

INSCORP, INC.

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

INSCORP, INC.
Nashville, Tennessee

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
InsCorp, Inc.
Nashville, Tennessee

Opinion

We have audited the consolidated financial statements of InsCorp, Inc., which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of InsCorp, Inc. as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of InsCorp, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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


Crowe LLP

Franklin, Tennessee
March 24, 2025

INSCORP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2024 and 2023

<i>December 31,</i>	2024	2023
Assets		
Cash and due from financial institutions	\$ 4,222,097	\$ 7,688,427
Federal funds sold	2,179,299	134
Interest-bearing deposits in financial institutions	37,175,076	49,756,664
Cash and cash equivalents	43,576,472	57,445,225
Securities available for sale	56,425,706	58,161,928
Loans, net of allowance for credit losses of \$9,895,343 and \$9,125,988 as of December 31, 2024 and 2023, respectively	754,899,597	672,431,847
Premises and equipment, net	12,450,812	12,714,700
Restricted equity securities	10,224,998	8,889,670
Bank owned life insurance	14,457,594	14,065,249
Accrued interest receivable	3,899,316	3,296,906
Goodwill	1,090,971	1,090,971
Deferred tax asset	3,682,370	2,601,439
Other assets	3,763,567	6,392,527
Total assets	\$ 904,471,403	\$ 837,090,462
Liabilities and shareholders' equity		
Liabilities		
Deposits		
Non-interest-bearing	\$ 84,016,668	\$ 70,417,831
Interest-bearing	666,466,633	615,778,062
Total deposits	750,483,301	686,195,893
Federal Home Loan Bank advances	44,000,000	45,000,000
Subordinated debentures, net	17,370,736	17,348,476
Note payable and line of credit	7,800,000	8,750,000
Accrued interest payable	5,387,894	5,374,329
Other liabilities	4,609,973	4,564,812
Total liabilities	829,651,904	767,233,510
Shareholders' equity		
Common stock, no par value; 5,000,000 shares authorized; 2,903,822 shares issued in 2024 and 2,874,558 issued in 2023	29,394,771	29,230,374
Retained earnings	47,891,251	41,726,972
Accumulated other comprehensive loss	(2,466,523)	(1,100,394)
Total shareholders' equity	74,819,499	69,856,952
Total liabilities and shareholders' equity	\$ 904,471,403	\$ 837,090,462

See accompanying notes to the consolidated financial statements.

INSCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2024 and 2023

<i>Years Ended December 31,</i>	2024	2023
Interest income		
Loans, including fees	\$ 46,902,730	\$ 41,943,837
Taxable securities	2,631,808	2,415,494
Federal funds sold and other	2,607,610	1,848,468
Total interest income	52,142,148	46,207,799
Interest expense		
Deposits	26,450,841	20,038,792
Subordinated debentures	1,656,535	1,508,917
Federal Home Loan Bank advances and other	468,626	739,504
Total interest expense	28,576,002	22,287,213
Net interest income	23,566,146	23,920,586
Credit loss expense - loans	755,081	355,278
Credit loss expense - off-balance sheet credit exposures	(54,000)	(40,278)
Credit loss expense	701,081	315,000
Net interest income after credit loss expense	22,865,065	23,605,586
Noninterest income		
Service charges on deposit accounts	378,284	252,294
Income on bank owned life insurance	392,345	344,645
Loss on interest rate caps and floors	(430,453)	(381,889)
Loss on termination of cash flow hedge	(34,377)	-
Net loss on sale of securities	(15,184)	-
Other	1,657,330	1,329,417
Total noninterest income	1,947,945	1,544,467
Noninterest expense		
Salaries and employee benefits	10,357,864	9,434,201
Occupancy and equipment	1,701,247	1,561,695
Marketing and advertising	443,660	519,317
Professional services	433,459	231,241
Data processing	441,815	381,535
Other	2,238,656	2,344,484
Total noninterest expense	15,616,701	14,472,473
Income before income taxes	9,196,309	10,677,580
Income tax expense	1,826,093	2,273,200
Net income	\$ 7,370,216	\$ 8,404,380
Earnings per share:		
Basic	\$ 2.55	\$ 2.92
Diluted	\$ 2.46	\$ 2.85

See accompanying notes to the consolidated financial statements.

INSCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2024 and 2023

<i>Years Ended December 31,</i>	2024	2023
Net income	\$ 7,370,216	\$ 8,404,380
Other comprehensive income:		
Unrealized holding loss on securities	(485,902)	(271,754)
Reclassification adjustment for net losses included in net income	15,184	-
Tax Effect	166,502	67,939
Net of tax	(304,216)	(203,815)
Unrealized holding gain (loss) on cash flow hedges	(1,435,698)	(644,340)
Reclassification adjustment for losses included in net income	34,377	-
Tax Effect	339,408	161,085
Net of tax	(1,061,913)	(483,255)
Total other comprehensive loss	(1,366,129)	(687,070)
Comprehensive income	\$ 6,004,087	\$ 7,717,310

See accompanying notes to the consolidated financial statements.

INSCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2024 and 2023

	Common Stock		Retained	Accumulated	Total
	Shares	Value	Earnings	Other Comprehensive Income (Loss)	Shareholders' Equity
Balance at December 31, 2022	2,890,011	\$ 29,443,359	\$ 34,810,188	\$ (413,324)	\$ 63,840,223
Cumulative change in accounting principle (Note 1)	-	-	(493,000)	-	(493,000)
Balance at January 1, 2023 (as adjusted for change in accounting principle)	2,890,011	29,443,359	34,317,188	(413,324)	63,347,223
Purchase of common stock	(33,069)	(669,085)	-	-	(669,085)
Stock compensation expense	-	378,033	-	-	378,033
Exercise of stock options	2,300	25,640	-	-	25,640
Vested restricted stock awards	12,573	-	-	-	-
Issuance of common stock	2,743	52,427	-	-	52,427
Dividends paid on common stock	-	-	(994,596)	-	(994,596)
Net income	-	-	8,404,380	-	8,404,380
Other comprehensive loss	-	-	-	(687,070)	(687,070)
Balance at December 31, 2023	2,874,558	29,230,374	41,726,972	(1,100,394)	69,856,952
Purchase of common stock	(41,381)	(1,006,375)	-	-	(1,006,375)
Stock compensation expense	-	552,948	-	-	552,948
Exercise of stock options	51,500	565,400	-	-	565,400
Vested restricted stock awards	16,857	-	-	-	-
Issuance of common stock	2,288	52,424	-	-	52,424
Dividends paid on common stock	-	-	(1,205,937)	-	(1,205,937)
Net income	-	-	7,370,216	-	7,370,216
Other comprehensive loss	-	-	-	(1,366,129)	(1,366,129)
Balance at December 31, 2024	2,903,822	\$ 29,394,771	\$ 47,891,251	\$ (2,466,523)	\$ 74,819,499

See accompanying notes to the consolidated financial statements.

INSCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2024 and 2023

<i>Years Ended December 31,</i>	2024	2023
Operating activities		
Net income	\$ 7,370,216	\$ 8,404,380
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation of premises and equipment	576,296	569,175
Net amortization	(141,458)	(126,791)
Credit loss expense - loans	755,081	355,278
Credit loss expense - off-balance sheet credit exposures	(54,000)	(40,278)
Stock compensation expense	552,948	378,033
Deferred income taxes	(391,035)	(887,137)
Net realized loss on sale of securities	15,184	-
Net loss on termination of interest rate swap	34,377	-
Income from bank owned life insurance	(392,345)	(344,645)
Net change in:		
Accrued interest receivable and other assets	1,808,187	482,791
Accrued interest payable and other liabilities	(1,288,595)	4,033,205
Net cash from operating activities	8,844,856	12,824,011
Investing activities		
Purchase of securities available for sale	(15,212,651)	(24,742,522)
Proceeds from sales, calls, and maturities of securities available for sale	16,626,689	7,238,499
Net change in loans	(83,222,831)	(33,196,891)
Purchase of restricted securities, net	(1,335,328)	(394,018)
Purchases of premises and equipment, net	(312,408)	(255,819)
Net cash from investing activities	(83,456,529)	(51,350,751)
Financing activities		
Net change in deposits	64,287,408	109,668,957
Net change in federal funds purchased	-	(15,000,000)
Proceeds from Federal Home Loan Bank advances	10,000,000	45,000,000
Repayments of Federal Home Loan Bank advances	(11,000,000)	(67,000,000)
Net (repayments of) proceeds from note payable	(950,000)	1,250,000
Proceeds from exercise of common stock options	565,400	25,640
Dividends paid on common stock	(1,205,937)	(994,596)
Purchase of common stock	(1,006,375)	(669,085)
Issuance of common stock	52,424	52,427
Net cash from financing activities	60,742,920	72,333,343
Net change in cash and cash equivalents	(13,868,753)	33,806,603
Cash and cash equivalents, beginning of year	57,445,225	23,638,622
Cash and cash equivalents, end of year	\$ 43,576,472	\$ 57,445,225
Supplemental cash flow information:		
Interest paid	\$ 28,562,437	\$ 17,948,604
Income taxes paid	\$ 2,905,000	\$ 2,195,000

See accompanying notes to the consolidated financial statements.

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Bank markets itself primarily to commercial enterprises and depositors within the Bank's market area of Tennessee, while the Bank serves a niche industry of healthcare across a nationwide footprint. 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, 2024 and 2023, 42% and 45% of the Company's loan portfolio was classified as commercial real estate. The customers' ability to repay their loans is dependent on the real estate and general economic conditions in the area.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through March 24, 2025, which is the date the consolidated financial statements were available to be issued.

Use of Estimates: To prepare the consolidated 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 consolidated financial statements and the disclosures provided, and actual results could differ.

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

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

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

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

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

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

As of December 31, 2024 and 2023, there was no allowance for credit losses recorded on available for sale securities.

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

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

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

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

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

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- *Commercial* loans include loans for commercial and industrial purposes to business enterprises that are not secured by real estate. These loans are typically made on the basis of the borrower's ability to repay from the cash flow of the borrower's business and are generally secured by accounts receivable, inventory, and equipment. The collateral securing loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.
- *Residential Real Estate* loans include loans secured by residential real estate, including single-family and multi-family dwellings. Mortgage title insurance and hazard insurance are normally required. Adverse economic conditions in the Company's market area may reduce borrowers' ability to repay these loans and may reduce the collateral securing these loans.
- *Commercial Real Estate* loans include loans secured by non-residential real estate and improvements thereon. Often these loans are made to single borrowers or groups of related borrowers, and the repayment of these loans largely depends on the results of operations and management of these properties. Adverse economic conditions may affect the repayment ability of these loans.
- *Construction* loans include loans to finance the process of improving loans preparatory to erecting new structures or the on-site construction of industrial, commercial, residential or farm buildings. Construction loans also include loans secured by vacant land, except land known to be used or usable for agricultural purposes. Construction loans generally are made for relatively short terms. They generally are more vulnerable to changes in economic conditions. Further, the nature of these loans is such that they are more difficult to evaluate and monitor. The risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value upon completion of the project and the estimated cost (including interest) of the project. Periodic site inspections are made on construction loans to substantiate draw requests.
- *Consumer and Other* loans include loans to individuals for household, family and other personal expenditures that are not secured by real estate. Consumer loans are generally secured by customer vehicles and other household goods. The collateral securing consumer loans may depreciate over time

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Accrued interest receivable for loans totaled \$3,458,183 and \$3,012,950 at December 31, 2024 and 2023, respectively, and was excluded from the estimate of credit losses. Additional information related to the factors considered in evaluating credit losses on loans is included in Note 3.

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

As of December 31, 2024 and 2023, there was \$385,000 and \$439,000, respectively, in allowance for credit losses on off-balance sheet credit exposures recorded in other liabilities.

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

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

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

Goodwill and Other Intangible Assets: Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized but tested for impairment at least annually. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the balance sheet. Goodwill as of December 31, 2024 and 2023 is \$1,090,971.

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

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Stock Based Compensation: Compensation cost is recognized for stock options and restricted stock awards 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. The Company's accounting policy is to recognize forfeitures as they occur.

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

Off-Balance Sheet Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

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

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

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

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

Restrictions on Cash: Included in cash and due from banks is cash on hand or on deposit with the Federal Reserve Bank which is required to meet regulatory reserve and clearing requirements as of December 31, 2024 and 2023.

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.

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards:

In November 2023, the FASB issued ASU 2023-07 “*Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*.” The amendments in this update are intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant expenses. The ASU requires disclosures to include significant segment expenses that are regularly provided to the chief operating decision maker, a description of other segment items by reportable segment, and any additional measures of a segment's profit or loss used by the chief operating decision maker when deciding how to allocate resources. The ASU also requires all annual disclosures currently required by Topic 280, “*Segment Reporting*,” to be included in interim periods. The Company adopted this standard effective January 1, 2024. During the year ended December 31, 2024, all of the financial service operations are considered by management to be aggregated in one reportable operating segment as determined by the Chief Financial Officer, who is the designated chief operating decision maker. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

NOTE 2 - SECURITIES

The following table summarizes the amortized cost and fair value of securities available for sale at December 31, 2024 and 2023 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>December 31, 2024</i>				
Securities available for sale:				
Mortgage-backed securities - residential	\$ 23,100,684	\$ 412	\$ (1,529,347)	\$ 21,571,749
Collateralized mortgage obligations	33,161,715	36,188	(2,473,808)	30,724,095
Corporate bonds	4,464,852	18,970	(353,960)	4,129,862
	<u>\$ 60,727,251</u>	<u>\$ 55,570</u>	<u>\$ (4,357,115)</u>	<u>\$ 56,425,706</u>

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

There were no pledged securities at December 31, 2024 and December 31, 2023.

The proceeds from sales and calls of securities were \$10,254,547, which resulted in gross gains and losses of \$21,294 and \$36,448, respectively, and a total net loss of \$15,184 for the year ended December 31, 2024. There were no sales and calls of securities for the year ended December 31, 2023.

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 2 – SECURITIES (Continued)

The amortized cost and fair value of debt securities at December 31, 2024 are shown by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity, mortgage-backed securities and collateralized mortgage obligations, are shown separately.

<u>December 31, 2024</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Maturity		
Available for sale		
Five to ten years	\$ 4,464,852	\$ 4,129,862
Mortgage-backed securities - residential	23,100,684	21,571,749
Collateralized mortgage obligations	33,161,715	30,724,095
	<u>\$ 60,727,251</u>	<u>\$ 56,425,706</u>

At December 31, 2024 and 2023, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Securities with unrealized losses for which an allowance for credit losses has not been recorded at year-end 2024 and 2023, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

<u>December 31, 2024</u>	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Available for sale						
Mortgage-backed securities - residential	\$ 2,957,680	\$ (31,359)	\$ 18,550,258	\$ (1,497,988)	\$ 21,507,938	\$ (1,529,347)
Collateralized mortgage obligations	4,438,516	(138,758)	17,473,478	(2,335,050)	21,911,994	(2,473,808)
Corporate bonds	494,900	(5,100)	2,151,085	(348,860)	2,645,985	(353,960)
Total available for sale	<u>\$ 7,891,096</u>	<u>\$ (175,217)</u>	<u>\$ 38,174,821</u>	<u>\$ (4,181,898)</u>	<u>\$ 46,065,917</u>	<u>\$ (4,357,115)</u>

<u>December 31, 2023</u>	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Available for sale						
Mortgage-backed securities - residential	\$ 3,264,164	\$ (60,582)	\$ 17,376,752	\$ (1,503,700)	\$ 20,640,916	\$ (1,564,282)
Collateralized mortgage obligations	9,994,734	(486,605)	13,232,376	(1,730,667)	23,227,110	(2,217,272)
Corporate bonds	2,096,941	(403,059)	-	-	2,096,941	(403,059)
Total available for sale	<u>\$ 15,355,839</u>	<u>\$ (950,246)</u>	<u>\$ 30,609,128</u>	<u>\$ (3,234,367)</u>	<u>\$ 45,964,967</u>	<u>\$ (4,184,613)</u>

As of December 31, 2024 and 2023, the Company's security portfolio consisted of sixty-six and seventy-one securities in an unrealized loss position, respectively. Unrealized losses on securities have not been recognized into income because the issuers are of high credit quality, management does not intend to sell and it is more likely than not that management would not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in market interest rates and illiquidity instead of credit quality. The fair value is expected to recover as the securities approach their maturity dates and/or market rates change. As a result, the Company has determined that an allowance for credit losses for debt securities is not necessary as of December 31, 2024 and 2023. In determining the allowance for credit losses for debt securities, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an allowance for credit losses is necessary involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 3 - LOANS

Loans at year-end were as follows:

	2024	2023
Real estate:		
Construction	\$ 104,897,195	\$ 92,669,189
Commercial	321,799,185	307,559,439
Residential	80,770,801	66,840,556
Total real estate	507,467,181	467,069,184
Commercial	251,227,177	208,486,095
Consumer and other loans	6,100,582	6,002,556
	764,794,940	681,557,835
Less: Allowance for credit losses	(9,895,343)	(9,125,988)
Loans, net	\$ 754,899,597	\$ 672,431,847

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 3 – LOANS (Continued)

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2024 and 2023:

<i>December 31, 2024</i>	Real Estate Loans			Commercial	Consumer and		Total
	Construction	Commercial	Residential		Other		
Allowance for credit losses:							
Beginning balance	\$ 1,223,749	\$ 2,570,625	\$ 1,152,836	\$ 4,070,383	\$ 108,395	\$	9,125,988
Credit loss expense	284,613	(365,187)	194,884	667,002	(26,231)		755,081
Loans charged-off	-	-	-	-	-		-
Recoveries	-	-	2,400	11,874	-		14,274
Total ending allowance balance	\$ 1,508,362	\$ 2,205,438	\$ 1,350,120	\$ 4,749,259	\$ 82,164	\$	9,895,343

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

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 3 – LOANS (Continued)

The following tables present the amortized costs basis of loans on nonaccrual status and loans past due over 89 days still accruing as of December 31, 2024 and 2023:

December 31, 2024				
	Nonaccrual with no allowance for credit loss	Nonaccrual with allowance for credit loss	Loans past due over 89 days still accruing	
Real estate:				
Commerical	\$ 4,043,911	\$ 153,491	\$	-
Residential	823,231	305,568		-
Commercial	198	-		-
Total	\$ 4,867,340	\$ 459,059	\$	-

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

The Company recognized \$80,281 and \$127,353 of interest income on nonaccrual loans during the years ended December 31, 2024 and 2023.

The following tables present the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2024 and 2023:

<i>December 31, 2024</i>	Real Estate	Business Assets	Vehicles	Other
Real estate:				
Commercial	\$ 5,229,356	\$ -	\$ -	\$ -
Residential	1,128,800	-	-	-
Total	\$ 6,358,156	\$ -	\$ -	\$ -

<i>December 31, 2023</i>	Real Estate	Business Assets	Vehicles	Other
Real estate:				
Commercial	\$ 896,267	\$ -	\$ -	\$ -
Residential	270,974	-	-	-
Total	\$ 1,167,241	\$ -	\$ -	\$ -

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 3 – LOANS (Continued)

The following table presents the aging of the recorded investment in past due loans as of December 31, 2024 and 2023 by class of loans:

<i>December 31, 2024</i>	30-89 Days Past Due	90+ Days Past Due	Total Past Due	Loans Not Past Due	Total Loans
Real estate:					
Construction	\$ -	\$ -	\$ -	\$ 104,897,195	\$ 104,897,195
Commercial real estate	-	-	-	321,799,185	321,799,185
Residential	185,812	857,752	1,043,564	79,727,237	80,770,801
Commercial	1,031,954	198	1,032,152	250,195,025	251,227,177
Consumer	-	-	-	6,100,582	6,100,582
Total	\$ 1,217,766	\$ 857,950	\$ 2,075,716	\$ 762,719,224	\$ 764,794,940

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

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

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

During the year ended December 31, 2024, a commercial real estate loan with an amortized cost basis of \$3,391,127 was experiencing financial difficulty and was modified by granting interest only payments at 6.5% for twelve months. After the modification, the loan will convert to principal and interest payments at an interest rate of 7.25% based on a twenty-five year amortization. The amortized cost basis of the loan represents 1.4% of the total class of loans as of December 31, 2024. The Company has not committed to lend any additional amounts to the related borrowers. During the year ended December 31, 2023, a commercial real estate loan with an amortized cost basis of \$6,331,163 was experiencing financial difficulty and was modified by the granting of a six month payment deferral. The amortized cost basis of the loan represents 3.05% of the total class of loans as of December 31, 2023. The Company has not committed to lend any additional amounts to the related borrowers.

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

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 3 – LOANS (Continued)

No loans had a payment default during the years ended December 31, 2024 and 2023 that were modified in the twelve months prior to that default to borrowers experiencing financial difficulty.

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

Credit Quality Indicators:

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

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

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

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

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

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 3 – LOANS (Continued)

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

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total
<i>As of December 31, 2024</i>	2024	2023	2022	2021	2020	Prior		
Construction:								
Risk Rating								
Pass	\$25,120,528	\$ 3,873,849	\$32,663,820	\$ 36,942,230	\$ 215,387	\$ 6,081,381	\$ -	\$ 104,897,195
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total construction loans	\$25,120,528	\$ 3,873,849	\$32,663,820	\$ 36,942,230	\$ 215,387	\$ 6,081,381	\$ -	\$ 104,897,195
Construction loans:								
Current period gross write offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate:								
Risk Rating								
Pass	\$31,662,570	\$ 6,235,286	\$85,009,718	\$ 42,816,793	\$13,037,642	\$ 137,807,820	\$ -	\$ 316,569,829
Special mention	-	-	-	-	-	-	-	-
Substandard	-	1,031,954	-	-	-	4,197,402	-	5,229,356
Doubtful	-	-	-	-	-	-	-	-
Total commercial real estate loans	\$31,662,570	\$ 7,267,240	\$85,009,718	\$ 42,816,793	\$13,037,642	\$ 142,005,222	\$ -	\$ 321,799,185
Commercial real estate loans:								
Current period gross write offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential real estate:								
Risk Rating								
Pass	\$13,816,101	\$ 6,855,748	\$23,714,560	\$ 13,512,322	\$ 6,228,671	\$ 15,514,599	\$ -	\$ 79,642,001
Special mention	-	-	-	-	-	-	-	-
Substandard	-	737,996	-	-	-	390,804	-	1,128,800
Doubtful	-	-	-	-	-	-	-	-
Total residential real estate loans	\$13,816,101	\$ 7,593,744	\$23,714,560	\$ 13,512,322	\$ 6,228,671	\$ 15,905,403	\$ -	\$ 80,770,801
Residential real estate loans:								
Current period gross write offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 3 – LOANS (Continued)

<i>As of December 31, 2024, continued</i>	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total
	2024	2023	2022	2021	2020	Prior		
Commercial:								
Risk Rating								
Pass	\$77,335,187	\$ 41,766,594	\$53,106,470	\$ 32,242,383	\$10,444,439	\$ 36,331,906	\$ -	\$ 251,226,979
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	198	-	198
Total commercial loans	\$77,335,187	\$ 41,766,594	\$53,106,470	\$ 32,242,383	\$10,444,439	\$ 36,332,104	\$ -	\$ 251,227,177
Commercial loans:								
Current period gross write offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer and other:								
Risk Rating								
Pass	\$ 240,675	\$ 27,567	\$ 548,915	\$ 60,085	\$ 230,295	\$ 4,993,045	\$ -	\$ 6,100,582
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total consumer and other loans	\$ 240,675	\$ 27,567	\$ 548,915	\$ 60,085	\$ 230,295	\$ 4,993,045	\$ -	\$ 6,100,582
Consumer and other loans:								
Current period gross write offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 3 – LOANS (Continued)

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

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 3 – LOANS (Continued)

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

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 4 - FAIR VALUE

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

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

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

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

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

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

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

Collateral-Dependent Loans: The fair value of collateral-dependent loans with specific allocations of the allowance for credit losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available for similar loans and collateral underlying such loans. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Collateral dependent loans are evaluated on a quarterly basis and adjusted in accordance with the allowance policy.

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

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, 2024 and 2023 using level 2 inputs are summarized below:

	2024 Significant Other Observable Inputs (Level 2)	2023 Significant Other Observable Inputs (Level 2)
Assets:		
Securities available for sale:		
U.S Government sponsored-entites and agencies	\$ -	\$ 6,318,195
Mortgage-backed securities - residential	21,571,749	20,689,956
Collateralized mortgage-obligations	30,724,095	29,056,836
Corporate bonds	4,129,862	2,096,941
	\$ 56,425,706	\$ 58,161,928
Interest rate floors	\$ 31,857	\$ 381,889
Interest rate swaps	1,632,940	1,616,253
Cash flow hedge	962,313	2,363,634
Total	\$ 59,052,816	\$ 62,523,704
Liabilities:		
Interest rate swaps	\$ 1,632,940	\$ 1,616,253
Total	\$ 1,632,940	\$ 1,616,253

Assets and Liabilities Measured on a Non-Recurring Basis

Assets measured at fair value on a non-recurring basis at December 31, 2024 and 2023 using significant unobservable inputs (level 3) are summarized below:

	2024 Significant Other Observable Inputs (Level 3)	2023 Significant Other Observable Inputs (Level 3)
Assets:		
Collateral-dependent loans:		
Commercial real estate	\$ 45,789	\$ 45,751
Residential	261,398	165,848

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

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, 2024 and 2023:

	Fair Value	Valuation Techniques	Unobservable Input(s)	Range
<i>As of December 31, 2024</i>				
Collateral-dependent loans -				
Commercial real estate	\$ 45,789	Market approach	Discount to allow for market value of assets	20%
Residential	\$ 261,398	Market approach	Discount to allow for market value of assets	25%
	Fair Value	Valuation Techniques	Unobservable Input(s)	Range
<i>As of December 31, 2023</i>				
Collateral-dependent loans -				
Commercial real estate	\$ 45,751	Market approach	Discount to allow for market value of assets	20%
Residential	\$ 165,848	Market approach	Discount to allow for market value of assets	25%

The carrying amounts and estimated fair values of financial instruments not carried at fair value, at December 31, 2024 and 2023 are as follows (\$ in thousands):

	Carrying Amount	Level 1	Level 2	Level 3	Total Value
<i>As of December 31, 2024</i>					
Financial assets					
Cash and cash equivalents	\$ 43,576	\$ 43,576	\$ -	\$ -	\$ 43,576
Loans, net	754,900	-	-	731,145	731,145
Restricted equity securities	10,225	N/A	N/A	N/A	N/A
Accrued interest receivable	3,899	-	3,899	-	3,899
Financial liabilities					
Deposits	750,483	295,429	456,342	-	751,771
Federal Home Loan Bank advances	44,000	-	43,975	-	43,975
Subordinated debentures	17,371	-	17,371	-	17,371
Note payable and line of credit	7,800	-	7,800	-	7,800
Accrued interest payable	5,388	-	5,388	-	5,388
	Carrying Amount	Level 1	Level 2	Level 3	Total Value
<i>As of December 31, 2023</i>					
Financial assets					
Cash and cash equivalents	\$ 57,445	\$ 57,445	\$ -	\$ -	\$ 57,445
Loans, net	672,432	-	-	639,559	639,559
Restricted equity securities	8,890	N/A	N/A	N/A	N/A
Accrued interest receivable	3,297	-	238	3,059	3,297
Financial liabilities					
Deposits	686,196	255,452	429,819	-	685,271
Federal Home Loan Bank advances	45,000	-	44,583	-	44,583
Subordinated debentures	17,348	-	17,348	-	17,348
Note payable and line of credit	8,750	-	8,750	-	8,750
Accrued interest payable	5,374	-	5,374	-	5,374

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 5 - PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:

<i>December 31,</i>	2024	2023
Land	\$ 3,468,334	\$ 3,468,334
Buildings	11,172,355	11,103,294
Furniture, equipment, and automobiles	3,881,663	3,638,316
Total	18,522,352	18,209,944
Less accumulated depreciation	(6,071,540)	(5,495,244)
	<u>\$ 12,450,812</u>	<u>\$ 12,714,700</u>

Depreciation expense was \$576,296 and \$569,175 for 2024 and 2023.

The Bank leases a portion of its Brentwood, Tennessee location to an unrelated party. Future minimum rent payments at December 31, 2024, before considering renewal options are \$294,205 for the year ending December 31, 2025.

NOTE 6 - RESTRICTED EQUITY SECURITIES

At December 31, 2024 and 2023, the Company had the following equity investments in restricted equity securities:

<i>December 31,</i>	2024	2023
Federal Home Loan Bank Stock	\$ 2,632,000	\$ 2,656,100
Federal Reserve Bank Stock	1,375,800	1,374,530
Small Business Investment Companies	6,217,198	4,859,040
Total	<u>\$ 10,224,998</u>	<u>\$ 8,889,670</u>

NOTE 7 - DEPOSITS

Time deposits that meet or exceed the FDIC Insurance limit of \$250,000 at year-end 2024 and 2023 were \$51,982,925 and \$105,747,000. The Company had brokered deposits of approximately \$163,995,843 and \$117,329,252 at year-end 2024 and 2023.

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

<i>Year Ending December 31,</i>	
2025	\$ 396,852,334
2026	47,092,655
2027	10,103,520
2028	175,026
Thereafter	830,474

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 8 - FEDERAL HOME LOAN BANK ADVANCES

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

<i>December 31,</i>	2024	2023
Maturities during May 2025, fixed at a rate of 0.85%, with a weighted average rate of 0.85%	\$ 4,000,000	\$ 15,000,000
Short term advances with maturities January 2025 through March 2025, fixed at rates from 4.42% to 4.79%, with a weighted average rate of 4.59%	40,000,000	30,000,000
Total	\$ 44,000,000	\$ 45,000,000

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized under a blanket pledge agreement by first mortgages for one-to-four family residential and commercial real estate loans totaling \$126,371,634 and \$117,146,181 at year-end 2024 and 2023, respectively. Based on the eligible collateral and the Company's holdings of FHLB stock, the Company is eligible to borrow up to a total of \$40,620,000 at year-end 2024.

Required principal payments are \$44,000,000 for the year ending December 31, 2025.

NOTE 9 - SUBORDINATED DEBENTURES

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

The subordinated debentures have a fixed rate of interest equal to 6.375% for the initial five year term. The rate is variable for the second five year term, during which time the Company will make quarterly interest payments based on three month Secured Overnight Financing Rate (SOFR) plus 3.21% until maturity on December 31, 2028.

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

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

The subordinated debentures have a fixed rate of interest equate to 3.75% for the initial five year term. The rate is variable for the second five year term, during which time the Company will make quarterly interest payments based on three month SOFR plus 2.87% until maturity on October 31, 2031.

As of December 31, 2024 and 2023, total unamortized debt issuance costs were \$129,264 and \$151,524, respectively. The Company had subordinated debt outstanding as of December 31, 2024 and 2023, totaling \$17,370,736 and \$17,348,476, respectively, net of unamortized debt issuance costs.

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 10 - OTHER BORROWINGS

Note payable and line of credit

During December 2021, the Company entered into a non revolving line of credit (LOC) for \$7,500,000 with another financial institution. In July 2024, credit availability under the LOC was increased to \$15,000,000. Quarterly interest payments at the *Wall Street Journal* prime rate (7.50% as of December 31, 2024) minus 0.25%, with a floor of 5%, began on April 1, 2022. The LOC has a maturity of July 1, 2027. Collateral for the loan was 100% of the common stock of InsBank. As of December 31, 2024 and 2023, the line had a balance of \$7,800,000 and \$8,750,000, respectively. The loan agreement requires: a Federal Deposit Insurance Corporation capitalization rating of "Well Capitalized", Tier 1 leverage ratio of at least 8%, adjusted Texas ratio of less than or equal to 25%, return on average assets ratio of at least 0.55% and a loan to value ratio of less than or equal to 40%. The Company was in compliance with all requirements as of December 31, 2024.

The Company had approximately \$88,100,000 in available lines of credit for federal funds (or the equivalent thereof) with correspondent banks at December 31, 2024.

NOTE 11 - EMPLOYEE BENEFIT PLAN

The Company's employees are eligible to participate in a 401(k) plan at the date of hire and attaining the age of 21, and after ninety days of service employees are eligible for a matching contribution. 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 \$220,441 and \$234,894 in matching contributions and no discretionary contributions in 2024 and 2023.

NOTE 12 - INCOME TAXES

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

	2024	2023
Current Federal	\$ 2,214,358	\$ 2,748,390
Current State	2,770	411,947
Deferred Federal	(258,385)	(692,190)
Deferred State	(132,650)	(194,947)
Income Tax Expense	\$ 1,826,093	\$ 2,273,200

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

	2024	2023
Asset (liability)		
Allowance for credit losses	\$ 2,686,768	\$ 2,499,737
Accumulated depreciation	(266,251)	(332,054)
FHLB stock basis	(33,996)	(33,996)
Fair market value adjustments	-	(123,384)
Unrealized losses on available for sale securities	1,124,209	957,707
Unrealized holding gain on cash flow hedges	(67,517)	(590,911)
Deferred loan fees	318,973	211,286
Nonaccrual loan interest income	20,981	33,284
Other, net	(100,797)	(20,230)
Balance at end of year	\$ 3,682,370	\$ 2,601,439

(Continued)

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 12 - INCOME TAXES (Continued)

The need for a valuation allowance is evaluated periodically by management. Factors considered in the evaluation include historical operating results, forecasted future earnings, expansion plans, and other income considerations. As of December 31, 2024 and 2023, there was no valuation allowance recorded.

A reconciliation of the amount computed by applying the federal statutory rate (21% for 2024 and 2023) to pretax income with income tax expense (benefit) follows:

	2024	2023
Tax expense at statutory rate	\$ 1,931,225	\$ 2,242,292
Increase (decrease) in taxes resulting from		
State income taxes (benefit), net of federal benefit	(102,605)	171,430
Tax-exempt income	(16,665)	(15,595)
Other	14,138	(124,927)
Income tax expense	\$ 1,826,093	\$ 2,273,200

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the state of Tennessee as well as various other state income taxes. The Company is no longer subject to examination by taxing authorities for years before 2021.

NOTE 13 - RELATED PARTY TRANSACTIONS

There were loans totaling \$10,422,554 and \$6,614,270 outstanding to executive officers and directors of the Company and their related interests at year-end 2024 and 2023, respectively.

The aggregate amount of deposits from executive officers and directors of the Company and their related interests were approximately \$1,858,396 and \$438,572 at year-end 2024 and 2023.

NOTE 14 - STOCK-BASED COMPENSATION

In 2024, the Company has two share based compensation plans as described below. Total compensation cost that has been charged against income for those plans was \$552,948 and \$378,033 for 2024 and 2023.

Stock Option Plan

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

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

INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 14 - STOCK-BASED COMPENSATION (Continued)

There were no options granted for the year ended December 31, 2024 and 2023.

A summary of the activity in the stock option plan for 2024 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at beginning of year	298,250	\$ 15.76	4.65
Granted	-	-	-
Exercised	(51,500)	10.98	
Forfeited or expired	(6,000)	17.70	
Outstanding at end of year	240,750	\$ 16.74	4.36
Vested or expected to vest	240,750	\$ 16.74	4.36
Exercisable at end of year	206,250	\$ 16.24	3.85

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

	2024	2023
Intrinsic value of options exercised	\$ 722,102	\$ 30,275
Cash received from option exercises	565,400	25,640

As of December 31, 2024, there was \$69,230 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 2.05 years.

Restricted Stock Awards

In 2024, the Company granted 45,215 restricted awards of common stock. Compensation expense is recognized over the vesting period of the awards based on the value of the stock at issue date. The fair value of the stock was determined by current stock trade activity. These awards vest in various increments through 2029.

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

Non-vested awards	Shares	Weighted- Average Grant-Date Fair Value
Non-vested at January 1, 2024	75,474	\$ 19.60
Granted	45,215	23.95
Forfeited	(3,959)	19.21
Vested	(16,857)	19.01
Non-vested at December 31, 2024	99,873	\$ 21.68

As of December 31, 2024, there was \$1,758,416 of total unrecognized compensation cost related to non-vested restricted awards granted under the Plan. The cost is expected to be recognized over a weighted-average period of 3.57 years.

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INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 15 - REGULATORY CAPITAL MATTERS

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

The net unrealized gain or loss on available for sale securities and cash flow hedges are not included in computing regulatory capital. Management believes as of December 31, 2024, the Bank meets all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2024 and 2023, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

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

(\$ in thousands)

	Actual Regulatory Capital		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>As of December 31, 2024</i>						
Total capital to risk weighted assets	\$ 111,367	13.11%	\$ 67,953	8.00%	\$ 84,941	10.00%
Tier 1 to risk weighted assets	\$ 101,087	11.90%	\$ 50,964	6.00%	\$ 67,953	8.00%
Common Equity Tier 1	\$ 101,087	11.90%	\$ 38,223	4.50%	\$ 55,211	6.50%
Tier 1 to average assets	\$ 101,087	11.53%	\$ 35,061	4.00%	\$ 43,826	5.00%
<i>As of December 31, 2023</i>						
Total capital to risk weighted assets	\$ 103,640	13.54%	\$ 61,242	8.00%	\$ 76,553	10.00%
Tier 1 to risk weighted assets	\$ 94,075	12.29%	\$ 45,932	6.00%	\$ 61,242	8.00%
Common Equity Tier 1	\$ 94,075	12.29%	\$ 34,449	4.50%	\$ 49,759	6.50%
Tier 1 to average assets	\$ 94,075	11.37%	\$ 33,103	4.00%	\$ 41,379	5.00%

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 2025, the Bank could, without prior approval, declare dividends of approximately \$15,226,000 plus any of 2025 net profits retained to the date of the dividend declaration.

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INSCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 16 - DERIVATIVES

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

Cash Flow Hedges: Funding hedges with notional amounts totaling \$30 million and \$80 million as of December 31, 2024 and 2023, respectively, were designated as cash flow hedges and were determined to be effective during all periods presented. The Company expects the hedges to remain effective during the remaining terms of the swaps.

Derivatives Not Designated As Hedges: The Company also enters into interest rates swaps with its loan customers. The notional amounts of interest rate swaps with its loan customer as of December 31, 2024 and 2023 were \$35,298,202 and \$32,111,051, respectively. The Company enters into corresponding offsetting derivatives with third parties. While these derivatives represent economic hedges, they do not qualify as hedges for accounting purposes. The notional amounts of interest rate floors as of December 31, 2024 and 2023, was \$150,000,000 and \$350,000,000, respectively.

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

	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Derivatives designated as hedges	\$ 30,000,000	\$ 962,313	\$ 80,000,000	\$ 2,363,634
Derivatives not designated as hedging				
Instruments:				
Interest rate swaps related to customer loans	35,298,202	1,632,940	32,111,051	1,616,253
Interest rate floors	150,000,000	31,857	350,000,000	381,889
Total included in other assets		<u>\$ 2,627,110</u>		<u>\$ 4,361,776</u>
Included in other liabilities:				
Derivatives not designated as hedging				
Instruments:				
Interest rate swaps related to customer loans	\$ 35,298,202	<u>\$ 1,632,940</u>	\$ 32,111,051	<u>\$ 1,616,253</u>
Total included in other liabilities		<u>\$ 1,632,940</u>		<u>\$ 1,616,253</u>

(Continued)

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NOTE 16 – DERIVATIVES (Continued)

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

	2024		
	Amount of Gain (Loss) Recognized in OCI on Derivative	Location of Gain (Loss) Recognized from OCI into Income	Amount of Gain (Loss) Recognized from OCI into Derivative
Cash flow hedge	\$ (1,435,698)	\$ (34,377)	\$ -
	2023		
	Amount of Gain (Loss) Recognized in OCI on Derivative	Location of Gain (Loss) Recognized from OCI into Income	Amount of Gain (Loss) Recognized from OCI into Derivative
Cash flow hedge	\$ (644,340)	\$ -	\$ -

The Company's consolidated statements of income included income of \$1,462,284 and \$1,462,813, for the years ended December 31, 2024 and 2023, respectively, in interest expense on Federal Home Loan Bank advances and other borrowings related to these cash flow hedges. There were reclassifications totaling \$34,777 from accumulated other comprehensive loss into earnings during the years ended December 31, 2024 or 2023.

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

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
		2024	2023
Interest rate floors related to loan customers	Other income (expense)	\$ (430,453)	\$ (381,889)

Maturities at December 31, 2024 ranged from 1.20 to 10.84 years. Since the swaps are structured to offset each other, changes in fair value, while recorded, have no material net earnings impact.

(Continued)

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NOTE 17 - LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

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

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

	2024	2023
Unused lines of credit and letters of credit	\$ 111,976,224	\$ 100,963,137
Performance standby letters of credit	\$ 2,709,339	\$ 3,266,000

NOTE 18 - EARNINGS PER SHARE

The factors used in the earnings per share computation follow:

	2024	2023
Basic		
Net income available to common shareholders	\$ 7,370,216	\$ 8,404,380
Weighted average common shares outstanding	2,888,283	2,873,433
Basic earnings per common share	\$ 2.55	\$ 2.92
Diluted		
Net income available to common shareholders	\$ 7,370,216	\$ 8,404,380
Weighted average common shares outstanding for basic earnings per common share	2,888,283	2,873,433
Add: Dilutive effects of assumed exercises of stock options and restricted stock awards	110,239	76,185
Average shares and dilutive potential common shares	2,998,522	2,949,618
Diluted earnings per common share	\$ 2.46	\$ 2.85

Stock options of 27,338 and restricted stock awards of 1,210 were not considered when computing diluted earnings per common share for the year ended December 31, 2024, as they were antidilutive. Stock options of 63,250 and restricted stock awards of 21,005 were not considered when computing diluted earnings per common share for the year ended December 31, 2023, as they were antidilutive.