriate.

Prior to implementing the CECL methodology on January 1, 2023, the Corporation was required to use an incurred loss methodology to estimate credit losses that were estimated to be incurred in the loan portfolio and that could ultimately materialize into confirmed losses in the form of charge-offs. The incurred loss methodology was a backward-looking approach to loss recognition and based on the concept of a triggering event having taken place, causing a loss to be inherent within the portfolio. Additionally, loans that were identified as impaired were required to be assessed on an individual basis. The allowance for credit losses and resulting provision expense levels for comparative periods presented were estimated in accordance with these requirements.

Premises and Equipment - Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets, ranging from 3 years to 40 years.

For identified operating leases of the Corporation, a right to use asset and an operating lease liability are measured based on the net present value (NPV) of future lease payments, including any extensions the Corporation is reasonably certain to exercise, using the discount rate described in Note 4. The right to use asset and operating lease liability are recorded within other assets and other liabilities, respectively, on the consolidated balance sheet.

Securities Sold Under Agreements to Repurchase - Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Corporation may be required to provide additional collateral based on the fair value of the underlying securities.

Income Taxes - Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the various temporary differences between the book and tax basis of the various consolidated balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

At December 31, 2023 and 2022, the Corporation evaluated tax positions taken for filing with the Internal Revenue Service and all state jurisdictions in which it operates. The Corporation believes that income tax filing positions will be sustained under examination and does not anticipate any adjustments that would result in a material adverse effect on the Corporation's financial condition, results of operations, or cash flows. Accordingly, the Corporation has not recorded any reserves or related accruals for interest and penalties for uncertain tax positions at December 31, 2023 and 2022.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Comprehensive Income (Loss) - Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and certain interest rate swap agreements, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income. At December 31, 2023, the components of accumulated other comprehensive loss consist of net unrealized holding losses on securities available-for-sale of \$7,284,634, unrealized holding gains on interest rate swap contracts of \$237,677, and a net income tax benefit of \$2,008,747. At December 31, 2022, the components of accumulated other comprehensive loss consist of net unrealized holding losses on securities available-for-sale of \$9,918,820, unrealized holding gains on interest rate swap contracts of \$283,742, and a net income tax benefit of \$2,746,493.

Transfers of Financial Assets - Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Corporation, (2) the transferee obtains the right, free of conditions that constrain it from taking advantage of the right, to pledge or exchange the transferred assets, and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Advertising Costs - All advertising costs incurred by the Corporation are expensed in the period in which they are incurred.

Allowance for Credit Losses on Off-Balance Sheet Instruments - The Corporation estimates expected credit losses over the contractual period in which the Corporation is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancelable by the Corporation. The allowance for credit losses on off-balance sheet credit exposures is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

Off-Balance-Sheet Instruments - In the ordinary course of business, the Corporation has entered into commitments under commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Equity Compensation Plans - The Corporation measures the cost of employee services received in exchange for equity awards, including stock options and restricted stock awards. Compensation related to stock options is based on the estimated grant date fair value of the awards. Compensation related to restricted stock awards is based on the market price of the Company's common stock at the date of grant. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Trust Assets - Assets held by the Corporation in a fiduciary, agency, or custody capacity for its trust department customers are not included in the accompanying consolidated financial statements since such items are not assets of the Corporation. The Corporation charges client fees based on a percentage of the market value of assets held in client accounts. As the Corporation's services are performed over time on an ongoing basis, its clients obtain the benefits of such services as they are performed. Therefore, the Corporation satisfies its performance obligations and records income during the year as services are rendered.

Reclassifications - Certain amounts in the 2022 consolidated financial statements related to loan segments upon the adoption of CECL and other real estate owned expenses have been reclassified to conform to the 2023 presentation.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including April 5, 2024, which is the date the consolidated financial statements were issued.

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Note 2 - Investment Securities

The amortized cost and estimated fair value of securities, with gross unrealized gains and losses, is as follows:

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities Available-for-Sale				
U.S. treasury securities	\$ 11,927,988	\$ 3,428	\$ (122,978)	\$ 11,808,438
U.S. government agencies	2,000,000	-	(176,990)	1,823,010
Mortgage-backed securities	31,339,748	-	(3,622,673)	27,717,075
State and municipal securities	18,048,803	177	(973,387)	17,075,593
Corporate debt securities	44,366,806	6,864	(2,399,075)	41,974,595
Total	<u>\$ 107,683,345</u>	<u>\$ 10,469</u>	<u>\$ (7,295,103)</u>	<u>\$ 100,398,711</u>

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities Available-for-Sale				
U.S. treasury securities	\$ 29,780,497	\$ -	\$ (314,435)	\$ 29,466,062
U.S. government agencies	17,000,000	-	(350,501)	16,649,499
Mortgage-backed securities	35,825,497	-	(4,328,189)	31,497,308
State and municipal securities	23,543,911	-	(1,459,229)	22,084,682
Corporate debt securities	52,475,507	2,604	(3,469,070)	49,009,041
Total	<u>\$ 158,625,412</u>	<u>\$ 2,604</u>	<u>\$ (9,921,424)</u>	<u>\$ 148,706,592</u>

At December 31, 2023 and 2022, securities with a carrying value of approximately \$10,190,000 and \$22,883,000, respectively, were pledged to secure repurchase agreements, borrowings, public deposits and for other purposes required or permitted by law.

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Note 2 - Investment Securities (Continued)

The amortized cost and estimated fair value of debt securities by contractual maturity at December 31, 2023 are as follows:

	December 31, 2023	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 23,649,409	\$ 23,295,482
Due after one year through five years	46,127,029	43,479,557
Due after five years through ten years	<u>6,567,159</u>	<u>5,906,596</u>
Total	76,343,597	72,681,635
Mortgage-backed securities	<u>31,339,748</u>	<u>27,717,076</u>
Total	<u>\$ 107,683,345</u>	<u>\$ 100,398,711</u>

There were no sales of investments in 2023 or 2022.

Information pertaining to securities with gross unrealized losses at December 31, 2023 and 2022, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	December 31, 2023			
	<12 Months		>12 Months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
U.S. treasury securities	\$ -	\$ -	\$ (122,978)	\$ 9,803,438
U.S. government agencies	-	-	(176,990)	1,823,010
Mortgage-backed securities	-	-	(3,622,673)	27,717,076
State and municipal securities	-	-	(973,387)	16,441,811
Corporate debt securities	<u>(416,370)</u>	<u>3,083,468</u>	<u>(1,982,705)</u>	<u>35,891,232</u>
Total	<u>\$ (416,370)</u>	<u>\$ 3,083,468</u>	<u>\$ (6,878,733)</u>	<u>\$ 91,676,567</u>

	December 31, 2022			
	<12 Months		>12 Months	
	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value
U.S. treasury securities	\$ (314,435)	\$ 29,466,062	\$ -	\$ -
U.S. government agencies	(115,855)	14,884,145	(234,646)	1,765,354
Mortgage-backed securities	(1,292,352)	11,966,908	(3,035,837)	19,530,400
State and municipal securities	(490,073)	11,638,742	(969,156)	9,945,940
Corporate debt securities	<u>(961,475)</u>	<u>24,700,383</u>	<u>(2,507,595)</u>	<u>23,309,664</u>
Total	<u>\$ (3,174,190)</u>	<u>\$ 92,656,240</u>	<u>\$ (6,747,234)</u>	<u>\$ 54,551,358</u>

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Note 2 - Investment Securities (Continued)

The Corporation's mortgage-backed securities are issued by either government agencies and backed by the full faith and credit of the United States government, or government-sponsored enterprises. The Corporation's state and municipal securities are issued by a variety of public entities and have most recently been rated investment grade by a nationally recognized rating organization or investment grade equivalent. The Corporation's corporate debt securities are issued by financial services companies and have most recently been rated investment grade by a nationally recognized rating organization.

Unrealized losses on securities have not been recognized into income because the issuers' bonds are of high credit quality, the Corporation has the intent and ability to hold the securities for the foreseeable future, and the decline in fair value is primarily due to increased market interest rates. The fair value is expected to recover as the bonds approach their maturity date.

Note 3 - Loans

A summary of the balances of loans follows:

	December 31	
	2023	2022
Mortgage loans on real estate:		
Commercial	\$ 309,785,508	\$ 293,949,529
1-4 family residential	83,710,705	80,070,891
Multi-family residential	46,820,353	43,225,184
Construction and land development	11,004,010	8,261,016
Farm land	1,544,240	1,723,819
Total mortgage loans on real estate	452,864,816	427,230,439
Commercial and industrial loans	185,563,253	176,862,928
Paycheck Protection Program loans	-	385,909
Consumer loans	5,488,096	2,401,412
Cash secured loans	4,261,486	2,846,851
Total loans	648,177,651	609,727,539
Less allowance for loan losses	8,130,887	8,130,887
Net deferred loan fees	537,307	597,161
Total loans, net	\$ 639,509,457	\$ 600,999,491

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates with outstanding amounts of approximately \$5,167,000 at December 31, 2023 and \$4,681,000 at December 31, 2022.

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Note 3 - Loans (Continued)

Activity in the allowance for credit losses for 2023 and 2022 is summarized as follows:

	Year Ended December 31, 2023				Ending Balance
	Beginning Balance	Charge-Offs	Recoveries	Provision	
Commerical real estate	\$ 5,959,768	\$ -	\$ -	\$ (185,775)	\$ 5,773,993
1-4 family residential	591,145	-	-	153,782	744,927
Multi-family residential	693,773	-	-	(45,140)	648,633
Construction and land development	68,639	-	-	3,445	72,084
Farm land	6,043	-	-	(224)	5,819
Commercial and industrial	806,341	-	-	71,464	877,805
Consumer	5,178	-	-	2,448	7,626
Total	\$ 8,130,887	\$ -	\$ -	\$ -	\$ 8,130,887

	Year Ended December 31, 2022				Balance
	Balance	Charge-Offs	Recoveries	Provision	
Commerical real estate	\$ 4,922,340	\$ (300,000)	\$ -	\$ 1,337,428	\$ 5,959,768
1-4 family residential	715,040	-	-	(123,895)	591,145
Multi-family residential	490,845	-	-	202,928	693,773
Construction and land development	68,283	-	345,900	(345,544)	68,639
Farm land	55,822	-	-	(49,779)	6,043
Commercial and industrial	1,812,237	-	-	(1,005,896)	806,341
Consumer	20,420	-	-	(15,242)	5,178
Total	\$ 8,084,987	\$ (300,000)	\$ 345,900	\$ -	\$ 8,130,887

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Note 3 - Loans (Continued)

The following table presents the balance in the allowance for loan losses and loan balances by portfolio segment based on impairment for the year ended December 31, 2022 under the incurred loss methodology:

	Year Ended December 31, 2022		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance
	<u> </u>	<u> </u>	<u> </u>
Ending allowance attributable to loans:			
Commerical real estate	\$ -	\$ 5,959,768	\$ 5,959,768
1-4 family residential	-	591,145	591,145
Multi-family residential	-	693,773	693,773
Construction and land development	-	68,639	68,639
Farm land	-	6,043	6,043
Commercial and industrial	-	806,341	806,341
Consumer	-	5,178	5,178
Total	<u>\$ -</u>	<u>\$ 8,130,887</u>	<u>\$ 8,130,887</u>
Ending loans:			
Commerical real estate	\$ 1,135,488	\$ 292,814,041	\$ 293,949,529
1-4 family residential	384,432	79,686,459	80,070,891
Multi-family residential	-	43,225,184	43,225,184
Construction and land development	-	8,261,016	8,261,016
Farm land	282,655	1,441,164	1,723,819
Commercial and industrial	749,500	176,113,428	176,862,928
Paycheck Protection Program	-	385,909	385,909
Consumer	-	2,401,412	2,401,412
Cash secured	-	2,846,851	2,846,851
Total	<u>\$ 2,552,075</u>	<u>\$ 607,175,464</u>	<u>\$ 609,727,539</u>

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Note 3 - Loans (Continued)

Credit Risk Rating

The following table presents the outstanding principal balance of loans by credit quality indicator, type of loan, and year of origination for term loans:

	December 31, 2023						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
	2023	Term loans amortized cost basis by origination year				Prior			
	2022	2021	2020	2019					
Commercial real estate									
Pass	53,363,163	65,151,681	50,320,878	32,455,526	25,487,646	78,561,567	3,726,832	-	309,067,294
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	541,057	-	-	-	-	177,157	-	-	718,214
Total commercial real estate	\$ 53,904,220	\$ 65,151,681	\$ 50,320,878	\$ 32,455,526	\$ 25,487,646	\$ 78,738,724	\$ 3,726,832	\$ -	\$ 309,785,508
1-4 family residential									
Pass	12,172,396	13,757,052	23,038,034	5,728,619	4,023,926	11,772,165	12,537,096	-	83,029,288
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	681,417	-	-	681,417
Total 1-4 family residential	\$ 12,172,396	\$ 13,757,052	\$ 23,038,034	\$ 5,728,619	\$ 4,023,926	\$ 12,453,582	\$ 12,537,096	\$ -	\$ 83,710,705
Multi-family residential									
Pass	3,805,796	18,154,406	7,819,607	4,213,096	5,376,016	7,316,447	134,985	-	46,820,353
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Total multi-family residential	\$ 3,805,796	\$ 18,154,406	\$ 7,819,607	\$ 4,213,096	\$ 5,376,016	\$ 7,316,447	\$ 134,985	\$ -	\$ 46,820,353
Construction and land development									
Pass	2,423,319	4,647,529	3,120,569	673,314	-	44,279	95,000	-	11,004,010
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Total construction and land development	\$ 2,423,319	\$ 4,647,529	\$ 3,120,569	\$ 673,314	\$ -	\$ 44,279	\$ 95,000	\$ -	\$ 11,004,010
Farm land									
Pass	260,041	-	-	837,065	422,262	-	24,872	-	1,544,240
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Total farm land	\$ 260,041	\$ -	\$ -	\$ 837,065	\$ 422,262	\$ -	\$ 24,872	\$ -	\$ 1,544,240
Commercial and industrial									
Pass	\$ 34,702,239	\$ 29,347,489	\$ 8,469,197	\$ 2,707,739	\$ 3,920,612	\$ 3,434,902	\$ 96,304,859	\$ -	\$ 178,887,036
Special Mention	-	-	-	-	-	-	6,676,217	-	6,676,217
Substandard	-	-	-	-	-	-	-	-	-
Total commercial and industrial	\$ 34,702,239	\$ 29,347,489	\$ 8,469,197	\$ 2,707,739	\$ 3,920,612	\$ 3,434,902	\$ 102,981,076	\$ -	\$ 185,563,253
Consumer									
Pass	3,659,645	261,593	1,397,108	90,943	75,882	2,925	-	-	5,488,096
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Total consumer	\$ 3,659,645	\$ 261,593	\$ 1,397,108	\$ 90,943	\$ 75,882	\$ 2,925	\$ -	\$ -	\$ 5,488,096
Cash secured									
Pass	1,415,553	763,178	44,273	-	69,463	347,927	1,621,092	-	4,261,486
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Total cash secured	\$ 1,415,553	\$ 763,178	\$ 44,273	\$ -	\$ 69,463	\$ 347,927	\$ 1,621,092	\$ -	\$ 4,261,486
Total	\$ 112,343,209	\$ 132,082,928	\$ 94,209,666	\$ 46,706,302	\$ 39,375,807	\$ 102,338,787	\$ 121,120,952	\$ -	\$ 648,177,651

The Corporation categorized each loan into credit risk categories based on current financial information, overall debt service coverage, comparison against industry averages, collateral coverage, historical payment experience, and current economic trends. The Corporation uses the following definitions for credit risk ratings:

Pass - Credits not covered by the definitions presented below are pass credits, which are not considered to be adversely rated.

Special Mention - Loans classified as special mention, or watch credits, have a potential weakness or weaknesses 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 may sustain some loss if the deficiencies are not corrected.

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Note 3 - Loans (Continued)

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. There were no loans classified as doubtful for the years ended December 31, 2023 or 2022.

Age Analysis of Past Due and Nonaccrual Loans

The following tables detail the age analysis of past due and nonaccrual loans at December 31, 2023 and 2022:

	Year Ended December 31, 2023						
	Loans on Accrual Status			Nonaccrual Loans	Total Past Due and Nonaccrual	Current	Total Loans Receivable
	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days				
Commercial real estate	\$ -	\$ -	\$ -	\$ 718,214	\$ 718,214	\$ 309,067,294	\$ 309,785,508
1-4 family residential	-	-	-	681,417	681,417	83,029,288	83,710,705
Multi-family residential	-	-	-	-	-	46,820,353	46,820,353
Construction and land development	-	-	-	-	-	11,004,010	11,004,010
Farm land	-	-	-	-	-	1,544,240	1,544,240
Commercial and industrial	-	-	-	-	-	185,563,253	185,563,253
Consumer	-	-	-	-	-	5,488,096	5,488,096
Cash secured	-	-	-	-	-	4,261,486	4,261,486
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,399,631</u>	<u>\$ 1,399,631</u>	<u>\$ 646,778,020</u>	<u>\$ 648,177,651</u>

	Year Ended December 31, 2022						
	Loans on Accrual Status			Nonaccrual Loans	Total Past Due and Nonaccrual	Current	Total Loans Receivable
	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days				
Commercial real estate	\$ -	\$ -	\$ -	\$ 888,515	\$ 888,515	\$ 293,061,014	\$ 293,949,529
1-4 family residential	-	-	-	384,432	384,432	79,686,459	80,070,891
Multi-family residential	-	-	-	-	-	43,225,184	43,225,184
Construction and land development	-	-	-	-	-	8,261,016	8,261,016
Farm land	-	-	-	-	-	1,723,819	1,723,819
Commercial and industrial	-	-	-	-	-	176,862,928	176,862,928
Paycheck Protection Program	-	-	-	-	-	385,909	385,909
Consumer	-	-	-	-	-	2,401,412	2,401,412
Cash secured	-	-	-	-	-	2,846,851	2,846,851
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,272,947</u>	<u>\$ 1,272,947</u>	<u>\$ 608,454,592</u>	<u>\$ 609,727,539</u>

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Note 3 - Loans (Continued)

Nonaccrual Loans

The following tables present the amortized cost basis of nonaccrual loans by type of loan:

	Year Ended December 31, 2023		
	Nonaccrual Loans With No ACL	Total Nonaccrual Loans	Interest Income Recognized
Commercial real estate	\$ -	\$ 718,214	\$ -
1-4 family residential	-	681,417	8,502
Total	<u>\$ -</u>	<u>\$ 1,399,631</u>	<u>\$ 8,502</u>

	Year Ended December 31, 2022		
	Nonaccrual Loans With No ACL	Total Nonaccrual Loans	Interest Income Recognized
Commercial real estate	\$ -	\$ 888,515	\$ -
1-4 family residential	-	384,432	636
Total	<u>\$ -</u>	<u>\$ 1,272,947</u>	<u>\$ 636</u>

For purposes of the disclosure above, recorded investment represents the borrower's unpaid principal balance, less partial charge-offs to date.

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Note 3 - Loans (Continued)

Loan Modifications

On occasion, the Corporation may offer concessions on loans to borrowers experiencing financial difficulty in the form of term extension, an other-than-insignificant payment delay, or an interest rate reduction. Principal forgiveness is rarely granted. These are considered loan modifications.

There were no loans modified to borrowers experiencing financial difficulty during the year ended December 31, 2023. There was one commercial real estate loan modified in a TDR during the year ended December 31, 2022. The loan had a recorded investment of \$948,970 prior to the modification and a recorded investment of \$648,970 following the modification.

There were no defaults during 2023 or 2022 on loans that were modified or renewed in the prior 12 months.

Note 4 - Premises and Equipment

A summary of the cost and accumulated depreciation and amortization of premises and equipment at December 31 is as follows:

	2023	2022
Land	\$ 1,175,000	\$ 1,175,000
Buildings and building improvements	5,299,462	5,216,082
Furniture, fixtures, and equipment	2,623,429	2,539,784
Leasehold improvements	58,676	58,676
Construction in progress	64,557	20,297
Total premises and equipment	9,221,124	9,009,839
Accumulated depreciation	(5,198,890)	(4,917,228)
Net premises and equipment	<u>\$ 4,022,234</u>	<u>\$ 4,092,611</u>

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Note 4 – Premises and Equipment (Continued)

The Bank's Deer Park branch facility, its Naperville and Schaumburg business banking centers, and a loan operations center are subject to operating leases. The Bank also leases copiers in each facility that are also subject to operating leases. Future minimum rental commitments under these leases are as follows:

2024	\$	338,646
2025		342,577
2026		347,895
2027		310,010
Thereafter		<u>427,719</u>
Total undiscounted lease payments		1,766,847
Less imputed interest		<u>(177,832)</u>
Total lease liability	\$	<u><u>1,589,015</u></u>

The Deer Park lease expires in November 2028 and contains two options to extend the term of the lease for three years at the conclusion of the initial lease term at a then prevailing market rental rate.

The Naperville lease expired in June 2022. The Corporation executed a lease on a new space in Naperville with an initial term of 7.6 years from the commencement of the lease and contains one option to extend the lease for five years at the conclusion of the initial lease term at a then prevailing market rental rate. This Corporation took possession of this new space in June 2022.

The loan operations center lease was extended in October 2023 and matures in 2028. The lease contains one options to extend the term of the lease for five years at the conclusion of the extended lease term with an increase to the base rent of 2.0% per year.

The Schaumburg lease expires in June 2027 and contains two options to extend the term of the lease for three years at the conclusion of the initial lease term at the current market rent rate.

The Corporation leases copiers in each of its locations under leases that expire between September 2023 and May 2025.

The Corporation has recorded a lease obligation for the operating leases described above in the amount of \$1,589,015 and \$1,593,461 as of December 31, 2023 and 2022, respectively, with a corresponding right to use asset in the amount of \$1,437,318 and \$1,456,150 as of December 31, 2023 and 2022, respectively, in other liabilities and other assets, in the consolidated financial statements. These amounts were calculated using a discount rate of 4.00 percent, which approximated an incremental borrowing rate at the lease's inception. The Corporation's leases have a weighted average remaining term of 5.2 years.

Total rent expense approximated \$451,000 and \$421,000 for the years ended December 31, 2023 and 2022, respectively.

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Note 5 - Deposits

The following is a summary of the distribution of deposits at December 31:

	<u>2023</u>	<u>2022</u>
Noninterest-bearing deposits	\$ 314,489,364	\$ 349,301,957
NOW accounts	56,273,710	76,869,091
Savings and money market accounts	438,147,696	415,562,875
Time:		
Under \$250,000	21,856,723	20,545,004
\$250,000 and over	<u>26,311,671</u>	<u>21,797,188</u>
Total	<u>\$ 857,079,164</u>	<u>\$ 884,076,115</u>

At December 31, 2023, the scheduled maturities of time deposits are as follows:

2024	\$ 34,913,340
2025	5,096,912
2026	3,767,840
2027	2,090,842
2028	<u>2,299,460</u>
Total	<u>\$ 48,168,394</u>

Deposits from related parties held by the Corporation totaled approximately \$23,398,000 and \$28,198,000 at December 31, 2023 and 2022, respectively.

Note 6 - Junior Subordinated Debentures

The Corporation has established a Delaware statutory trust (the "Trust") for the sole purpose of issuing trust-preferred securities and related trust common securities. The proceeds from the issuance were used by the Trust to purchase junior subordinated debentures of the Corporation, which is the sole asset of the Trust. Concurrently with the issuance of the trust-preferred securities, the Corporation issued guarantees for the benefit of the holders of the trust-preferred securities. The trust-preferred securities are issues that qualify, and are treated by the Corporation, as Tier I regulatory capital. The Corporation wholly owns all of the common securities of the Trust. The trust-preferred securities issued by the Trust rank equally with the common securities in right of payment, except that if an event of default under the indenture governing the debentures has occurred and is continuing, the preferred securities will rank senior to the common securities in right of payment.

At December 31, 2023 and 2022, the outstanding balance of the junior subordinated debentures was \$10,310,000. The subordinated debentures have a stated maturity date of March 31, 2034 and a floating interest rate per annum reset quarterly. On June 30, 2023 the publication of LIBOR ceased, at which time the Corporation's junior subordinated debentures transitioned to being priced using the three-month term Secured Overnight Financing Rate ("SOFR"). The junior subordinated debentures now pay interest based on three-month term SOFR plus 2.85% (8.51% at December 31, 2023). Until June 30, 2023, the interest rate was equal to three-month LIBOR plus 2.85% (6.52% at December 31, 2022). Interest is payable quarterly on the last business day of the quarter. All payments have been paid as agreed.

The Corporation entered into an interest rate swap contract with a notional value of \$5,000,000 to convert a portion of its junior subordinated debentures to a fixed rate of interest. The swap contract expires with the maturity of the underlying junior subordinated debentures and carries a fixed rate of 5.997%. The interest rate swap agreement contains language outlining collateral pledging requirements for each counterparty. Collateral must be posted when the market value exceeds certain threshold limits. The interest rate swap qualifies as a cash flow hedge and, as a result, the unrealized gain (loss) on the swap instrument is reflected in other comprehensive income (loss) until the swap is terminated or matures. An unrealized loss of \$46,065 and an unrealized gain of \$1,155,184 was recorded in other comprehensive income (loss) at December 31, 2023 and 2022, respectively.

The trust-preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated debentures at the stated maturity date or upon redemption. The debentures are callable by the Corporation with 90 days' notice to the holders. The Trust's ability to pay amounts due on the trust-preferred securities is solely dependent upon the Corporation making payment on the related junior subordinated debentures. The Corporation has the right to defer payment of interest on the debentures.

The Corporation's obligation under the junior subordinated debentures and other relevant trust agreements, in aggregate, constitutes a full and unconditional guarantee by the Corporation of the Trust's obligations under the trust-preferred securities issued by the Trust.

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Note 7 - Income Taxes

The components of the net deferred tax asset, included in other assets at December 31, are as follows:

	<u>2023</u>	<u>2022</u>
Deferred tax assets:		
Allowance for credit losses	\$ 2,364,743	\$ 2,317,709
Deferred compensation	698,954	598,938
Nonaccrual loan interest	219,841	209,958
Other, net	198,985	195,497
Unrealized loss on securities available for sale and interest rate swap - net	<u>2,008,747</u>	<u>2,746,493</u>
Total deferred tax assets	5,491,270	6,068,595
Deferred tax liabilities:		
Unearned stock awards	-	-
Depreciation and amortization	186,787	218,939
Prepaid expenses	42,232	43,377
Accretion on securities available for sale	<u>19,336</u>	<u>31,319</u>
Total deferred tax liabilities	<u>248,355</u>	<u>293,635</u>
Net deferred tax asset	<u>\$ 5,242,915</u>	<u>\$ 5,774,960</u>

The allocation of income taxes between current and deferred portions at December 31 is as follows:

	<u>2023</u>	<u>2022</u>
Current expense	\$ 4,646,301	\$ 4,464,418
Deferred benefit	<u>(205,701)</u>	<u>(271,218)</u>
Total	<u>\$ 4,440,600</u>	<u>\$ 4,193,200</u>

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Note 7 – Income Taxes (Continued)

The reason for the differences between income tax expense at the federal statutory income tax rate and the recorded income tax expense at December 31 are summarized as follows:

	2023	2022
Income tax calculated at statutory rate (21%)	\$ 3,216,837	\$ 3,081,884
Add (subtract) tax effect of:		
State income tax - net of federal tax benefit	1,149,636	1,101,406
Tax-exempt securities	(45,423)	(92,341)
Meals, entertainment and related expenses	147,741	112,618
Other items - net	(28,191)	(10,367)
Provision for income taxes	<u>\$ 4,440,600</u>	<u>\$ 4,193,200</u>

Note 8 – Profit Sharing Plan

The Corporation sponsors a 401(k) profit-sharing plan for substantially all employees. The plan provides for the Corporation to make a required matching contribution up to 25% of employee contributions up to 8% of their salary. The Corporation may also make additional profit-sharing contributions at the discretion of the board of directors. Contributions to the plan totaled \$1,662,000 and \$1,611,000 for the years ended December 31, 2023 and 2022, respectively.

Note 9 - Equity Compensation Plans

The Corporation's equity compensation plans consist of a stock incentive plan, restricted stock awards, and stock appreciation rights.

The stock incentive plan permits the grant of both incentive stock options and nonqualified stock options to its directors, officers, and employees for up to 107,470 shares of common stock. Option awards are granted with an exercise price equal to the market price of the entity's stock at the date of grant; those option awards generally vest based on five years of continuous service and must be exercised within 10 years of the grant date. There are no options outstanding and 8,326 shares available for grant at December 31, 2023 and 2022. There were no options granted during 2023 or 2022. There was no compensation cost charged against income for the stock incentive plan in 2023 and 2022.

Restricted stock awards entitle holders to voting and dividend rights upon grant. The awards vest to the awardee over a three-year period from the date of grant and are subject to forfeiture until they vest. The awards become immediately vested in the event of a change in control of the Corporation or the death or disability of the awardee. Information related to restricted stock award activity is as follows:

	2023		2022	
	Shares	Price	Shares	Price
Unvested stock awards at January 1	-		11,747	
Granted	2,000	\$ 69.00	-	
Forfeited	-		-	
Vested	-		(11,747)	
Unvested stock awards at December 31	<u>2,000</u>		<u>-</u>	

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Note 9 – Equity Compensation Plans (Continued)

Compensation expense is recognized over the vesting period of the restricted award based on the market value of the award on the issue date. Compensation expense of \$3,833 and \$415,273 was charged against income for December 31, 2023 and 2022, respectively. Total unrecognized compensation cost of the restricted awards approximated \$134,000 as of December 31, 2023, which will be recognized into expense through November 2026. There is no unrecognized compensation cost of the restricted awards as of December 31, 2022.

Under the stock appreciation rights plan, senior management and key officers are granted share unit awards, the value of which is calculated using the intrinsic value method and is equal to the incremental increase in the net book value, as defined, per share of the common stock of the Bank between the date of award and the date of full vesting. The share unit awards vest over a four-year period from the date of the grant. Share units totaling 1,560 and 1,539 were awarded for the years ended December 31, 2023 and 2022, respectively. Plan liabilities of approximately \$2,452,000 and \$2,101,000, consisting of share units of 6,752 and 6,216, were recorded at December 31, 2023 and 2022, respectively. Share units totaling approximately \$835,000 and \$694,000 vested during 2023 and 2022, respectively. These amounts were paid to plan participants subsequent to December 31, 2023 and 2022. The Corporation incurred plan expenses of \$1,045,000 and \$926,000 during the years ended December 31, 2023 and 2022, respectively.

Note 10 – Borrowing Facilities

Federal Home Loan Bank of Chicago - The Corporation is a member of the Federal Home Loan Bank of Chicago (FHLBC). Through the membership, the Corporation maintains a collateral pledge agreement covering secured advances whereby the Corporation has agreed to keep on hand, free of all other pledges, liens, and encumbrances, specifically identified whole first mortgages on improved residential property not more than 90-days delinquent to secure advances from the FHLBC. All of the Bank's FHLBC common stock is also pledged as additional collateral for any outstanding advances. There were no advances outstanding at both December 31, 2023 and 2022. At December 31, 2023, the Corporation had pledged loans totaling \$124,516,000 and had the ability to borrow approximately \$77,446,000 under its credit facilities with the FHLBC.

Other Borrowing Facilities – The Corporation has an outstanding debt facility with another financial institution (its Senior Lender) that consists of a line of credit and a term note.

The borrowing facilities accrue interest at a rate equal to the one-month term SOFR plus an interest rate margin. All of the other borrowing facilities are prepayable at the Corporation's discretion with notice to the Senior Lender. The components of its other borrowing facilities are shown below:

Line Of Credit - The details of the line of credit are shown in the table below:

	2023		2022
Total commitment	\$	3,000,000	\$ 3,000,000
Outstanding at December 31		-	-
Maturity Date		December 28, 2025	December 28, 2023
Interest rate structure		One-Month Term SOFR + 2.00%	One-Month Term SOFR + 2.00%
Interest rate floor		2.00%	2.00%
Interest rate at December 31		7.46%	6.24%
Required payments		Interest - Quarterly	Interest - Quarterly
Collateral		Unsecured	Unsecured

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Term Debt - The details of the term note are shown in the table below:

	2023	2022
Total commitment	\$ 7,763,158	\$ 7,763,158
Outstanding at December 31	7,763,158	7,763,158
Maturity Date	December 28, 2026	December 28, 2026
Interest rate structure	One-Month Term SOFR + 1.90%	One-Month Term SOFR + 1.90%
Interest rate floor	2.00%	2.00%
Interest rate at December 31	7.36%	6.14%
Required payments	Interest - Quarterly Until April 10, 2025; Principal of \$242,599 Plus Interest - Quarterly Beginning April 10, 2025	Interest - Quarterly Until April 10, 2025; Principal of \$242,599 Plus Interest - Quarterly Beginning April 10, 2025
Collateral	Unsecured	Unsecured

Subordinated Debt – The Corporation had also issued unsecured subordinated debt. At December 31, 2022, there was \$5,000,000 outstanding. The debt paid interest on a quarterly basis with a variable interest rate based on the one-month term SOFR plus a margin of 2.95%. The debt had a maturity date of December 31, 2026. The subordinated debt was paid in full in 2023.

Note 11 - Off-Balance-Sheet Activities

Credit-Related Financial Instruments - The Corporation is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet.

The Corporation's exposure to credit loss is represented by the contractual amount of these commitments. The Corporation follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2023 and 2022, the following financial instruments, whose contract amounts represent credit risk, were outstanding:

	Contract Amount	
	2023	2022
Unfunded commitments and unused lines of credit	\$ 264,420,781	\$ 254,721,696
Commercial and standby letters of credit	10,261,370	11,359,425
Commitments to originate mortgage loans subject to interest rate lock contracts	2,356,500	1,115,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Corporation, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are collateralized, may contain a specified maturity date, and may not be drawn upon to the total extent to which the Corporation is committed.

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Commercial and standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those letters of credit are used primarily to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved is essentially the same as extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments if deemed necessary.

Collateral Requirements – To reduce credit risk related to the use of credit-related financial instruments, the Corporation might deem it necessary to obtain collateral. The amount and nature of the collateral obtained are based on the Corporation's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant, equipment, and real estate.

If the counterparty does not have the right and ability to redeem the collateral or the Corporation is permitted to sell or repledge the collateral on short notice, the Corporation records the collateral in its consolidated balance sheet at fair value with a corresponding obligation to return it.

Repurchase Agreements – Securities sold under agreements to repurchase totaled approximately \$4,124,000 and \$15,251,000 at December 31, 2023 and 2022, respectively. At December 31, 2023, all of these financings had overnight maturities and were secured by approximately \$4,932,000 of agency and mortgage-backed securities which were owned and under the control of the Corporation. Risk could arise when the collateral pledged for the repurchase agreement declines in fair value. The Corporation minimizes the risk by monitoring the value of the collateral pledged. At the point in time where the collateral has declined in fair value, the Corporation is required to provide additional collateral based on the value of the underlying securities.

Legal Contingencies – Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Corporation's consolidated financial statements.

Other Contingencies – The Corporation sells mortgage loans on a nonrecourse basis. In connection with the Corporation's loan sales, the Corporation makes representations and warranties customary in the industry relating to, among other things, compliance with laws, regulations, and program standards and accuracy of information. If there is a breach of the representations and warranties by the Corporation, typically the Corporation corrects these flaws. If the flaws cannot be corrected, the Corporation may be required to repurchase these loans. The Corporation recorded a liability for these potential contingencies of \$115,000 and \$150,000 at December 31, 2023 and 2022, respectively.

Note 12 - Restrictions on Dividends

Banking regulations place certain restrictions on dividends paid by the Bank to the Corporation. The total amount of dividends which may be paid at any date is generally limited to the retained earnings of the Bank. In addition, dividends paid by the Bank to the Corporation would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. At December 31, 2023, the Bank is permitted to pay dividends of \$19,900,000 to the Corporation without prior regulatory approval.

Note 13 - Minimum Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, common and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2023 and 2022, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2023, the most recent notification from the Bank's primary regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios as of December 31, 2023 and 2022 are presented in the table. This table does not include the 2.5 percent capital conservation buffer requirement. A Bank with a capital conservation buffer greater than 2.5 percent of risk-weighted assets would not be restricted by payout limitations. However, if the 2.5 percent threshold is not met, the Bank would be subject to increased limitations on capital distributions and discretionary bonus payments to executive officers as the capital conservation buffer approaches zero.

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Note 13 - Minimum Regulatory Capital Requirements (Continued)

(Dollar Amounts In Thousands)	Actual		Minimum for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2023						
Total capital to risk-weighted assets	\$ 104,217	13.6%	\$ 61,117	8.0%	\$ 76,396	10.0%
Tier I capital to risk-weighted assets	\$ 95,921	12.6%	\$ 45,838	6.0%	\$ 61,117	8.0%
Common equity tier I capital to risk-weighted assets	\$ 95,921	12.6%	\$ 34,378	4.5%	\$ 49,657	6.5%
Tier I capital to average assets	\$ 95,921	9.6%	\$ 39,948	4.0%	\$ 49,935	5.0%
As of December 31, 2022						
Total capital to risk-weighted assets	\$ 99,133	13.2%	\$ 59,873	8.0%	\$ 74,842	10.0%
Tier I capital to risk-weighted assets	\$ 91,002	12.2%	\$ 44,905	6.0%	\$ 59,873	8.0%
Common equity tier I capital to risk-weighted assets	\$ 91,002	12.2%	\$ 33,679	4.5%	\$ 48,647	6.5%
Tier I capital to average assets	\$ 91,002	8.7%	\$ 41,950	4.0%	\$ 52,438	5.0%

Note 14 - Fair Value of Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties other than in a forced liquidation. Fair value is best determined based upon quoted market prices. In many instances, however, there are no quoted market prices for the Corporation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The standard excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Corporation.

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Note 14 – Fair Value of Financial Instruments (Continued)

The estimated fair values and related carrying or notional amounts of the Corporation's financial instruments at December 31 are as follows (in thousands):

	December 31, 2023		December 31, 2022	
	Carrying Amounts	Estimated Fair Value	Carrying Amounts	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	\$ 199,690	\$ 199,690	\$ 220,656	\$ 220,656
Investment securities - Available-for-sale	100,399	100,399	148,707	148,707
Other securities	3,551	3,551	3,521	3,521
Loans held for sale	1,575	1,582	550	551
Loans, net of allowance for loan losses	639,510	619,530	600,999	583,589
Accrued interest receivable	2,461	2,461	2,321	2,321
Interest rate swap	238	238	284	284
Financial liabilities:				
Deposits	\$ (857,079)	\$ (856,877)	\$ (884,076)	\$ (883,246)
Securities sold under agreements to repurchase	(4,124)	(4,111)	(15,251)	(15,213)
Junior subordinated debentures	(10,310)	(9,917)	(10,310)	(9,729)
Borrowings under term debt	(7,763)	(7,763)	(7,763)	(7,763)
Borrowings under subordinated debt	-	-	(5,000)	(5,000)
Accrued interest payable	(561)	(561)	(387)	(387)

Note 15 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Corporation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Cornerstone Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

Note 15 - Fair Value Measurements (Continued)

Fair values of securities are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Fair values of interest rate swap contracts are based on amounts payable to or receivable from counterparties based on the contractual terms of the agreements.

The following tables present information about the Corporation's assets and liabilities measured at fair value on a recurring basis at December 31, 2023 and 2022 and the valuation techniques used by the Corporation to determine those fair values.

	December 31, 2023			
	Quoted Prices in Active	Significant Other	Significant	Balance at
	Markets for Identical	Observable Inputs	Unobservable Inputs	
	Assets (Level 1)	(Level 2)	(Level 3)	
Assets				
Investment securities:				
U.S. treasury securities	\$ -	\$ 11,808,438	\$ -	\$ 11,808,438
U.S. government agencies	-	1,823,010	-	1,823,010
Mortgage-backed securities and collateralized mortgage obligations	-	27,717,075	-	27,717,075
State and municipal securities	-	17,075,593	-	17,075,593
Corporate debt securities	-	41,974,595	-	41,974,595
Total investment securities	-	100,398,711	-	100,398,711
Other securities:				
Community reinvestment fund	1,788,880	-	-	1,788,880
Interest rate swap	-	237,677	-	237,677
	<u>\$ 1,788,880</u>	<u>\$ 100,636,388</u>	<u>\$ -</u>	<u>\$ 102,425,268</u>

	December 31, 2022			
	Quoted Prices in Active	Significant Other	Significant	Balance at
	Markets for Identical	Observable Inputs	Unobservable Inputs	
	Assets (Level 1)	(Level 2)	(Level 3)	
Assets				
Investment securities:				
U.S. treasury securities	\$ -	\$ 29,466,062	\$ -	\$ 29,466,062
U.S. government agencies	-	16,649,499	-	16,649,499
Mortgage-backed securities and collateralized mortgage obligations	-	31,497,308	-	31,497,308
State and municipal securities	-	22,084,682	-	22,084,682
Corporate debt securities	-	49,009,041	-	49,009,041
Total investment securities	-	148,706,592	-	148,706,592
Other securities:				
Community reinvestment fund	1,758,752	-	-	1,758,752
Interest rate swap	-	283,742	-	283,742
	<u>\$ 1,758,752</u>	<u>\$ 148,990,334</u>	<u>\$ -</u>	<u>\$ 150,749,086</u>

The Corporation also has assets that, under certain conditions, are subject to measurement at fair value on a nonrecurring basis. These assets include other real estate owned and individually evaluated loans. Management has determined that no such assets are subject to these fair value measurement requirements for the years ended December 31, 2023 and 2022.