UNITED TENNESSEE BANKSHARES, INC.

2019 ANNUAL REPORT

UTBI

UNITED TENNESSEE BANKSHARES, INC.

United Tennessee Bankshares, Inc.

P O Box 249

Newport, Tennessee 37822-0249

Phone: (423)623-6088 **Fax (423)623-6020**

To our Stockholders,

We are pleased to present this 2019 Annual Report to our shareholders. This report reflects the continued growth and profitability of the Bank. The total assets of United Tennessee Bankshares, Inc. increased to $212 million and our deposits grew to $184 million as of December 31, 2019. The net income was $1,502,000 or $1.76 per share. We congratulate the staff for their hard work that made these results possible.

The Board of Directors is pleased to have increased our dividend to $0.56 during our February 25, 2020 Board Meeting. The investors who purchased UNTN stock at its initial offering in 1998 have received cumulative cash dividends in excess of their initial investment.

Please review this Annual Report, which more fully describes our performance. We continue to be a well-capitalized institution poised to take advantage of any and all opportunities afforded to us in our competitive market. We appreciate your investment in United Tennessee Bankshares, Inc. and invite your continued support of Newport Federal Bank, which is Newport's truly home-owned community bank.

Sincerely,

Chris Triplett, President
UNITED TENNESSEE
BANKSHARES, INC.

United Tennessee Bankshares, Inc. (the "Company") became the holding company for Newport Federal Bank (the "Bank") upon its conversion from mutual to stock form (the "Conversion"), which was completed on January 1, 1998. Prior to January 1, 1998, the Company had no assets or liabilities and engaged in no business activities. The Company's assets primarily consist of its investment in the Bank.

The Company's executive offices are located at 170 W. Broadway, Newport, Tennessee 37821-2325, and its telephone number is (423) 623-6088. Our web site is www.newportfederalbank.com.

The Bank was organized as a federally chartered mutual savings institution in 1934 under the name Newport Federal Savings and Loan Association. Effective January 1, 1998, the Bank became a stock savings bank and changed its name to Newport Federal Bank. The Bank currently operates through three full-service banking offices located in Newport, Tennessee. The Bank's deposits are insured to applicable limits by the Federal Deposit Insurance Corporation ("FDIC").

MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock trades on the OTC Markets Group (OTCQB) under the symbol "UNTN." As of December 31, 2019, there are approximately 851,709 shares of the Company's Common Stock outstanding, and approximately 100 record holders.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's principal business activities are conducted through its wholly owned subsidiary, the Bank. The Bank's principal business consists of accepting deposits from the general public through its main office and branch offices then investing those funds in loans secured by one-to-four-family residential properties located in its primary market area. The Bank also maintains a portfolio of investment securities in addition to originating a limited amount of commercial real estate loans and consumer loans. The Bank's investment securities portfolio consists of U.S. government corporations and agency securities, municipal bonds of governmental entities in Tennessee, corporate debt and mortgage-backed securities, which are guaranteed as to principal and interest by the FHLMC, GNMA, FNMA or other governmental agencies. The Bank also maintains an investment in FHLB of Cincinnati common stock.

The Bank's net income primarily depends on its net interest income, which is calculated by deducting the interest paid on customers' deposits and other borrowing from the interest income earned on loans and investments securities. The Bank's net income is also affected by noninterest income, such as service charges on customers' deposit accounts, loan service charges and fees, and noninterest expense, primarily consisting of compensation expense, deposit insurance and other expenses incidental to its operations.

The Bank's operations, as well as those of the banking industry as a whole, are significantly affected by prevailing economic conditions and competition, along with the monetary and fiscal policies of governmental agencies. The Bank's lending activities are influenced by the demand for and supply of housing, in addition to the competition among lenders, along with the level of interest rates in its market area. The Bank's deposits and costs of funds are influenced by prevailing market rates of interest, primarily on competing investments, account maturities, and the levels of personal income and savings in its market area.

Net interest income, which is the primary component of the Company's net income, is determined by the difference or "spread" between the yields earned on its interest-earning assets and the rates paid on its interest-bearing liabilities, in conjunction with the relative amounts of such assets and liabilities. Key components of an asset/liability strategy are the monitoring and managing of interest rate sensitivity on both the interest-earning assets and interest-bearing liabilities.

An asset or liability is interest rate sensitive within a specific time period if it will mature or reprice within that time period. If the Company's assets mature or reprice more quickly or to a greater extent than its liabilities, its net interest income would tend to increase during periods of rising interest rates but decrease during periods of falling interest rates. If its assets mature or reprice more slowly or to a lesser extent than its liabilities, its net interest income would tend to decrease during periods of rising interest rates but increase during periods of falling interest rates. The Company's policy has been to mitigate the interest rate risk inherent in the traditional savings institution business of originating long-term loans funded by short-term deposits by pursuing the following strategies: (i) it has historically maintained liquidity and capital levels to compensate for unfavorable movements in market interest rates; and (ii) in order to mitigate the adverse effect of interest rate risk on future operations, it emphasizes the origination of variable rate mortgage loans, and it makes limited amounts of shorter term consumer loans.

Comparison of Financial Condition at December 31, 2019 and December 31, 2018

Total assets increased $5.9 million, or 2.9%, from $206.0 million at December 31, 2018 to $211.9 million at December 31, 2019. The Company’s asset increase was attributable principally to increases in net loans receivable and cash and amounts due, offset by a decrease in interest-bearing deposits.

Investment securities available for sale increased approximately $484,000, or 0.6%, from $78.4 million at December 31, 2018 to $78.9 million at December 31, 2019. The Bank has reinvested the proceeds from investment maturities and payments.

Loans receivable increased $3.1 million, or 3.0% from $103.2 million at December 31, 2018 to $106.3 million at December 31, 2019. The Bank has continued to have good loan demand. The Bank had increases in residential real estate along with increases in commercial real estate loans.

Total deposits increased $3.4 million, or 1.9% from $181.0 million at December 31, 2018 to $184.4 million at December 31, 2019. The Bank strives to offer competitive interest rates in this current interest rate environment.

The Company’s shareholders’ equity increased $2.4 million, or 10.7% from $23.0 million at December 31, 2018 to $25.4 million at December 31, 2019. The increase was primarily due to net income of $1,502,000 and an increase of accumulated other comprehensive income of $1,362,000; offset by dividends paid to shareholders of $468,000. The Company had stock transactions in the net amount of $54,000. The change in accumulated comprehensive income was a result of an increase of bond market prices during the year ended December 31, 2019. The Bank generally holds bond investment securities until maturity but is required to use mark-to-market valuation for its bonds on a quarterly basis.

Comparison of Results of Operations for the Years Ended December 31, 2019 and December 31, 2018

Net income was $1,502,000 for the year ended December 31, 2019 compared to net income of $1,839,000 for the year ended December 31, 2018. The decrease in net income during 2019 was primarily due to an increase in our cost of funds. Our average cost of funds increased from 0.71% for year ended December 31, 2018 to 1.08% for the year ending December 31, 2019. Net income for 2019 represented a return on average assets of 0.72% compared to 0.90% for 2018, and a return on average equity of 6.21% for 2019 as compared to 8.14% for 2018.

Interest income totaled $7.6 million for 2019 and $7.2 million for 2018. The Company’s primary source of interest income is from loans receivable. Interest income from loans receivable was $5.4 million for the year ended December 31, 2019, and the average yield earned on loans receivable was 5.07%.Interest income from loans for the year ended December 31, 2018, was $5.3 million. Interest income on investment securities was $1.8 million for the years ended December 31, 2019 and December 31, 2018. The average yield on interest-earning assets was 3.77% in 2019 and 3.70% in 2018.

Interest expense totaled $1,971,000 and $1,274,000 for the years ended December 31, 2019 and 2018, respectively. The increase in interest expense during 2019 was due to the increase in deposit balances and an increase in average cost of funds from .71% to 1.08%.

Net interest income was $5.6 million and $5.9 million for the years ended December 31, 2019 and 2018. The net interest spread for 2019 was 2.69% compared to 2.99% in 2018. The ratio of average interest-earning assets to average interest-bearing liabilities increased slightly to 109.66% in 2019 from 108.76% in 2018. The Company's net interest margin decreased in 2019 to 2.79% from 3.04% in 2018.

The provision for loan losses was $0 in 2019 and 2018. The amount of provision for any period is determined as of the end of the period based on a comparison of the amount of existing loan loss reserves with management's analysis of various risk factors that affect the loan portfolio. At December 31, 2019, the ratio of the allowance to impaired loans was 54.05%.

Noninterest income for the years ended December 31, 2019 and 2018 was $528,000 and $563,000, respectively. Noninterest income consists primarily of customer service fees related to customers' deposit accounts, loan service charges, and increases in the cash surrender value of life insurance.

Noninterest expense for the years ended December 31, 2019 and 2018 was $4.3 million and $4.2 million, respectively. Noninterest expense consists primarily of compensation and benefits, occupancy and equipment, federal deposit insurance premiums and data processing fees.

The Company's operating efficiency, measured by its efficiency ratios (noninterest expense divided by the total of net interest income and noninterest income), for the years ended December 31, 2019 and 2018 was 69.91% and 65.01%.

The Company's effective tax rate was 18.31% and 19.28% for the years ended December 31, 2019 and 2018, respectively.

Sources of Capital and Liquidity

The Company has historically maintained substantial levels of capital. The assessment of capital adequacy depends on several factors, including asset quality, earnings trends, liquidity and economic conditions. The Company seeks to maintain high levels of regulatory capital to give the Company maximum flexibility in the changing regulatory environment and to respond to changes in market and economic conditions. These levels of capital have been achieved through consistent earnings enhanced by low levels of noninterest expense and have been maintained at those high levels as a result of its policy of moderate growth generally confined to its market area. Average equity to average total assets at December 31, 2019 and 2018 was 11.58% and 11.06%, respectively. At December 31, 2019, the Bank exceeded all current regulatory capital requirements and met the definition of a "well capitalized" institution, the highest regulatory category.

The Company seeks to maintain a relatively high level of liquidity in order to retain flexibility in terms of lending and investment opportunities and deposit pricing, and in order to meet funding needs of deposit outflows and loan commitments. Historically, the Company has been able to meet its liquidity demands through internal sources of funding.

The Company's most liquid assets are cash and amounts due from depository institutions, which are short-term highly liquid investments with original maturities of less than three months that are readily convertible to known amounts of cash. The levels of these assets are dependent on its operating, financing and investing activities during any given period. At December 31, 2019 and 2018, cash and amounts due from depository institutions totaled $15.8 million and $8.7 million, respectively.

The Company's primary sources of funds are deposits and proceeds from principal and interest payments on loans and investment securities. While scheduled principal repayments on loans and investment securities are a relatively predictable source of funds, deposit flows and loan and investment securities prepayments are greatly influenced by general interest rates, economic conditions, competition and other factors. The Company does not solicit deposits outside of its market area through brokers or other financial institutions.

The Company has also designated all of its investment securities as available for sale in order to meet liquidity demands. At December 31, 2019, it had designated securities with a fair value of $78.9 million as available for sale. In addition to internal sources of funding, the Company, as a member of the FHLB of Cincinnati, has substantial borrowing authority with the FHLB. The Company's use of a particular source of funds is based on need, comparative total costs and availability.

At December 31, 2019, the Company had commitments of approximately $5.2 million in undisbursed portions of construction loans, unused lines of credit and outstanding letters of credit. At the same date, the total amount of certificates of deposit which were scheduled to mature in one year or less was $68.9 million. The Company anticipates that it will have resources to meet its current commitments through internal funding sources described above. Historically, it has been able to retain a significant amount of its certificates of deposit as they mature.

Selected Ratios

	At or for the Year Ended December 31,				
	2019	2018	2017	2016	2015
Performance Ratios:					
Return on average assets (net income divided by average total assets)	0.72%	0.90%	0.61%	0.75%	0.86%
Return on average equity (net income divided by average equity)	6.21%	8.14%	5.70%	7.18%	8.33%
Dividend payout ratio (dividends per share divided by earnings per share)	31.25%	24.88%	36.30%	29.21%	25.63%
Interest rate spread (combined weighted average interest rate earned less combined weighted average interest rate cost)	2.69%	2.99%	3.03%	2.93%	3.04%
Net interest margin (net interest income divided by average interest earning assets)	2.79%	3.04%	3.08%	2.98%	3.09%
Ratio of average interest-earning assets to average interest-bearing liabilities	109.66%	108.76%	108.80%	108.92%	108.52%
Ratio of noninterest expense to average total assets	2.05%	2.07%	2.07%	2.06%	1.96%
Efficiency ratio (noninterest expense divided by total of net interest income and noninterest income)	69.91%	65.01%	64.99%	66.04%	61.01%
Asset Quality Ratios:					
Impaired assets to total assets at end of period	1.31%	1.66%	1.25%	1.05%	1.30%
Impaired loans to total loans at end of period	2.51%	3.19%	2.19%	2.06%	2.36%
Allowance for loan losses to total loans at end of period	1.36%	1.50%	1.72%	1.93%	2.13%
Allowance for loan losses to impaired loans at end of period	54.05%	46.94%	78.32%	93.43%	90.14%
Provision for loan losses to total loans	0.00%	0.00%	0.00%	0.00%	0.00%
Net charge-offs to average loans outstanding	0.10%	0.18%	0.10%	0.19%	0.14%
Capital Ratios:					
Equity to total assets at end of period	12.00%	11.15%	10.97%	10.54%	10.45%
Average equity to average assets	11.58%	11.06%	10.75%	10.50%	10.31%
Stock Price (last trade prior to December 31):	$ 23.17	$ 21.00	$ 21.60	$ 19.00	$ 17.75

UNITED TENNESSEE BANKSHARES, INC.
AND SUBSIDIARY

Newport, Tennessee

CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER INFORMATION

December 31, 2019, 2018 and 2017

PUGH
CPAs

PUGH CPAs

PUGH & COMPANY, P.C.
315 NORTH CEDAR BLUFF ROAD, SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
FAX 865-769-1660
www.pughcpas.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Senior Management
United Tennessee Bankshares, Inc. and Subsidiary
Newport, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of United Tennessee Bankshares, Inc. and its subsidiary, (the " Company"), which comprise the consolidated statements of financial condition as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2019, 2018 and 2017, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Tennessee Bankshares, Inc. and its subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years ended December 31, 2019, 2018 and 2017, in accordance with accounting principles generally accepted in the United States of America.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
March 27, 2020

UNITED TENNESSEE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

As of December 31,	2019	2018
ASSETS		
Cash and Amounts Due from Depository Institutions	$ 15,754,992	$ 8,684,024
Interest-Bearing Deposits in Other Banks	1,345,000	5,598,000
Investment Securities Available for Sale, at Fair Value	78,925,776	78,441,557
Loans Receivable, Net	106,346,813	103,220,417
Equity Securities, at Cost	1,226,475	1,218,975
Premises and Equipment, Net	2,385,703	2,481,442
Accrued Interest Receivable	796,464	806,524
Foreclosed Real Estate	74,387	68,471
Cash Surrender Value of Life Insurance	4,503,305	4,438,600
Deferred Income Tax Asset	372,773	872,899
Prepaid Expenses and Other Assets	129,623	120,044
TOTAL ASSETS	$ 211,861,311	$ 205,950,953
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand	$ 83,595,034	$ 82,181,744
Term	100,859,672	98,829,331
Total Deposits	184,454,706	181,011,075
Accrued Interest Payable	25,040	24,886
Accrued Income Taxes	3,448	39,404
Accrued Benefit Plan Liabilities	1,629,072	1,616,877
Other Liabilities	330,411	289,636
Total Liabilities	186,442,677	182,981,878
SHAREHOLDERS' EQUITY		
Common Stock - No Par Value, Authorized 20,000,000 Shares; Issued 851,709 Shares in 2019 (849,309 Shares in 2018); Outstanding 851,709 Shares in 2019 (849,309 Shares in 2018)	4,566,724	4,512,822
Retained Earnings	20,825,689	19,792,067
Accumulated Other Comprehensive Income (Loss)	26,221	(1,335,814)
Total Shareholders' Equity	25,418,634	22,969,075
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 211,861,311	$ 205,950,953

UNITED TENNESSEE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31,	2019	2018	2017
INTEREST INCOME			
Loans	$ 5,389,277	$ 5,289,349	$ 5,250,204
Investment Securities	1,806,678	1,785,623	1,659,640
Other Interest-Earning Assets, Net	359,000	146,000	67,090
Total Interest Income	7,554,955	7,220,972	6,976,934
INTEREST EXPENSE			
Deposits	1,971,232	1,274,323	1,033,138
NET INTEREST INCOME	5,583,723	5,946,649	5,943,796
PROVISION FOR LOAN LOSSES	0	0	0
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,583,723	5,946,649	5,943,796
NONINTEREST INCOME			
Deposit Account Service Charges	349,397	359,326	311,120
Loan Service Charges and Fees	15,559	28,976	39,086
Net Gain (Loss) on Sales of Investment Securities Available for Sale	0	0	3,774
Gain (Loss) on Sales of Premises and Equipment	2,558	0	0
Increase in Cash Surrender Value of Life Insurance	64,705	69,502	23,388
Other	95,283	105,231	91,138
Total Noninterest Income	527,502	563,035	468,506
NONINTEREST EXPENSE			
Compensation and Benefits	2,512,382	2,420,765	2,380,364
Occupancy and Equipment	482,840	496,087	444,723
Federal Deposit Insurance and Regulatory Assessments	99,621	139,013	142,415
Data Processing Fees	449,700	449,947	464,896
Advertising and Promotion	118,049	88,005	83,129
(Gain)/Loss on Foreclosed Real Estate	(6,792)	7,771	30,980
Other	616,700	630,044	621,498
Total Noninterest Expense	4,272,500	4,231,632	4,168,005
INCOME BEFORE INCOME TAXES	1,838,725	2,278,052	2,244,297
INCOME TAXES	(336,663)	(439,101)	(1,010,765)
NET INCOME	$ 1,502,062	$ 1,838,951	$ 1,233,532
EARNINGS PER SHARE	$ 1.76	$ 2.17	$ 1.46

The accompanying notes are an integral part of these consolidated financial statements.

UNITED TENNESSEE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31,	2019	2018	2017
NET INCOME	$ 1,502,062	$ 1,838,951	$ 1,233,532
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Unrealized Gains (Losses) on Investment Securities Available for Sale	1,844,077	(900,620)	424,120
Reclassification Adjustment for (Gains) Losses Included in Net Income	0	0	3,774
Income Taxes Related to Unrealized Gains/Losses on Investment Securities Available for Sale	(482,042)	235,422	(162,599)
Other Comprehensive Income (Loss), Net of Tax	1,362,035	(665,198)	265,295
COMPREHENSIVE INCOME	$ 2,864,097	$ 1,173,753	$ 1,498,827

The accompanying notes are an integral part of these consolidated financial statements.

UNITED TENNESSEE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Three Years Ended December 31, 2019

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances, January 1, 2016	$ 4,393,270	$ 17,519,813	$ (828,227)	$ 21,084,856
Net Income	0	1,233,532	0	1,233,532
Issuance of Common Stock	96,152	0	0	96,152
Dividends Paid	0	(449,286)	0	(449,286)
Reclassification of Income Tax Effects of the Tax Cuts and Jobs Act	0	107,684	(107,684)	0
Other Comprehensive Income (Loss)	0	0	265,295	265,295
Balances, December 31, 2017	4,489,422	18,411,743	(670,616)	22,230,549
Net Income	0	1,838,951	0	1,838,951
Issuance of Common Stock	23,400	0	0	23,400
Dividends Paid	0	(458,627)	0	(458,627)
Other Comprehensive Income (Loss)	0	0	(665,198)	(665,198)
Balances, December 31, 2018	4,512,822	19,792,067	(1,335,814)	22,969,075
Net Income	0	1,502,062	0	1,502,062
Issuance of Common Stock	45,624	0	0	45,624
Dividends Paid	0	(468,440)	0	(468,440)
Stock-Based Compensation	8,278	0	0	8,278
Other Comprehensive Income (Loss)	0	0	1,362,035	1,362,035
Balances, December 31, 2019	$ 4,566,724	$ 20,825,689	$ 26,221	$ 25,418,634

The accompanying notes are an integral part of these consolidated financial statements.

UNITED TENNESSEE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2019	2018	2017
OPERATING ACTIVITIES			
Net Income	$ 1,502,062	$ 1,838,951	$ 1,233,532
Adjustments to Reconcile Net Income to Net			
Cash Provided by Operating Activities:			
Depreciation	138,972	137,298	130,756
Stock-Based Compensation	8,278	0	0
Amortization of Investment Securities Premiums and			
Discounts, Net	1,000,908	980,617	981,033
Increase (Decrease) in Unearned Loan Fees	1,986	3,780	19,705
Net Loss (Gain) on Sales of Foreclosed Real Estate	(5,949)	(22,593)	(24,529)
Write-downs of Foreclosed Real Estate	0	0	28,260
Net Loss (Gain) on Sales of Premises and Equipment	(2,558)	0	0
Increase in Cash Surrender Value of Life Insurance	(64,705)	(69,502)	(23,388)
Net (Gain) Loss on Sales of Investment Securities			
Available for Sale	0	0	(3,774)
Deferred Income Tax (Benefit)	18,084	132,096	377,529
(Increase) Decrease in:			
Accrued Interest Receivable	10,060	20,989	(52,703)
Prepaid Expenses and Other Assets	(9,579)	127,334	(124,520)
Increase (Decrease) in:			
Accrued Interest Payable	154	407	(52)
Accrued Income Taxes	(35,956)	32,499	(116,452)
Accrued Benefit Plan Liabilities	12,195	(278,068)	43,960
Other Liabilities	40,775	43,067	21,033
Total Adjustments	1,112,665	1,107,924	1,256,858
Net Cash Provided by (Used in) Operating Activities	2,614,727	2,946,875	2,490,390
INVESTING ACTIVITIES			
Purchase of Investment Securities Available for Sale	(16,215,913)	(6,948,566)	(15,450,292)
Proceeds from Sales of Investment Securities			
Available for Sale	0	0	3,489,131
Proceeds from Maturities and Calls of Investment Securities			
Available for Sale	5,920,000	2,960,000	4,825,000
Principal Payments Received on Investment Securities			
Available for Sale	10,654,863	9,226,213	8,847,605
Purchase of Equity Securities	(7,500)	0	(9,425)
Net (Increase) Decrease in Interest-Bearing			
Deposits in Other Banks	4,253,000	(3,506,000)	2,241,000
Net (Increase) Decrease in Loans	(3,302,219)	(2,803,078)	(6,699,688)
Purchases of Premises and Equipment	(45,675)	(41,440)	(24,559)
Proceeds from Sales of Premises and Equipment	5,000	0	0
Proceeds from Sales of Foreclosed Real Estate	173,870	154,705	238,776
Purchase of Bank Owned Life Insurance	0	0	(2,000,000)
Net Cash Provided by (Used in) Investing Activities	1,435,426	(958,166)	(4,542,452)

The accompanying notes are an integral part of these consolidated financial statements.

UNITED TENNESSEE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended December 31,	2019	2018	2017
FINANCING ACTIVITIES			
Dividends Paid	(468,440)	(458,627)	(449,286)
Proceeds from Issuance of Common Stock	45,624	23,400	96,152
Net Increase (Decrease) in Deposits	3,443,631	2,735,683	1,466,259
Net Cash Provided by (Used in) Financing Activities	3,020,815	2,300,456	1,113,125
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,070,968	4,289,165	(938,937)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,684,024	4,394,859	5,333,796
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 15,754,992	$ 8,684,024	$ 4,394,859
Supplementary Disclosures of Cash Flow Information:			
Cash Paid During the Year for:			
Interest	$ 1,971,078	$ 1,273,916	$ 1,033,190
Income Taxes	$ 339,098	$ 211,408	$ 825,870
Supplementary Disclosures of Noncash Investing Activities:			
Acquisition of Foreclosed Real Estate	$ 173,837	$ 199,455	$ 637,689
Sale of Foreclosed Real Estate by Origination of Mortgage Loans	$ 0	$ 303,023	$ 215,981
Change in Unrealized Gain/Loss on Investment Securities Available for Sale	$ 1,844,077	$ (900,620)	$ 427,894
Change in Deferred Income Taxes Associated with Unrealized Gain/Loss on Investment Securities Available for Sale	$ 482,042	$ (235,422)	$ 162,599
Change in Net Unrealized Gain/Loss on Investment Securities Available for Sale	$ 1,362,035	$ (665,198)	$ 265,295

The accompanying notes are an integral part of these consolidated financial statements.

UNITED TENNESSEE BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019, 2018 and 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles - The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Financial Accounting Standards Board (FASB).

Basis of Consolidation - On January 1, 1998, Newport Federal Savings and Loan Association converted from a mutual savings association to a capital stock savings bank, changed its name to Newport Federal Bank and was simultaneously acquired by its holding company, United Tennessee Bankshares, Inc. (“Company”). See Note 18 for additional information concerning the Association's stock conversion. The consolidated financial statements include the accounts of United Tennessee Bankshares, Inc. and its wholly owned subsidiary, Newport Federal Bank (“Bank”). All intercompany accounts have been eliminated.

Nature of Operations - The Bank provides a variety of financial services to individuals and corporate customers through its three offices in Newport, Tennessee. The Bank's primary deposit products are interest-bearing checking and savings accounts and certificates of deposit. Its primary lending products are one-to-four family first mortgage loans.

Consolidated Statement of Comprehensive Income - The objective of this statement is to report a measure of all changes in equity of an enterprise that results from transactions and other economic events of the period other than transactions with owners. Items included in comprehensive income include revenues, gains and losses that under accounting principles generally accepted in the United States of America are directly charged to equity. Examples include foreign currency translations, pension liability adjustments and net unrealized gains and losses on investment securities available for sale.

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the valuation of foreclosed real estate (see below).

Cash and Cash Equivalents - Cash and cash equivalents include "Cash and Amounts Due from Depository Institutions."

Cash and Amounts Due from Depository Institutions - Cash and amounts due from depository institutions include the following approximate amounts on deposit with the Federal Home Loan Bank of Cincinnati (FHLB) as of December 31:

	2019	2018
Unrestricted Deposits at FHLB	$ 14,385,623	$ 4,818,663

Interest-Bearing Deposits in Other Banks - These deposits mature within one to two years, are covered by FDIC insurance at correspondent banks and are carried at cost, which approximates estimated fair value. As of December 31, 2018 these deposits include a $5,000,000 term deposit held with the Federal Home Loan Bank of Cincinnati (FHLB).

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities - The Bank has classified all its investment securities in the available for sale category. These securities are carried at estimated fair value (see Note 19). Securities may be sold in response to changes in interest rates, liquidity needs, or for other purposes. Any unrealized gain or loss is reported in the consolidated statements of comprehensive income, net of any deferred tax effect. Realized gains or losses on the sales of securities are based on the net proceeds and amortized cost of the securities sold, using the specific identification method. See Note 2 for additional information on investment securities.

Equity Securities, at Cost - The Bank maintains a required investment in the Federal Home Loan Bank ("FHLB") of Cincinnati totaling $1,125,700, which is carried at cost and evaluated for impairment. The investment in FHLB stock is in part based on the amount of borrowings from the FHLB (see Note 8). The Bank also has stock in its data processing provider at a cost of $65,000 as well as stock in Bankers Title of East Tennessee, LLC at a cost of $35,775. These investments do not have readily determinable fair values, and the Bank has elected to account for them at cost minus impairment, if any, with adjustments to fair value when there are observable price changes.

Allowance for Loan and Lease Losses - The allowance for loan and lease losses (ALLL) is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated future cash flows. The ALLL is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Because of uncertainties associated with regional economic conditions, collateral values and future cash flows on impaired loans, it is reasonably possible that management's estimate of credit losses inherent in the loan portfolio and the related ALLL may change materially in the near term. In addition, regulatory agencies, as an integral part of their examination process, periodically review the ALLL. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the ALLL may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated. See Note 4 for more information.

Loan Fees - Loan fees, net of estimated initial direct costs related to initiating and closing long-term mortgage loans have been deferred and are being amortized into interest income over the contractual lives of the loans as an adjustment of yield, using the level yield method.

Recognition of Interest on Loans - Interest on loans is calculated using the simple interest method on the principal outstanding. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. Management reviews all loans that are contractually past-due 90 days to determine if accrual of interest should be discontinued. Loans are returned to accrual status when all amounts contractually due are brought current and future payments are reasonably assured. Interest payments received on impaired loans are recorded as interest income unless collection of the loan is doubtful, in which case payments are recorded as a reduction of principal.

Premises and Equipment, Net - Premises and equipment are stated at cost less accumulated depreciation. Depreciation, computed principally using the straight-line method for financial accounting purposes and accelerated methods for income tax reporting purposes, is based on estimated useful lives of three to thirty-nine years.

Foreclosed Real Estate - Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value less costs to sell at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expenses. Expenditures for improvements are added to the carrying amount of the property if they increase the fair value of the property. The Bank's historical average holding period for such properties is approximately 12-18 months.

Advertising and Promotion - Advertising and promotion costs are expensed as incurred.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes - Income taxes are provided for the tax effects of the transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of investment securities, allowance for loan losses, deferred loan fees and other deferred items and accumulated depreciation for financial accounting and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. An appropriate provision is made in the consolidated financial statements for deferred income taxes in recognition of these differences.

Earnings Per Share - Earnings per share is based on the weighted average number of shares outstanding of 851,505, 849,115 and 847,119 for 2019, 2018 and 2017, respectively. The Company did not have any dilutive securities during these periods.

Adoption of New Accounting Standards - On January 1, 2019, the Company adopted ASU 2017-08, *Receivables–Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities,* which shortens the amortization period for certain callable debt securities held at a premium to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The adoption of this guidance did not result in a material impact on the consolidated financial statements.

During 2019, the Company adopted FASB's Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)* and all subsequent amendments to the ASU (collectively, "ASC 842"). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The Company adopted ASC 842 on January 1, 2019 using the modified retrospective approach. The adoption of ASC 842 did not result in a change to the Company's lease expense recognition; as such, no cumulative effect adjustment was recorded.

Recent Accounting Pronouncements - In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The FASB has also since issued several updates to ASU 2016-13. The ASU requires financial assets measured at amortized cost (including loans and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The adoption of ASU 2018-13 is not expected to have a material impact on the consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. This ASU is effective for the Company beginning on January 1, 2022. The adoption of ASU 2019-12 is not expected to have a significant impact on the Company's consolidated financial statements.

Evaluation of Subsequent Events - Management has evaluated subsequent events through March 27, 2020, which is the date the consolidated financial statements were available to be issued. See subsequent event Note 20.

NOTE 2 - INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities are as follows:

	Investment Securities Available for Sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2019				
Debt Securities:				
Obligations of U.S. Government Corporations and Agencies	$ 16,161,152	$ 15,146	$ (187,692)	$ 15,988,606
Residential Mortgage-Backed and Related Securities	23,900,225	59,939	(168,858)	23,791,306
Corporate Debt Securities	10,184,588	154,136	(38,171)	10,300,553
Obligations of States and Political Subdivisions	28,644,311	234,040	(33,040)	28,845,311
Total Debt Securities	$ 78,890,276	$ 463,261	$ (427,761)	$ 78,925,776
December 31, 2018				
Debt Securities:				
Obligations of U.S. Government Corporations and Agencies	$ 19,074,350	$ 8,494	$ (215,494)	$ 18,867,350
Residential Mortgage-Backed and Related Securities	23,981,641	2,157	(649,734)	23,334,064
Corporate Debt Securities	9,434,898	17,061	(216,800)	9,235,159
Obligations of States and Political Subdivisions	27,759,245	46,552	(800,813)	27,004,984
Total Debt Securities	$ 80,250,134	$ 74,264	$ (1,882,841)	$ 78,441,557

Gross realized gains and losses from sales of investment securities classified as available for sale are as follows:

	For the Years Ended December 31,		
	2019	2018	2017
Gross Realized Gains	$ 0	$ 0	$ 10,748
Gross Realized Losses	0	0	(6,974)
	$ 0	$ 0	$ 3,774

The amortized cost and estimated fair value of debt securities available for sale as of December 31, 2019 by contractual maturity, are as follows:

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in One Year or Less	$ 4,095,600	$ 4,104,194
Due After One Year To Five Years	12,239,654	12,350,711
Due After Five Years To Ten Years	10,877,895	10,968,153
Due After Ten Years	11,615,750	11,722,806
	38,828,899	39,145,864
Mortgage-Backed and SBA Pooled Securities	40,061,377	39,779,912
	$ 78,890,276	$ 78,925,776

Expected maturities can differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

NOTE 2 - INVESTMENT SECURITIES (Continued)

Investments with book values of approximately $46,091,000 and $44,901,000 (which approximates market values) as of December 31, 2019 and 2018, respectively, were pledged to secure deposits of public funds.

Investment securities with gross unrealized losses at December 31, 2019 and 2018, aggregated by investment category and length of time that individual securities have been in a continuous loss position are as follows:

	Less than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
As of December 31, 2019						
Debt Securities:						
Obligations of U.S. Government Corporations and Agencies	$ 3,277,010	$ (10,578)	$ 10,216,347	$ (177,114)	$ 13,493,357	$ (187,692)
Residential Mortgage-Backed and Related Securities	5,938,432	(25,452)	12,615,066	(143,406)	18,553,498	(168,858)
Corporate Debt Securities	499,643	(357)	1,701,113	(37,814)	2,200,756	(38,171)
Obligations of States and Political Subdivisions	3,324,556	(15,548)	2,812,652	(17,492)	6,137,208	(33,040)
Total Debt Securities	$ 13,039,641	$ (51,935)	$ 27,345,178	$ (375,826)	$ 40,384,819	$ (427,761)
As of December 31, 2018						
Debt Securities:						
Obligations of U.S. Government Corporations and Agencies	$ 7,445,389	$ (97,694)	$ 7,932,833	$ (117,800)	$ 15,378,222	$ (215,494)
Residential Mortgage-Backed and Related Securities	1,767,402	(11,715)	21,300,508	(638,019)	23,067,910	(649,734)
Corporate Debt Securities	2,148,045	(105,957)	3,911,853	(110,843)	6,059,898	(216,800)
Obligations of States and Political Subdivisions	3,196,324	(11,690)	16,592,988	(789,123)	19,789,312	(800,813)
Total Debt Securities	$ 14,557,160	$ (227,056)	$ 49,738,182	$ (1,655,785)	$ 64,295,342	$ (1,882,841)

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (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, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2019, the 88 investment securities with unrealized losses have depreciated approximately 1% from the Bank's amortized cost basis. Except for the corporate debt securities, these securities are guaranteed by U.S. government agencies or corporations or issued by state and local governments. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

Since management has the ability to hold all of its investment securities until maturity, or for the foreseeable future if classified as available for sale, no declines in fair value are deemed to be other-than-temporary. Accordingly, management has not recorded any permanent write downs in the carrying value of its investment securities.

NOTE 3 - LOANS RECEIVABLE

The Bank provides mortgage and consumer lending services to individuals primarily in the East Tennessee area. Loans receivable are summarized as follows:

	As of December 31, 2019	2018
Loans Secured by Real Estate		
Residential	$ 87,946,577	$ 85,329,872
Construction and Land Development	5,790,467	7,382,951
Commercial Properties	11,969,520	9,147,238
Total Loans Secured by Real Estate	105,706,564	101,860,061
Commercial and Industrial Loans	270,809	861,988
Consumer Loans	2,136,936	2,373,979
	2,407,745	3,235,967
Net Deferred Loan Origination Fees	(306,809)	(304,823)
Allowance for Loan and Lease Losses (see Note 4)	(1,460,687)	(1,570,788)
	(1,767,496)	(1,875,611)
Net Loans	$ 106,346,813	$ 103,220,417

In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, lines of credit and commercial letters of credit. These financial instruments are recorded in the consolidated financial statements when they become payable. Unadvanced lines of credit and commitments to extend credit were approximately $5,224,000 and $5,898,000 at December 31, 2019 and 2018. Outstanding letters of credit were $64,000 and $56,000 at December 31, 2019 and 2018.

It is the Bank's policy to extend loans to directors, officers and their affiliates subject to regulatory requirements, established internal guidelines and according to the same basic terms as loans to other customers. However, each specific director or executive officer loan must be submitted to and approved by the Bank's Board of Directors. The amount of outstanding loans to directors, officers and their affiliates at December 31, 2019 and 2018 totaled approximately $1,345,000 and $1,035,000, respectively.

NOTE 4 - LOAN QUALITY

Management performs a quarterly evaluation of the adequacy of the allowance for loan and lease losses (ALLL). Consideration is given to a variety of factors in establishing this estimate including, but not limited to, current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers' actual or perceived financial and managerial strengths, the adequacy of the underlying collateral (if collateral dependent) and other relevant factors. It is management's general practice to obtain a new appraisal or asset valuation for any loan that it has rated as substandard or lower, including loans on nonaccrual of interest. Management, at its discretion, may determine that additional adjustments to the appraisal or valuation are required. Valuation adjustments will be made as necessary based on other factors including, but not limited to, the economy, maintenance and general condition of the collateral, industry, type of property/equipment/vehicle and the knowledge management has about a particular situation. In addition, the cost to sell or liquidate the collateral is also estimated when determining the realizable value to the Bank.

Certain factors involved in the evaluation are inherently subjective, as they require material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

NOTE 4 - LOAN QUALITY (Continued)

For the purposes of calculating the ALLL, the Bank segregates its loan portfolio into the following segments based primarily on the type of supporting collateral: construction loans, residential real estate, commercial real estate, commercial and industrial loans and loans to individuals for consumer purposes. The construction segment contains loans to individuals to construct their own homes as well as loans to contractors and developers to construct homes or buildings for resale or develop residential or commercial real estate. The construction segment has its own unique risk characteristics including the need to periodically inspect the property during construction to ensure the funds disbursed are used properly and the real estate held for collateral maintains its value in relation to the amount owed on it. The construction segment also has risk characteristics related to the probability of eventual sale of the finished project or the ability to generate sufficient rental income to service the debt. The residential real estate segment is segregated from the commercial real estate segment due to the obvious differences in inherent risks in each of these types of properties and borrower types. Commercial and industrial loans can be secured by all types of collateral owned by local small and medium-sized businesses, or they can be unsecured. These loans have inherent risks associated with each particular business and its ability to service its debt through the company's regular operations. The collateral associated with this loan type is usually unique to the industry in which the entity operates and is not necessarily marketable to a wide range of other businesses. Loans to individuals can be secured by vehicles, other consumer goods, or they could be unsecured. They have risk characteristics including the volatility of the collateral's value and the inherent risk of loaning on collateral that is mobile and subject to damage without proper insurance coverage. Unsecured loans have the risk characteristics of not being collateralized and relying on the integrity and ability of the borrower to repay them from discretionary funds. The loan portfolio is also evaluated by the risk ranking assigned to the loan by the lending officer and re-assessed periodically by the loan review function.

The analysis for determining the ALLL is consistent with guidance set forth in generally accepted accounting principles (GAAP) and the Interagency Policy Statement on the Allowance for Loan and Lease Losses. The analysis has two components: specific and general allocations. The specific component addresses specific reserves established for loans that were individually evaluated and deemed to be impaired. For these impairment evaluations, the Bank assesses loans with balances exceeding $200,000 that show signs of possible impairment based on payment status, internal risk rating, or other credit quality factors. A loan is considered to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all interest and principal payments due according to the originally contracted terms of the loan agreement. Expected cash flow or collateral values discounted for market conditions and selling costs are used to establish specific allocations. Loans measured for the ALLL under the specific allocation method normally tend to be impaired loans secured by real estate loans.

The general component addresses the reserves established for pools of homogenous loans, including primarily non-classified loans. The general component includes a quantitative and qualitative analysis. The quantitative analysis includes the Bank's historical loan loss experience (weighted towards most recent periods) and other factors derived from economic and market conditions that have been determined to have an effect on the probability and magnitude of a loss. The qualitative analysis utilizes factors such as: loan volume, management characteristics, levels of nonperforming loans, results of the loan review process, specific credit concentrations and legal and regulatory issues. Input for these factors is determined on the basis of management's observation, judgment and experience. As a result of this input, additional loss percentages can be assigned to each pool of loans.

The total allowance reflects the Bank's estimate of loan losses inherent in the loan portfolio and management considers the ALLL to be adequate to cover losses inherent in the portfolio as of December 31, 2019 and 2018.

NOTE 4 - LOAN QUALITY (Continued)

The following tables present, by loan segment, the ALLL and changes to the ALLL for the years ended December 31, 2019 and 2018.

(Dollars in thousands)	Residential Real Estate	Construction & Land	Commercial Real Estate	Commercial & Industrial	Consumer	Unallocated	Total
Allowance at December 31, 2017	$ 1,396	$ 103	$ 60	$ 9	$ 76	$ 108	$ 1,752
Charge-offs	(84)	0	0	(87)	(31)	0	(202)
Recoveries	2	4	0	0	15	0	21
Provision	(266)	(33)	77	120	(27)	129	0
Allowance at December 31, 2018	1,048	74	137	42	33	237	1,571
Charge-offs	(44)	(100)	0	0	(14)	0	(158)
Recoveries	2	42	0	0	4	0	48
Provision	31	45	43	(34)	7	(92)	0
Allowance at December 31, 2019	$ 1,037	$ 61	$ 180	$ 8	$ 30	$ 145	$ 1,461

The following tables present, by loan segment, loans that were evaluated for the ALLL under the specific reserve (individually) and those that were evaluated under the general reserve (collectively) as of December 31, 2019 and 2018.

(Dollars in thousands)	Residential Real Estate	Construction & Land	Commercial Real Estate	Commercial & Industrial	Consumer	Unallocated	Total
December 31, 2019							
Loans Evaluated for Allowance:							
Individually	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Collectively	87,946	5,790	11,970	271	2,137	0	108,114
Total	$ 87,946	$ 5,790	$ 11,970	$ 271	$ 2,137	$ 0	$ 108,114
Allowance Established for Loans Evaluated:							
Individually	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Collectively	1,037	61	180	8	30	145	1,461
Allowance at December 31, 2019	$ 1,037	$ 61	$ 180	$ 8	$ 30	$ 145	$ 1,461
December 31, 2018							
Loans Evaluated for Allowance:							
Individually	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Collectively	85,330	7,383	9,147	862	2,374	0	105,096
Total	$ 85,330	$ 7,383	$ 9,147	$ 862	$ 2,374	$ 0	$ 105,096
Allowance Established for Loans Evaluated:							
Individually	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Collectively	1,048	74	137	42	33	237	1,571
Allowance at December 31, 2018	$ 1,048	$ 74	$ 137	$ 42	$ 33	$ 237	$ 1,571

The Bank did not have any loans as of December 31, 2019 and 2018 that were individually evaluated and deemed to be impaired.

NOTE 4 - LOAN QUALITY (Continued)

The following tables present the aging of the loan portfolio at December 31:

(Dollars in thousands)	Current	Past Due Loans 30-89 Days	Past Due Loans 90 + Days	Past Due Loans Total	Non-Accrual	Total Loans
December 31, 2019						
Residential Real Estate:						
1-4 Family First Liens and Farmland	$ 81,832	$ 2,925	$ 0	$ 2,925	$ 741	$ 85,498
1-4 Family Junior Liens	470	0	0	0	0	470
MultiFamily	1,978	0	0	0	0	1,978
Total	84,280	2,925	0	2,925	741	87,946
Construction & Land:						
1-4 Family	173	0	0	0	0	173
Land & Other	5,590	16	0	16	11	5,617
Total	5,763	16	0	16	11	5,790
Commercial Real Estate:						
Owner-Occupied Nonfarm Properties	7,698	48	0	48	0	7,746
Other Nonfarm Properties	4,224	0	0	0	0	4,224
Total	11,922	48	0	48	0	11,970
Commercial & Industrial	245	26	0	26	0	271
Consumer:						
Automobiles	697	26	0	26	0	723
Other	1,405	9	0	9	0	1,414
Total	2,102	35	0	35	0	2,137
Total	$ 104,312	$ 3,050	$ 0	$ 3,050	$ 752	$ 108,114

(Dollars in thousands)	Current	Past Due Loans 30-89 Days	Past Due Loans 90 + Days	Past Due Loans Total	Non-Accrual	Total Loans
December 31, 2018						
Residential Real Estate:						
1-4 Family First Liens	$ 80,164	$ 1,869	$ 0	$ 1,869	$ 890	$ 82,923
1-4 Family Junior Liens	367	0	0	0	0	367
MultiFamily	2,040	0	0	0	0	2,040
Total	82,571	1,869	0	1,869	890	85,330
Construction & Land:						
1-4 Family	1,796	0	0	0	0	1,796
Land & Other	5,435	18	0	18	134	5,587
Total	7,231	18	0	18	134	7,383
Commercial Real Estate:						
Owner-Occupied Nonfarm Properties	6,926	0	0	0	3	6,929
Other Nonfarm Properties	2,218	0	0	0	0	2,218
Total	9,144	0	0	0	3	9,147
Commercial & Industrial	862	0	0	0	0	862
Consumer:						
Automobiles	817	91	0	91	6	914
Other	1,433	27	0	27	0	1,460
Total	2,250	118	0	118	6	2,374
Total	$ 102,058	$ 2,005	$ 0	$ 2,005	$ 1,033	$ 105,096

NOTE 4 - LOAN QUALITY (Continued)

In addition to monitoring the performance status of the loan portfolio, the Bank also utilizes a risk rating scale (1 - 8) to evaluate loan asset quality. Loans that are rated 1 - 4 are classified as Pass credits. Loans rated a 5 (Special Mention) are pass credits but have been identified as credits that warrant additional attention and monitoring. Loans that are risk rated 6 or higher (Substandard, Doubtful, or Loss) are placed on the Bank's internal watch list. Loans on the watch list are adversely criticized/classified because the borrowers are experiencing weakening cash flow and there is concern that the Bank may not receive all of the remaining payments when due. If these trends continue, the Bank has an increasing likelihood that it will need to liquidate collateral or use other means for repayment. The Bank's watch list includes loans that may or may not be delinquent or on nonaccrual of interest, loans that may or may not be considered impaired, and potential problem loans. Potential problem loans are loans on the watch list that represent borrowers that may or may not be able to comply with current loan terms but exclude loans that are 90 days or more past due and nonaccrual loans. Management emphasizes early identification and monitoring of these loans to proactively minimize any risk of loss.

In the normal course of loan portfolio management, the account officer assigned to a particular relationship is responsible for reviewing the relationship monthly and assigning the appropriate risk rating based on the Bank's 8-point risk rating scale. The loan review function also assesses the risk ratings quarterly and makes recommendations for changes as needed. In the event a credit relationship is downgraded to a risk rating of 6 or higher, the relationship is reviewed no less than quarterly at the Bank's loan committee meeting.

Loans excluded from the scope of the annual review process are generally classified as pass credit until: (a) they become past due; (b) management becomes aware of deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Bank for a modification. In these circumstances, the customer relationship is specifically evaluated for potential classification as to special mention, substandard or doubtful, or could even be considered for charge-off. The Bank uses the following definitions for risk ratings:

Pass - Strong credit with no existing or known potential weaknesses deserving management’s close attention.

Special Mention - Loans included in this category are currently protected but are potentially weak. These loans constitute an undue and unwarranted credit risk but do not presently expose the Bank to a sufficient degree of risk to warrant adverse classification. As a general rule, for the purpose of calculating a loan loss reserve, loans in this category will have the historical loss reserve percentage applied and will remain in a pool with loans that are considered acceptable or better when determining the general valuation reserves. Loans classified as special mention have potential weaknesses that deserve 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 - Substandard loans are inadequately protected by the current net worth and financial capacity of the borrower or of the collateral pledged, if any. The borrower or guarantor is unwilling or unable to meet loan terms or loan covenants for the foreseeable future.

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 highly questionable or improbable, based on currently existing facts, condition and values.

Loss - Loans classified as losses are uncollectible or no longer a bankable asset. This classification does not mean that the asset has absolutely no recoverable value. Certain salvage value is inherent in these loans. Nevertheless, it is not practical or desirable to defer writing off a portion or whole of a perceived asset even though partial recovery may be collected in the future.

NOTE 4 - LOAN QUALITY (Continued)

The following tables report the internal credit rating for loans at December 31:

(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2019					
Residential Real Estate	$ 84,084	$ 1,192	$ 2,670	$ 0	$ 87,946
Construction & Land	5,651	112	27	0	5,790
Commercial Real Estate	11,970	0	0	0	11,970
Commercial & Industrial	271	0	0	0	271
Consumer	2,125	6	6	0	2,137
Total	$ 104,101	$ 1,310	$ 2,703	$ 0	$ 108,114
December 31, 2018					
Residential Real Estate	$ 82,069	$ 105	$ 3,156	$ 0	$ 85,330
Construction & Land	6,719	483	181	0	7,383
Commercial Real Estate	9,075	69	3	0	9,147
Commercial & Industrial	862	0	0	0	862
Consumer	2,323	44	7	0	2,374
Total	$ 101,048	$ 701	$ 3,347	$ 0	$ 105,096

Certain loan modifications are considered troubled debt restructurings (TDRs) when the Bank, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Bank uses various restructuring techniques, including, but not limited to, deferral of past due interest or principal, reduction of interest rates, extending maturities and modification of amortization schedules. The Bank typically does not forgive principal balances or past due interest prior to pay off or surrender of the collateral. Loans considered to be TDRs are classified as impaired loans for purposes of determination of the allowance for loans losses, until the Bank determines the loans are performing based on terms specified by the restructuring agreements. The allowance for these loans is calculated in the same manner as other impaired loans, as described above. As of December 31, 2019 and 2018, the Bank did not have any commitments to lend additional funds to borrowers whose loan terms have been modified as TDRs, nor were there any loans modified as TDRs within the previous 12 months and for which there was a payment default during the period.

The following table presents information about TDRs that were modified during the year ending December 31, 2019. No TDRs were modified during the year ending December 31, 2018:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
For the Year Ended December 31, 2019			
Troubled Debt Restructurings Modified During the Period, By Type of Modification:			
Extension of Maturity			
Residential Real Estate:			
First Liens	2	$ 178,250	$ 178,250
Consumer:			
Unsecured	1	7,240	7,240
Total		$ 185,490	$ 185,490

NOTE 5 - PREMISES AND EQUIPMENT, NET

Premises and equipment, net are summarized as follows:

	As of December 31, 2019	As of December 31, 2018
Land	$ 510,262	$ 510,262
Buildings	3,414,962	3,414,962
Furniture and Equipment	1,012,216	1,044,448
	4,937,440	4,969,672
Less Accumulated Depreciation	(2,551,737)	(2,488,230)
	$ 2,385,703	$ 2,481,442

NOTE 6 - FORECLOSED REAL ESTATE

An analysis of foreclosed real estate for the years ended December 31, 2019 and 2018 follows:

	2019	2018
Balance at Beginning of Year	$ 68,471	$ 304,151
Transfers from Loans	173,837	199,455
Foreclosed Real Estate Sold	(167,921)	(435,135)
Balance at End of Year	$ 74,387	$ 68,471

Expenses applicable to foreclosed real estate for the year ended December 31, 2019 and 2018 include the following:

	2019	2018
Net (Gain) Loss on Sales of Foreclosed Real Estate	$ (5,949)	$ (22,593)
Rental Income from Foreclosed Real Estate	(3,704)	0
Operating Expenses	2,861	30,364
	$ (6,792)	$ 7,771

NOTE 7 - DEPOSITS

A summary of deposits is as follows:

	As of December 31, 2019	As of December 31, 2018
Demand Deposits:		
Noninterest-Bearing Accounts	$ 22,489,865	$ 22,627,496
NOW Accounts	23,348,817	21,586,626
Money Market Deposit Accounts	9,891,078	9,628,584
Passbook Savings	27,865,274	28,339,038
Total Demand Deposits	83,595,034	82,181,744
Term Deposits:		
Less Than $250,000	66,908,595	66,643,913
$250,000 or More	33,951,077	32,185,418
Total Term Deposits	100,859,672	98,829,331
Total Deposits	$ 184,454,706	$ 181,011,075

Deposits in excess of $250,000 may not be federally insured, depending upon ownership.

NOTE 7 - DEPOSITS (Continued)

The scheduled maturities of certificates of deposit as of December 31, 2019 are as follows:

2020	$ 68,892,516
2021	13,748,960
2022	6,668,017
2023	6,892,838
2024	4,657,341
	$ 100,859,672

NOTE 8 - ADVANCES FROM FEDERAL HOME LOAN BANK

The Bank maintains a line of credit advance agreement with the Federal Home Loan Bank (FHLB) which allows borrowings up to approximately $8,000,000. Pursuant to the Bank's collateral agreement with the FHLB, advances are secured by the Bank's FHLB stock and qualifying first mortgage loans. There were no advances outstanding as of December 31, 2019 and 2018.

NOTE 9 - REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company’s revenue from contracts with customers in the scope of ASC 606 is recognized within noninterest income except for gains/losses on sales of foreclosed real estate, which are recorded within other noninterest expense. A description of the Company’s revenue streams accounted for under ASC 606 follows:

Service Charges on Deposit Accounts - The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed, as that is the point in time the Company fulfills the customer’s request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer’s account balance.

Interchange Income - Interchange income represents fees for standing ready to authorize and providing settlement on credit card and debit card transactions processed through the Visa© interchange network. The levels of service and structure of interchange rates are set by Visa© and can vary based on cardholder purchase volume. The Company recognizes interchange income upon settlement with the interchange network. Based on the Company’s underlying contracts, ASC 606 requires reporting network costs associated with debit card and credit card transactions netted against the related fees from such transactions. Interchange network costs reduced interchange income by $117,449, $130,159 and $122,387 for the years ended December 31, 2019, 2018 and 2017, respectively. Net interchange fees totaled $43,715, $33,093 and $20,167 for the years ended December 31, 2019, 2018 and 2017, respectively, and are reported within other noninterest income.

Gains/Losses on Sales of Foreclosed Real Estate - The Company records a gain or loss from the sale of foreclosed real estate when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of foreclosed real estate to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed real estate asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

NOTE 10 - INCOME TAXES

The Company files income tax returns in the U.S. federal jurisdiction and Tennessee state jurisdiction. The Company has not accrued or expensed any amounts for interest or penalties associated with income taxes for the years ended December 31, 2019, 2018 and 2017.

Income taxes as shown in the consolidated statements of income differ from the amounts computed using the statutory federal income tax rate as follows:

	2019		2018		2017	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Federal Income Tax at Statutory Rate	$ 386,132	21.0 %	$ 478,391	21.0 %	$ 763,061	34.0 %
State Income Tax, Net	75,638	4.1	100,717	4.4	79,226	3.5
Tax Exempt Interest	(121,439)	(6.6)	(124,124)	(5.4)	(212,497)	(9.5)
Other Nontaxable Income	(14,997)	(0.8)	(14,844)	(0.7)	(8,291)	(0.4)
Nondeductible Expenses	11,955	0.7	8,282	0.4	34,413	1.5
Change in Federal Tax Rate	0	0.0	0	0.0	354,879	15.8
Credits and Other, Net	(626)	(0.0)	(9,321)	(0.4)	(26)	(0.0)
	$ 336,663	18.3 %	$ 439,101	19.3 %	$ 1,010,765	45.0 %
Income Taxes (Benefit) Consist of :						
Current	$ 318,579		$ 307,005		$ 633,236	
Deferred Taxes (Benefit)	18,084		132,096		377,529	
	$ 336,663		$ 439,101		$ 1,010,765	

Deferred tax liabilities have been provided for taxable temporary differences related to accumulated depreciation, FHLB stock dividends and loan fees. Deferred tax assets have been provided for deductible temporary differences related to the allowance for loan losses, deferred loan fees, nonqualified retirement plans and deferred compensation plans. The net deferred tax asset in the accompanying consolidated statements of financial condition includes the following components:

	As of December 31, 2019	As of December 31, 2018
Deferred Tax Assets	$ 852,665	$ 1,343,988
Deferred Tax Liabilities	(479,892)	(471,089)
Net Deferred Tax Asset	$ 372,773	$ 872,899

Included in the 2019 deferred tax liabilities above is $9,280 of deferred tax effect on the net unrealized gains on investment securities available for sale ($472,762 in deferred tax assets on net unrealized losses in 2018).

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. This legislation reduced the federal corporate tax rate from 34% to 21% for tax years beginning after December 31, 2017. In accordance with GAAP, the Company accounted for the effects of this reduction in the tax rate on deferred taxes in the period of enactment. As a result, the Company's deferred tax assets and liabilities as of December 31, 2017 were adjusted to reflect the effect of the change in enacted tax rates, resulting in additional deferred tax expense of $354,879 for the year ending December 31, 2017.

Additionally, effective December 31, 2017, management adopted Accounting Standards Update 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. As allowed by this update, management elected to reclassify the income tax effects of the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. The amount of this reclassification was $107,684 for the year ended December 31, 2017 and is equal to the amount of additional deferred tax expense incurred during 2017 to reflect the effect of the change in enacted tax rates on the Company's deferred tax assets related to the net unrealized losses in investment securities available for sale.

NOTE 11 - REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank and Company to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier 1 Capital (as defined in the regulations) to Risk-Weighted Assets (as defined), Common Equity Tier 1 Capital (as defined) to Total Risk-Weighted Assets (as defined), and of Tier 1 Capital (as defined) to Average Assets (as defined). Management believes, as of December 31, 2019 and 2018, that the Bank and Company meet all capital adequacy requirements to which they are subject.

As of December 31, 2019 and 2018, the Bank is categorized as *well capitalized* under the regulatory framework for prompt corrective action. To be categorized as *well capitalized*, the Bank must maintain minimum Total Risk-Based, Tier I Risk-Based, Common Equity Tier 1 Risk-Based Capital, and Tier I Leverage ratios as set forth in the table below. There are no conditions or events since that date that management believes have changed the Bank's category.

The Bank and Company must also maintain a capital conservation buffer consisting of additional Common Equity Tier 1 capital greater than 2.5% of risk-weighted assets above the required minimum risk-based capital levels in order to avoid limitations on distributions, including dividend payments, and certain discretionary bonuses to executive officers. At December 31, 2019, the Bank and Company continued to exceed the minimum required capital ratios applicable to them under the capital adequacy guidelines.

In November 2019, the Office of the Comptroller, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) jointly issued a final rule that provides for a simple measure of capital adequacy for qualifying community banking organizations, consistent with section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. Under the final rule, depository institutions and depository institution holding companies that have less than $10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio (equal to tier 1 capital divided by average total consolidated assets) of greater than 9 percent, will be eligible to opt into the community bank leverage ratio (CBLR) framework. Qualifying community banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than 9 percent will be considered to have satisfied the risk-based and leverage capital requirements in the agencies' generally applicable capital rule and will be considered to have met the well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. The final rule is effective on January 1, 2020. Management anticipates they will qualify for and opt in to the new CBLR framework for both the Bank and the Company for the quarter ending March 31, 2020.

NOTE 11 - REGULATORY MATTERS (Continued)

The Company's and Bank's actual capital amounts and ratios as of December 31, 2019 and 2018 are also presented in the following table. All dollar amounts are in thousands of dollars.

	Actual		To Comply With Absolute Minimum Capital Requirements		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
Total Capital (to Risk-Weighted Assets):						
Company (Consolidated)	$ 26,646	26.6%	$ 8,010	8.0%	N/A	N/A
Bank	$ 24,966	24.9%	$ 8,010	8.0%	$ 10,013	10.0%
Common Equity Tier I Capital (to Risk-Weighted Assets):						
Company (Consolidated)	$ 25,392	25.4%	$ 4,506	4.5%	N/A	N/A
Bank	$ 23,712	23.7%	$ 4,506	4.5%	$ 6,509	6.5%
Tier I Capital (to Risk-Weighted Assets):						
Company (Consolidated)	$ 25,392	25.4%	$ 6,008	6.0%	N/A	N/A
Bank	$ 23,712	23.7%	$ 6,008	6.0%	$ 8,010	8.0%
Tier I Capital (to Average Assets):						
Company (Consolidated)	$ 25,392	11.9%	$ 8,524	4.0%	N/A	N/A
Bank	$ 23,712	11.1%	$ 8,514	4.0%	$ 10,643	5.0%
As of December 31, 2018						
Total Capital (to Risk-Weighted Assets):						
Company (Consolidated)	$ 25,477	27.3%	$ 7,474	8.0%	N/A	N/A
Bank	$ 23,957	25.6%	$ 7,474	8.0%	$ 9,343	10.0%
Common Equity Tier I Capital (to Risk-Weighted Assets):						
Company (Consolidated)	$ 24,305	26.0%	$ 4,204	4.5%	N/A	N/A
Bank	$ 22,785	24.4%	$ 4,204	4.5%	$ 6,073	6.5%
Tier I Capital (to Risk-Weighted Assets):						
Company (Consolidated)	$ 24,305	26.0%	$ 5,606	6.0%	N/A	N/A
Bank	$ 22,785	24.4%	$ 5,606	6.0%	$ 7,474	8.0%
Tier I Capital (to Average Assets):						
Company (Consolidated)	$ 24,305	11.9%	$ 8,187	4.0%	N/A	N/A
Bank	$ 22,785	11.1%	$ 8,177	4.0%	$ 10,221	5.0%

NOTE 12 - RETIREMENT PLANS

401(k) Retirement Plan - The Bank has established a 401(k) retirement plan, which allows eligible officers and employees to contribute up to the maximum allowed by law and the Plan on a tax-deferred basis. The Bank has the option, at the discretion of the Board of Directors, to make contributions to the plan. Total 401(k) retirement plan expense was $132,000, $150,000 and $135,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

NOTE 13 - STOCK PURCHASE PLANS

The Company has a Director Stock Purchase Plan and an Employee Stock Purchase Plan, which are more fully described below. Stock-based compensation cost related to those plans was $8,278 for the year ended December 31, 2019. The related income tax benefit recognized was $2,164 for 2019.

The fair value of each option award is estimated as of the date of grant for participants using a Black-Scholes valuation model using assumptions for expected volatility, term, and risk-free rate. Expected volatility is based on historical volatility of the Company's stock over similar terms. The expected term of options granted is based on the term, due to the short contractual life of the options. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Directors Stock Purchase Plan - The maximum number of shares of common stock that can be sold under this plan is 120,000 shares. As of December 31, 2019, there are 95,105 shares remaining to be issued under the plan. Each participant cannot be sold more than 1,200 shares of common stock per year, and the purchase price is 85% of the fair value of the common stock, as determined by the Board of Directors. Options to purchase shares are required to be exercised in March of each year and in the same year that they are granted.

Directors Plan Activity:		2019		2018		2017
Number of Shares Purchased		2,400		1,200		4,800
Exercise Price for Purchased Shares	$	19.01	$	19.50	$	17.17
Grant-Date Fair Value for Options Granted	$	3.45	$	3.44	$	3.03
Total Intrinsic Value for Options Exercised	$	8,064	$	4,128	$	14,542
Total Cost of Shares Purchased	$	45,624	$	23,400	$	82,416

Employees Stock Purchase Plan - The maximum number of shares of common stock that can be sold under this plan is 40,000 shares. As of December 31, 2019, there are 32,300 shares remaining to be issued under the plan. All full-time employees and certain part-time employees are eligible to purchase up to 1,200 shares per year, and the purchase price is 85% of the fair value of the common stock, as determined by the Board of Directors. Options to purchase shares are required to be exercised in the same year that they are granted and expire if not exercised by year-end.

Employees Plan Activity:		2019		2018		2017
Number of Shares Purchased		0		0		800
Exercise Price for Purchased Shares		N/A		N/A	$	17.17
Grant-Date Fair Value for Options Granted		N/A		N/A	$	3.03
Total Intrinsic Value for Options Exercised	$	0	$	0	$	2,424
Total Cost of Shares Purchased	$	0	$	0	$	13,736

NOTE 14 - DIRECTORS AND OFFICERS DEFERRED COMPENSATION

The Company maintains a deferred compensation plan whereby directors, at their option, can defer all or portions of the fees they earn each year. Fees not paid are accrued for the benefit of the directors and their accounts receive a rate equivalent to the Bank's IRA deposit account rate.

The Bank maintains an executive bonus/retention plan for certain executive officers which utilizes safety and soundness factors to compute an annual bonus based on how well the Bank performs. Prior to age 65, half of the calculated bonus is paid in cash immediately and half is deferred and paid when the officer retires at age 65. After age 65, all annual bonus amounts are paid immediately if the officer is still employed by the Bank. Reduced deferred benefits are available for officers who retire or leave the Bank after attaining age 55 and prior to age 65, and no deferred amounts are paid if the officer retires or leaves the Bank prior to age 55. The plan also includes certain death and disability benefits before retirement age is attained.

NOTE 14 - DIRECTORS AND OFFICERS DEFERRED COMPENSATION (Continued)

Activity in the plans for the years ended December 31 is as follows:

	2019	2018	2017
Balances, Beginning of Year	$ 1,263,399	$ 1,582,848	$ 1,572,457
Directors Fees Deferred During Year	42,400	42,400	50,200
Amounts Accrued and Expensed for Officers Plan	15,447	6,908	10,466
Income During Year	34,209	28,324	22,538
Withdrawals	(54,500)	(397,081)	(72,813)
Balances, End of Year	$ 1,300,955	$ 1,263,399	$ 1,582,848

NOTE 15 - SPLIT DOLLAR LIFE INSURANCE BENEFITS

The Company provides life insurance benefits to certain employees under split-dollar insurance contracts. The accrued liability for these benefits was $109,870 at December 31, 2019 ($115,065 at December 31, 2018). Expense (revenue) related to this plan was ($5,195), $288 and $65,587 for the years ended December 31, 2019, 2018 and 2017, respectively.

NOTE 16 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Bank's business activity is with customers located within East Tennessee. Note 2 discusses the types of securities the Bank invests in. Investments in obligations of U.S. Government corporations and agencies are guaranteed by the FHLB, FHLMC and FNMA. Investments in residential mortgage-backed securities are guaranteed by GNMA, FNMA and FHLMC. Investments in state and municipal securities involve governmental entities within the State of Tennessee. Note 3 discusses the types of loans the Bank invests in. As of December 31, 2019, the Bank had concentrations of loans in real estate lending. Generally, these loans are secured by the underlying real estate. The usual risks associated with such concentrations are generally mitigated by being spread over several hundred unrelated borrowers and by adequate loan-to-collateral value ratios.

NOTE 17 - COMMITMENTS AND CONTINGENT LIABILITIES

The Company and Bank are subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the Company or Bank.

NOTE 18 - STOCK CONVERSION

In May 1997, the Board of Directors approved a plan of reorganization from a mutual savings association to a capital stock savings bank and the concurrent formation of a holding company. In November 1997, the Office of Thrift Supervision approved the plan of conversion subject to the approval of the members, and in December 1997 the members of the Association also approved the plan of conversion. The conversion was accomplished effective January 1, 1998 through amendment of the Association's charter and the sale of the Holding Company's common stock in an amount equal to the appraised pro forma consolidated market value of the Holding Company and the Association after giving effect to the conversion. A subscription offering of the shares of common stock was offered to depositors, borrowers, directors, officers, employees, and employee benefit plans of the Bank, and to certain other eligible subscribers. On January 1, 1998, in accordance with its approved plan of conversion, the Holding Company issued 1,454,750 of its $10 par value stock providing gross receipts of $14,547,500. On January 1, 1998, the Bank changed its name to Newport Federal Bank and issued 100,000 shares of its $1 par value stock to the Holding Company in exchange for $7,100,000. Total conversion costs of $571,822 were deducted from the proceeds of the shares sold in the conversion.

NOTE 18 - STOCK CONVERSION (Continued)

At the time of the conversion, the Bank was required to establish a liquidation account in an amount equal to its capital as of June 30, 1997. The liquidation account will be maintained for the benefit of eligible accountholders who continue to maintain their accounts at the Bank after the conversion. The liquidation account will be reduced annually to the extent that eligible accountholders have reduced their qualifying deposits as of each anniversary date. Subsequent increases will not restore an eligible accountholder's interest in the liquidation account. In the event of a complete liquidation, each eligible accountholder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the current adjusted qualifying balances for accounts then held. The Bank and the Holding Company are subject to several restrictions concerning the repurchase of stock and dividend payment restrictions pursuant to the applicable rules and policies of the OCC.

NOTE 19 - FAIR VALUE DISCLOSURES

GAAP generally permits the measurement of selected eligible financial instruments at fair value at specified election dates. The Bank has not elected to adopt the fair value option for any financial instruments. However, other accounting pronouncements require the Bank to measure certain assets at fair value as described below.

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date (exit price). It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes three levels of inputs that may be used to measure fair value:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset and liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability

A description of valuation methodologies used for assets and liabilities recorded at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is shown below. The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Investment Securities Available-for-Sale - Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement for these securities is based upon quoted prices of like or similar securities, utilizing Level 2 inputs. These measurements are obtained from a service provider who considers observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the securities’ terms and conditions, among other things.

Impaired Loans - The Bank does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired in accordance with GAAP and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance is established as a component of the allowance for loan losses. The fair value of individually identified impaired loans is measured based on the present value of expected payments or the collateral value if the loan is collateral dependent. Impaired loans are classified within Level 3 of the valuation hierarchy.

NOTE 19 - FAIR VALUE DISCLOSURES (Continued)

Foreclosed Real Estate - Foreclosed real estate is recorded at fair value on a nonrecurring basis. Fair value measurement is based on management's estimate of the amount that will be realized when the property is sold and is classified within Level 3 of the valuation hierarchy.

Assets Recorded at Fair Value on a Recurring Basis

The tables below present information about certain assets measured at fair value:

		Fair Value Measurements Using		
	Carrying Amount in the Balance Sheet	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2019				
Obligations of U.S. Government Corporations and Agencies	$ 15,988,606	$ 0	$ 15,988,606	$ 0
Residential Mortgage-Backed and Related Securities	23,791,306	0	23,791,306	0
Corporate Debt Securities	10,300,553	0	10,300,553	0
Obligations of States and Political Subdivisions	28,845,311	0	28,845,311	0
Investment Securities Available for Sale	$ 78,925,776	$ 0	$ 78,925,776	$ 0
As of December 31, 2018				
Obligations of U.S. Government Corporations and Agencies	$ 18,867,350	$ 0	$ 18,867,350	$ 0
Residential Mortgage-Backed and Related Securities	23,334,064	0	23,334,064	0
Corporate Debt Securities	9,235,159	0	9,235,159	0
Obligations of States and Political Subdivisions	27,004,984	0	27,004,984	0
Investment Securities Available for Sale	$ 78,441,557	$ 0	$ 78,441,557	$ 0

Assets Recorded at Fair Value on a Nonrecurring Basis

The Bank may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below.

		Fair Value Measurements Using		
	Carrying Amount in the Balance Sheet	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2019				
Foreclosed Real Estate	$ 74,387	$ 0	$ 0	$ 74,387
	$ 74,387	$ 0	$ 0	$ 74,387
As of December 31, 2018				
Foreclosed Real Estate	$ 68,471	0	$ 0	$ 68,471
	$ 68,471	$ 0	$ 0	$ 68,471

NOTE 19 - FAIR VALUE DISCLOSURES (Continued)

<u>Assets Recorded at Fair Value on a Nonrecurring Basis</u> (Continued)

The following table presents the carrying amounts, estimated fair value and placement in the fair value hierarchy of the Bank's financial instruments that are not carried at fair value at December 31, 2019 and December 31, 2018.

(Dollars in thousands)	Carrying Amount in the Balance Sheet	Estimated Fair Value	Fair Value Measurements Using: Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>As of December 31, 2019</u>					
Financial Assets:					
Cash and Amounts Due from Depository Institutions	$ 15,755	$ 15,755	$ 15,755	$ 0	$ 0
Interest Bearing Deposits in Other Banks	1,345	1,345	1,345	0	0
Loans Receivable, Net	106,347	107,027	0	0	107,027
Cash Surrender Value of Life Insurance	4,503	4,503	0	0	4,503
Financial Liabilities:					
Deposits	$ 184,455	$ 184,891	$ 0	$ 0	$ 184,891
<u>As of December 31, 2018</u>					
Financial Assets:					
Cash and Amounts Due from Depository Institutions	$ 8,684	$ 8,684	$ 8,684	$ 0	$ 0
Interest Bearing Deposits in Other Banks	5,598	5,598	5,598	0	0
Loans Receivable, Net	103,220	103,637	0	0	103,637
Cash Surrender Value of Life Insurance	4,439	4,439	0	0	4,439
Financial Liabilities:					
Deposits	$ 181,011	$ 181,148	$ 0	$ 0	$ 181,148

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

Cash and Amounts Due from Depository Institutions - For these short-term instruments, the recorded book value is a reasonable estimate of fair value.

Interest-Bearing Deposits in Other Banks - For these short-term instruments, the recorded book value is a reasonable estimate of fair value.

Loans Receivable, Net - The estimated fair value of loans is estimated by discounting future cash flows to their present value using current local market rates for similar loans with similar maturities. This calculation also incorporates a credit risk factor to determine the exit price. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable and are disclosed above.

Cash Surrender Value of Life Insurance - The recorded book value is a reasonable estimate of fair value.

Deposits - The estimated fair value of demand, savings, NOW and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar maturities.

Off-Balance-Sheet Loan Commitments - The fair value of loan commitments is based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of these items is not material to the Bank as of the dates indicated above.

Much of the information as well as the amounts disclosed above are highly subjective and judgmental in nature. The subjective factors include estimates of cash flows, risk characteristics, credit quality and interest rates, all of which are subject to change. Because the fair value is estimated as of December 31, 2019 and 2018, the amounts which will actually be realized or paid upon settlement or maturity of the various financial instruments could be significantly different.

NOTE 20 - SUBSEQUENT EVENT

On January 30, 2020, the World Health Organization declared a public health emergency for an outbreak of coronavirus (COVID-19), which was declared a pandemic on March 11, 2020. The pandemic has caused significant market volatility and widespread business disruption. In addition, the Federal Reserve has decreased the federal funds rate 1.50% since December 31, 2019 to a target range of 0 to 0.25% in an attempt to mitigate the economic effects of the outbreak. The duration and full effects of the COVID-19 outbreak are yet unknown but will likely have a significant impact on the Company’s financial statements in 2020 and beyond.

CONSOLIDATING INFORMATION

PUGH CPAs

PUGH & COMPANY, P.C.
315 NORTH CEDAR BLUFF ROAD, SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
FAX 865-769-1660
www.pughcpas.com

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATING INFORMATION

Board of Directors and Senior Management
United Tennessee Bankshares, Inc. and Subsidiary
Newport, Tennessee

We have audited the consolidated financial statements of United Tennessee Bankshares, Inc. and its subsidiary as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017 and have issued our report thereon, dated March 27, 2020, which contains an unmodified opinion on those consolidated financial statements. See page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole.

The accompanying consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
March 27, 2020

UNITED TENNESSEE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATING SCHEDULE - STATEMENT OF FINANCIAL CONDITION

As of December 31, 2019

	United Tennessee Bankshares, Inc.	Newport Federal Bank	Intercompany Eliminations	Consolidated
ASSETS				
Cash and Amounts Due from Depository Institutions	$ 1,175,381	$ 15,505,993	$ (926,382)	$ 15,754,992
Interest-Bearing Deposits in Other Banks	500,000	1,345,000	(500,000)	1,345,000
Investment Securities Available for Sale, at Fair Value	0	78,925,776	0	78,925,776
Loans Receivable, Net	0	106,346,813	0	106,346,813
Equity Securities, at Cost	0	1,226,475	0	1,226,475
Premises and Equipment, Net	0	2,385,703	0	2,385,703
Accrued Interest Receivable	0	796,464	0	796,464
Foreclosed Real Estate	0	74,387	0	74,387
Cash Surrender Value of Life Insurance	0	4,503,305	0	4,503,305
Investment in Subsidiary	23,712,389	0	(23,712,389)	0
Deferred Income Tax Asset	0	372,773	0	372,773
Prepaid Expenses and Other Assets	0	129,623	0	129,623
TOTAL ASSETS	$ 25,387,770	$ 211,612,312	$ (25,138,771)	$ 211,861,311
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Deposits:				
Demand	$ 0	$ 84,521,416	$ (926,382)	$ 83,595,034
Term	0	101,359,672	(500,000)	100,859,672
Total Deposits	0	185,881,088	(1,426,382)	184,454,706
Accrued Interest Payable	0	25,040	0	25,040
Accrued Income Taxes	(4,643)	8,091	0	3,448
Accrued Benefit Plan Liabilities	0	1,629,072	0	1,629,072
Other Liabilities	0	330,411	0	330,411
Total Liabilities	(4,643)	187,873,702	(1,426,382)	186,442,677
SHAREHOLDERS' EQUITY				
Common Stock	4,566,724	7,100,000	(7,100,000)	4,566,724
Retained Earnings	20,825,689	16,612,389	(16,612,389)	20,825,689
Accumulated Other Comprehensive Income (Loss)	0	26,221	0	26,221
Total Shareholders' Equity	25,392,413	23,738,610	(23,712,389)	25,418,634
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 25,387,770	$ 211,612,312	$ (25,138,771)	$ 211,861,311

See Independent Auditor’s Report on Consolidating Information.

UNITED TENNESSEE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATING SCHEDULE - STATEMENT OF INCOME

For the Year Ended December 31, 2019

	United Tennessee Bankshares, Inc.	Newport Federal Bank	Intercompany Eliminations	Consolidated
INTEREST INCOME				
Loans	$ 0	$ 5,389,277	$ 0	$ 5,389,277
Investment Securities	0	1,806,678	0	1,806,678
Other Interest-Earning Assets, Net	16,693	353,709	(11,402)	359,000
Total Interest Income	16,693	7,549,664	(11,402)	7,554,955
INTEREST EXPENSE				
Deposits	0	1,982,634	(11,402)	1,971,232
NET INTEREST INCOME	16,693	5,567,030	0	5,583,723
PROVISION FOR LOAN LOSSES	0	0	0	0
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	16,693	5,567,030	0	5,583,723
NONINTEREST INCOME				
Deposit Account Service Charges	0	349,397	0	349,397
Loan Service Charges and Fees	0	15,559	0	15,559
Gain (Loss) on Sales of Premises and Equipment	0	2,558	0	2,558
Income of Subsidiary	1,527,051	0	(1,527,051)	0
Increase in Cash Surrender Value of Life Insurance	0	64,705	0	64,705
Other	0	95,283	0	95,283
Total Noninterest Income	1,527,051	527,502	(1,527,051)	527,502
NONINTEREST EXPENSE				
Compensation and Benefits	8,278	2,504,104	0	2,512,382
Occupancy and Equipment	0	482,840	0	482,840
Federal Deposit Insurance and Regulatory Assessments	0	99,621	0	99,621
Data Processing Fees	0	449,700	0	449,700
Advertising and Promotion	0	118,049	0	118,049
(Gain)/Loss on Foreclosed Real Estate	0	(6,792)	0	(6,792)
Other	42,247	574,453	0	616,700
Total Noninterest Expense	50,525	4,221,975	0	4,272,500
INCOME BEFORE INCOME TAXES	1,493,219	1,872,557	(1,527,051)	1,838,725
INCOME TAX BENEFIT (EXPENSE)	8,843	(345,506)	0	(336,663)
NET INCOME	$ 1,502,062	$ 1,527,051	$ (1,527,051)	$ 1,502,062

OTHER INFORMATION

PUGH CPAs

PUGH & COMPANY, P.C.
315 NORTH CEDAR BLUFF ROAD, SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
FAX 865-769-1660
www.pughcpas.com

Letter Concerning Material Weaknesses In Internal Control Over Financial Reporting

To the Board of Directors and Senior Management
United Tennessee Bankshares, Inc. and Subsidiary
Newport, Tennessee

In planning and performing our audit of the consolidated financial statements of United Tennessee Bankshares, Inc. and subsidiary (the "Company") as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, we did not identify any deficiencies in internal control during our audit that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of senior management, the Board of Directors and appropriate federal banking regulatory agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
March 27, 2020