

UNITED TENNESSEE BANKSHARES, INC.

2015 ANNUAL REPORT



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 delighted to present this Annual Report to our shareholders. The past several years have been challenging for the financial industry as well as for United Tennessee Bankshares. We again met the challenge and continue to deal with the uncertainty in the economy. United Tennessee Bankshares looks forward to the upcoming year and we are in a good position for the future.

United Tennessee Bankshares, Inc. increased from \$191 million in total assets at December 31, 2014, to \$197 million at December 31, 2015 and our deposits grew from \$169 million to \$174 million.

We are very pleased with our results of operations in 2015. Our income was \$1,665,000 or \$1.99 per share, which is the eighth consecutive year of earnings of one million dollars or more. 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 \$0.52 during our February 16, 2016 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 look forward to 2016 being a very good year. We continue to be a well-capitalized institution poised to take advantage of any and all opportunities afforded to us in our competitive market place. 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,

A handwritten signature in dark ink, appearing to read "Chris Triplett", written in a cursive style.

Chris Triplett, President UNITED
TENNESSEE BANKSHARES,
INC.

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 (OTCQX) under the symbol "UNTN." As of December 31, 2015, there are approximately 838,909 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, and 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 deposit flows 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, 2015 and December 31, 2014

Total assets increased \$6.0 million, or 3.1%, from \$190.8 million at December 31, 2014 to \$196.8 million at December 31, 2015. The Company's asset increase was attributable principally to an increase in investment securities.

Investment securities available for sale increased approximately \$6.1 million, or 7.7%, from \$79.2 million at December 31, 2014 to \$85.3 million at December 31, 2015. The Bank used the proceeds from excess cash on hand and the increase in deposits to fund the growth in the investment securities available for sale.

Loans receivable increased \$526,000, or 0.6% from \$92.8 million at December 31, 2014 to \$93.3 million at December 31, 2015.

Total deposits increased \$4.7 million, or 2.7% from \$169.4 million at December 31, 2014 to \$174.1 million at December 31, 2015. The Bank strives to offer competitive interest rates in a low interest rate environment.

The Company's shareholders' equity increased \$1.2 million, or 6.2% from \$19.4 million at December 31, 2014 to \$20.6 million at December 31, 2015. The increase was primarily due to net income of \$1,665,000 offset by a decrease in accumulated other comprehensive income of \$115,000 and dividends paid to shareholders of \$428,000. The Company had stock transactions in the net amount of \$59,000. The change in accumulated comprehensive income was a result of a decrease of bond market prices during the year ended December 31, 2015. 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, 2015 and December 31, 2014

Net income was \$1,665,000 for the year ended December 31, 2015 compared to net income of \$1,490,000 for the year ended December 31, 2014. The increase in net income during 2015 was primarily due to a decrease in the provision for loan losses. Net income for 2015 represented a return on average assets of 0.86% compared to 0.80% for 2014, and a return on average equity of 8.33% for 2015 as compared to 8.07% for 2014.

Interest income totaled \$6.7 million for 2015 and \$7.0 million for 2014. Interest income on loans for the year ended December 31, 2015, was \$5.42 million compared to \$5.75 million for the year ended December 31, 2014. Interest income on investment securities for the year ended December 31, 2015 was \$1.22 million compared to \$1.20 million for the year ended December 31, 2014. The average yield on interest earning assets was 3.60% in 2015 and 3.92% in 2014.

The Company's primary source of interest income is from loans receivable. Interest income from loans receivable was \$5.42 million for the year ended December 31, 2015 and the average yield earned on loans receivable was 5.69%.

Interest expense totaled \$958,000 and \$918,000 for the years ended December 31, 2015 and 2014, respectively. The increase in interest expense of \$40,000 during 2015 was due to the increase in deposit balances.

Net interest income was \$5.75 million and \$6.09 million for the years ended December 31, 2015 and 2014. The net interest spread for 2015 was 3.04% compared to 3.37% in 2014. The ratio of average interest-earning assets to average interest-bearing liabilities increased to 108.52% in 2015 from 107.51% in 2014. The Company's net interest margin decreased in 2015 to 3.09% from 3.41% in 2014.

The provision for loan losses was \$0 in 2015 and \$618,000 in 2014. 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, 2015, the ratio of the allowance to impaired loans was 90.14%.

Noninterest income for the years ended December 31, 2015 and 2014 was \$467,000 and \$391,000, 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. The increase was primarily attributable to the increase in deposit account service charges.

Noninterest expense for the years ended December 31, 2015 and 2014 was \$3.79 million and \$3.74 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, 2015 and 2014 was 61.01% and 57.60%.

The Company's effective tax rate was 31.28% and 30.08% for the years ended December 31, 2015 and 2014, 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, 2015 and 2014 was 10.31% and 9.89%, respectively. At December 31, 2015, 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, 2015 and 2014, cash and amounts due from depository institutions totaled \$4.3 million and \$3.8 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, 2015, it had designated securities with a fair value of \$85.3 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, 2015, 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 \$66.5 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,				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Performance Ratios:					
Return on Average Assets (Net Income Divided by Average Total Assets)	0.86%	0.80%	0.89%	0.79%	0.82%
Return on Average Equity (Net Income Divided by Average Equity)	8.33%	8.07%	9.43%	8.76%	9.51%
Dividend Payout Ratio (Dividends Per Share Divided by Earnings Per Share)	25.63%	27.93%	25.00%	27.93%	27.84%
Interest Rate Spread (Combined Weighted Average Interest Rate Earned Less Combined Weighted Average Interest Rate Cost)	3.04%	3.37%	3.51%	3.48%	3.64%
Net Interest Margin (Net Interest Income Divided by Average Interest Earning Assets)	3.09%	3.41%	3.55%	3.54%	3.76%
Ratio of Average Interest-Earning Assets to Average Interest-Bearing Liabilities	108.52%	107.51%	107.97%	107.18%	108.68%
Ratio of Noninterest Expense to Average Total Assets	1.96%	2.00%	2.08%	2.06%	2.09%
Efficiency Ratio (Noninterest Expense Divided by Total of Net Interest Income And Noninterest Income)	61.01%	57.60%	55.14%	55.83%	54.08%
Asset Quality Ratios:					
Impaired Assets to Total Assets at End of Period	1.30%	1.54%	2.32%	3.40%	3.72%
Impaired Loans to Total Loans at End of Period	2.36%	2.52%	3.39%	4.49%	5.48%
Allowance For Loan Losses to Total Loans at End of Period	2.13%	2.28%	2.16%	2.34%	1.75%
Allowance For Loan Losses to Impaired Loans at End of Period	90.14%	90.42%	63.78%	52.22%	31.94%
Provision For Loan Losses to Total Loans	0.00%	0.65%	0.73%	0.99%	0.93%
Net Charge-Offs to Average Loans Outstanding	0.14%	0.55%	1.01%	0.51%	0.73%
Capital Ratios:					
Equity to Total Assets at End of Period	10.45%	10.16%	9.57%	9.41%	8.64%
Average Equity to Average Assets	10.31%	9.89%	9.49%	9.02%	8.58%
Stock Price (last trade prior to December 31):	\$ 17.75	\$ 15.15	\$ 13.03	\$ 12.00	\$ 10.50
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
YTD Avg. Cost of Funds	0.56%	0.55%	0.62%	0.93%	1.45%

**UNITED TENNESSEE BANKSHARES, INC.
AND SUBSIDIARY**

Newport, Tennessee

**CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER INFORMATION**

December 31, 2015, 2014, and 2013



KNOXVILLE OFFICE:
315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660



OAK RIDGE OFFICE:
800 OAK RIDGE TURNPIKE – SUITE A404
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634

PUGH & COMPANY, P.C.
www.pughcpas.com

INDEPENDENT AUDITOR’S REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of United Tennessee Bankshares, Inc. and subsidiary which comprise the consolidated statements of financial condition as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders’ equity and cash flows for the years ended December 31, 2015, 2014, and 2013, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Consolidated Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Tennessee Bankshares, Inc. and subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years ended December 31, 2015, 2014, and 2013, in accordance with accounting principles generally accepted in the United States of America.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
March 11, 2016



UNITED TENNESSEE BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	As of December 31,	<u>2015</u>	<u>2014</u>
ASSETS			
Cash and Amounts Due from Depository Institutions	\$	4,302,305	\$ 3,795,537
Interest-Bearing Deposits in Other Banks		5,329,000	6,325,000
Investment Securities Available for Sale, at Fair Value		85,302,202	79,203,465
Loans Receivable, Net		93,305,338	92,779,460
Equity Securities, at Cost		1,209,550	1,190,700
Premises and Equipment, Net		2,776,037	2,786,555
Accrued Interest Receivable		774,508	793,593
Foreclosed Real Estate		312,013	551,738
Cash Surrender Value of Life Insurance		2,319,182	2,308,040
Deferred Income Tax Benefit		987,837	998,552
Prepaid Expenses and Other Assets		<u>171,077</u>	<u>82,432</u>
TOTAL ASSETS	\$	<u>196,789,049</u>	\$ <u>190,815,072</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits:			
Demand	\$	73,565,197	\$ 67,735,155
Term		<u>100,522,154</u>	<u>101,658,719</u>
Total Deposits		174,087,351	169,393,874
Accrued Interest Payable		28,048	27,527
Accrued Income Taxes		35,891	48,400
Accrued Benefit Plan Liabilities		1,822,855	1,746,067
Other Liabilities		<u>241,751</u>	<u>208,135</u>
Total Liabilities		<u>176,215,896</u>	<u>171,424,003</u>
SHAREHOLDERS' EQUITY			
Common Stock - No Par Value, Authorized 20,000,000 Shares; Issued 838,909 Shares in 2015 (836,509 Shares in 2014); Outstanding 838,809 Shares in 2015 (834,786 Shares in 2014)		4,336,180	4,293,082
Retained Earnings		16,462,412	15,224,737
Treasury Stock, at Cost; 100 Shares in 2015 (1,723 Shares in 2014)		(1,854)	(17,758)
Accumulated Other Comprehensive Income (Loss)		<u>(223,585)</u>	<u>(108,992)</u>
Total Shareholders' Equity		<u>20,573,153</u>	<u>19,391,069</u>
TOTAL LIABILITIES AND EQUITY	\$	<u>196,789,049</u>	\$ <u>190,815,072</u>

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

UNITED TENNESSEE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,		
	2015	2014	2013
INTEREST INCOME			
Loans	\$ 5,419,902	\$ 5,750,846	\$ 6,303,171
Investment Securities	1,222,289	1,195,953	1,151,916
Other Interest-Earning Assets, Net	65,755	64,399	51,442
Total Interest Income	<u>6,707,946</u>	<u>7,011,198</u>	<u>7,506,529</u>
INTEREST EXPENSE			
Deposits	958,359	917,866	1,035,328
NET INTEREST INCOME	5,749,587	6,093,332	6,471,201
PROVISION FOR LOAN LOSSES	<u>0</u>	<u>(618,000)</u>	<u>(700,000)</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>5,749,587</u>	<u>5,475,332</u>	<u>5,771,201</u>
NONINTEREST INCOME			
Deposit Account Service Charges	324,899	254,366	238,531
Loan Service Charges and Fees	37,094	38,439	51,040
Net Gain (Loss) on Sales of Investment Securities Available for Sale	11,260	10,591	26,672
Increase in Cash Surrender Value of Life Insurance	11,142	10,389	19,649
Other	82,385	77,474	83,080
Total Noninterest Income	<u>466,780</u>	<u>391,259</u>	<u>418,972</u>
NONINTEREST EXPENSE			
Compensation and Benefits	2,088,052	2,029,045	1,905,137
Occupancy and Equipment	391,213	350,455	369,253
Federal Deposit Insurance and Regulatory Assessments	185,243	192,210	197,729
Data Processing Fees	419,034	366,421	328,615
Advertising and Promotion	77,187	71,587	62,800
Amortization	0	0	73,323
Loss on Foreclosed Real Estate	9,002	116,938	227,950
Other	623,444	608,702	593,126
Total Noninterest Expense	<u>3,793,175</u>	<u>3,735,358</u>	<u>3,757,933</u>
INCOME BEFORE INCOME TAXES	2,423,192	2,131,233	2,432,240
INCOME TAXES	<u>(757,776)</u>	<u>(641,152)</u>	<u>(775,916)</u>
NET INCOME	<u>\$ 1,665,416</u>	<u>\$ 1,490,081</u>	<u>\$ 1,656,324</u>
EARNINGS PER SHARE	<u>\$ 1.99</u>	<u>\$ 1.79</u>	<u>\$ 2.00</u>

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,	<u>2015</u>	<u>2014</u>	<u>2013</u>
NET INCOME		\$ <u>1,665,416</u>	\$ <u>1,490,081</u>	\$ <u>1,656,324</u>
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Unrealized Gains (Losses) on Investment Securities Available for Sale		(196,088)	1,143,415	(2,126,537)
Reclassification Adjustment for (Gains) Losses Included in Net Income		11,260	10,591	26,672
Income Taxes Related to Unrealized Gains/Losses on Investment Securities Available for Sale		<u>70,235</u>	<u>(438,523)</u>	<u>797,949</u>
Other Comprehensive Income (Loss), Net of Tax		<u>(114,593)</u>	<u>715,483</u>	<u>(1,301,916)</u>
COMPREHENSIVE INCOME		<u>\$ 1,550,823</u>	<u>\$ 2,205,564</u>	<u>\$ 354,408</u>

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, 2015

	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances, December 31, 2012	\$ 4,283,854	\$ 12,913,278	\$ (92,372)	\$ 477,441	\$ 17,582,201
Net Income	0	1,656,324	0	0	1,656,324
Dividends Paid	0	(417,653)	2,147	0	(415,506)
Proceeds from Sale of Treasury Stock	0	0	36,000	0	36,000
Other Comprehensive Income (Loss)	0	0	0	(1,301,916)	(1,301,916)
Balances, December 31, 2013	4,283,854	14,151,949	(54,225)	(824,475)	17,557,103
Net Income	0	1,490,081	0	0	1,490,081
Issuance of Common Stock	14,280	0	0	0	14,280
Dividends Paid	0	(417,293)	0	0	(417,293)
Purchase of Common Stock	0	0	(2,748)	0	(2,748)
Proceeds from Sale of Treasury Stock	(5,052)	0	39,215	0	34,163
Other Comprehensive Income (Loss)	0	0	0	715,483	715,483
Balances, December 31, 2014	4,293,082	15,224,737	(17,758)	(108,992)	19,391,069
Net Income	0	1,665,416	0	0	1,665,416
Issuance of Common Stock	35,424	0	0	0	35,424
Dividends Paid	0	(427,741)	0	0	(427,741)
Purchase of Common Stock	0	0	(1,854)	0	(1,854)
Proceeds from Sale of Treasury Stock	7,674	0	17,758	0	25,432
Other Comprehensive Income (Loss)	0	0	0	(114,593)	(114,593)
Balances, December 31, 2015	<u>\$ 4,336,180</u>	<u>\$ 16,462,412</u>	<u>\$ (1,854)</u>	<u>\$ (223,585)</u>	<u>\$ 20,573,153</u>

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,	<u>2015</u>	<u>2014</u>	<u>2013</u>
OPERATING ACTIVITIES				
Net Income		\$ 1,665,416	\$ 1,490,081	\$ 1,656,324
Adjustments to Reconcile Net Income to Net				
Cash Provided by Operating Activities:				
Provision for Loan Losses		0	618,000	700,000
Depreciation		142,711	117,967	127,270
Amortization of Intangible Assets		0	0	73,323
Amortization of Investment Securities Premiums and Discounts, Net		888,143	829,892	661,237
Increase (Decrease) in Unearned Loan Fees		6,403	(6,738)	(13,471)
Net Loss (Gain) on Sales of Foreclosed Real Estate		(44,480)	59,391	145,649
Writedowns of Foreclosed Real Estate		22,500	15,115	2,975
Increase in Cash Surrender Value of Life Insurance		(11,142)	(10,389)	(19,649)
Net (Gain) Loss on Sales of Investment Securities Available for Sale		(11,260)	(10,591)	(26,672)
Deferred Income Tax (Benefit)		80,950	(74,832)	147,273
(Increase) Decrease in:				
Accrued Interest Receivable		19,085	12,753	88,194
Prepaid Expenses and Other Assets		(88,645)	14,154	3,934
Prepaid FDIC Assessment		0	0	165,000
Increase (Decrease) in:				
Accrued Interest Payable		521	(1,639)	(6,268)
Accrued Income Taxes		(12,509)	37,750	(89,198)
Accrued Benefit Plan Liabilities		76,788	57,726	(36,093)
Other Liabilities		33,616	(22,892)	49,406
Total Adjustments		<u>1,102,681</u>	<u>1,635,667</u>	<u>1,972,910</u>
Net Cash Provided by (Used in) Operating Activities		<u>2,768,097</u>	<u>3,125,748</u>	<u>3,629,234</u>
INVESTING ACTIVITIES				
Purchase of Investment Securities Available for Sale		(33,417,035)	(26,249,523)	(21,713,081)
Proceeds from Sales of Investment Securities Available for Sale		6,092,631	9,199,716	2,796,447
Proceeds from Maturities and Calls of Investment Securities Available for Sale		11,595,000	2,420,000	9,050,000
Principal Payments Received on Investment Securities Available for Sale		8,568,956	6,293,736	5,306,765
Purchase of Equity Securities		(18,850)	(30,000)	0
Net (Increase) Decrease in Interest-Bearing				
Deposits in Other Banks		996,000	(1,494,000)	(498,000)
Net (Increase) Decrease in Loans		(767,051)	(245,292)	2,831,761
Purchases of Premises and Equipment		(132,193)	(32,398)	(26,980)
Proceeds from Sales of Premises and Equipment		0	3,000	0
Proceeds from Sales of Foreclosed Real Estate		496,475	938,914	1,446,601
Net Cash Provided by (Used in) Investing Activities		<u>(6,586,067)</u>	<u>(9,195,847)</u>	<u>(806,487)</u>

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,	<u>2015</u>	<u>2014</u>	<u>2013</u>
FINANCING ACTIVITIES				
Dividends Paid, Net		(427,741)	(417,293)	(415,506)
Proceeds from Sale of Treasury Stock		25,432	34,163	36,000
Proceeds from Issuance of Common Stock		35,424	14,280	0
Purchase of Common Stock for Treasury Stock		(1,854)	(2,748)	0
Net Increase (Decrease) in Deposits		<u>4,693,477</u>	<u>6,205,567</u>	<u>(3,982,739)</u>
Net Cash Provided by (Used in) Financing Activities		<u>4,324,738</u>	<u>5,833,969</u>	<u>(4,362,245)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		506,768	(236,130)	(1,539,498)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		<u>3,795,537</u>	<u>4,031,667</u>	<u>5,571,165</u>
CASH AND CASH EQUIVALENTS, END OF YEAR		<u>\$ 4,302,305</u>	<u>\$ 3,795,537</u>	<u>\$ 4,031,667</u>
Supplementary Disclosures of Cash Flow Information:				
Cash Paid During the Year for:				
Interest		\$ 957,838	\$ 919,505	\$ 1,041,596
Income Taxes		\$ 780,582	\$ 722,234	\$ 708,829
Supplementary Disclosures of Noncash Investing Activities:				
Acquisition of Foreclosed Real Estate		\$ 489,250	\$ 830,517	\$ 931,684
Sale of Foreclosed Real Estate by Origination of Mortgage Loans		\$ 254,480	\$ 277,884	\$ 169,121
Change in Unrealized Gain/Loss on Investment Securities Available for Sale		\$ (184,828)	\$ 1,154,006	\$ (2,099,865)
Change in Deferred Income Taxes Associated with Unrealized Gain/Loss on Investment Securities Available for Sale		\$ (70,235)	\$ 438,523	\$ (797,949)
Change in Net Unrealized Gain/Loss on Investment Securities Available for Sale		\$ (114,593)	\$ 715,483	\$ (1,301,916)

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, 2015, 2014, and 2013

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 17 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:

	<u>2015</u>	<u>2014</u>
Unrestricted Deposits at FHLB	\$ 2,132,103	\$ 3,333,971

Interest-Bearing Deposits in Other Banks - These deposits mature within one to four years, are covered by FDIC insurance, and are carried at cost which approximates estimated fair value.

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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Securities Carried at Cost - The Bank maintains a required investment in the Federal Home Loan Bank ("FHLB") of Cincinnati totaling \$1,125,700. The investment in FHLB stock is in part based on the amount of borrowings from the FHLB (see Note 9). The Bank also has purchased 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 \$18,850. These investments are carried at cost because they are not readily marketable and there is no established market price.

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.

Amortization of Intangible Assets - The depositor-relationship intangible asset was amortized using the straight-line method over fifteen years (see Note 7).

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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Share - Earnings per share is based on the weighted average number of shares outstanding of 838,261, 834,312, and 830,196 for 2015, 2014, and 2013, respectively.

Evaluation of Subsequent Events - Management has evaluated subsequent events through March 11, 2016, which is the date the consolidated financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure.

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, 2015				
Debt Securities:				
Obligations of U.S. Government Corporations and Agencies	\$ 18,561,103	\$ 40,886	\$ (69,508)	\$ 18,532,481
Residential Mortgage-Backed and Related Securities	28,780,264	2,884	(435,740)	28,347,408
Corporate Debt Securities	10,058,485	19,196	(91,141)	9,986,540
Obligations of States and Political Subdivisions	28,262,972	276,534	(103,733)	28,435,773
Total Debt Securities	\$ 85,662,824	\$ 339,500	\$ (700,122)	\$ 85,302,202
December 31, 2014				
Debt Securities:				
Obligations of U.S. Government Corporations and Agencies	\$ 18,757,247	\$ 54,900	\$ (109,145)	\$ 18,703,002
Residential Mortgage-Backed and Related Securities	24,830,920	18,790	(234,202)	24,615,508
Corporate Debt Securities	9,589,483	57,914	(26,542)	9,620,855
Obligations of States and Political Subdivisions	26,201,609	290,546	(228,055)	26,264,100
Total Debt Securities	\$ 79,379,259	\$ 422,150	\$ (597,944)	\$ 79,203,465

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

	For the Years Ended December 31,		
	2015	2014	2013
Gross Realized Gains	\$ 78,349	\$ 90,232	\$ 26,672
Gross Realized Losses	(67,089)	(79,641)	0
	\$ 11,260	\$ 10,591	\$ 26,672

NOTE 2 - INVESTMENT SECURITIES (Continued)

The amortized cost and estimated fair value of debt securities available for sale as of December 31, 2015 by contractual maturity, are as follows:

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in One Year or Less	\$ 1,331,793	\$ 1,333,510
Due After One Year To Five Years	20,083,184	20,120,212
Due After Five Years To Ten Years	18,452,214	18,447,460
Due After Ten Years	7,451,367	7,501,432
	<u>47,318,558</u>	<u>47,402,614</u>
Mortgage-Backed and SBA Pooled Securities	38,344,266	37,899,588
	<u>\$ 85,662,824</u>	<u>\$ 85,302,202</u>

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.

Investments with book values of approximately \$36,479,000 and \$32,804,000 (which approximates market values) as of December 31, 2015 and 2014, respectively, were pledged to secure deposits of public funds.

Investment securities with gross unrealized losses at December 31, 2015 and 2014, 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, 2015:						
Debt Securities:						
Obligations of U.S. Government Corporations and Agencies	\$ 8,283,499	\$ (34,074)	\$ 2,897,368	\$ (35,434)	\$ 11,180,867	\$ (69,508)
Residential Mortgage-Backed and Related Securities	17,845,277	(247,032)	10,243,609	(188,708)	28,088,886	(435,740)
Corporate Debt Securities	4,443,549	(65,219)	2,728,924	(25,922)	7,172,473	(91,141)
Obligations of States and Political Subdivisions	4,534,274	(19,448)	7,052,420	(84,285)	11,586,694	(103,733)
Total Debt Securities	<u>\$ 35,106,599</u>	<u>\$ (365,773)</u>	<u>\$ 22,922,321</u>	<u>\$ (334,349)</u>	<u>\$ 58,028,920</u>	<u>\$ (700,122)</u>
As of December 31, 2014:						
Debt Securities:						
Obligations of U.S. Government Corporations and Agencies	\$ 4,491,178	\$ (13,903)	\$ 8,822,187	\$ (95,242)	\$ 13,313,365	\$ (109,145)
Residential Mortgage-Backed and Related Securities	14,461,830	(112,900)	6,170,322	(121,302)	20,632,152	(234,202)
Corporate Debt Securities	2,735,590	(16,424)	1,739,883	(10,118)	4,475,473	(26,542)
Obligations of States and Political Subdivisions	2,179,392	(7,895)	9,148,178	(220,160)	11,327,570	(228,055)
Total Debt Securities	<u>\$ 23,867,990</u>	<u>\$ (151,122)</u>	<u>\$ 25,880,570</u>	<u>\$ (446,822)</u>	<u>\$ 49,748,560</u>	<u>\$ (597,944)</u>

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.

NOTE 2 - INVESTMENT SECURITIES (Continued)

At December 31, 2015, the 90 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 investments 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,	
	2015	2014
Loans Secured by Real Estate		
Residential	\$ 79,815,565	\$ 78,796,589
Construction and Land Development	7,366,579	8,058,371
Commercial Properties	5,114,619	4,649,834
Total Loans Secured by Real Estate	<u>92,296,763</u>	<u>91,504,794</u>
Commercial and Industrial Loans	965,171	1,035,713
Consumer Loans	2,348,584	2,671,247
	<u>3,313,755</u>	<u>3,706,960</u>
Net Deferred Loan Origination Fees	(276,283)	(269,880)
Allowance for Loan and Lease Losses (see Note 4)	(2,028,897)	(2,162,414)
Net Loans	<u>\$ 93,305,338</u>	<u>\$ 92,779,460</u>

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 \$5,151,000 and \$4,496,000 at December 31, 2015 and 2014. Outstanding letters of credit were \$88,000 and \$87,000 at December 31, 2015 and 2014.

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, 2015 and 2014 totaled approximately \$1,636,000 and \$1,719,000, 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.

NOTE 4 - LOAN QUALITY (Continued)

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.

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, 2014 and 2015.

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, 2014 and 2015.

<i>(Dollars in thousands)</i>	Residential Real Estate	Construction & Land	Commercial Real Estate	Commercial & Industrial	Consumer	Unallocated	Total
Allowance at							
December 31, 2013	\$ 1,621	\$ 146	\$ 75	\$ 0	\$ 91	\$ 136	\$ 2,069
Charge-offs	(542)	(8)	0	0	(27)	0	(577)
Recoveries	10	30	0	0	12	0	52
Provision	365	(80)	(26)	11	0	348	618
Allowance at							
December 31, 2014	1,454	88	49	11	76	484	2,162
Charge-offs	(142)	(54)	0	0	(22)	0	(218)
Recoveries	21	43	0	0	21	0	85
Provision	45	2	80	13	(8)	(132)	0
Allowance at							
December 31, 2015	\$ 1,378	\$ 79	\$ 129	\$ 24	\$ 67	\$ 352	\$ 2,029

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, 2014 and 2015.

<i>(Dollars in thousands)</i>	Residential Real Estate	Construction & Land	Commercial Real Estate	Commercial & Industrial	Consumer	Unallocated	Total
December 31, 2014							
Loans Evaluated for							
Allowance:							
Individually	\$ 114	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 114
Collectively	78,683	8,058	4,650	1,036	2,671	0	95,098
Total	\$ 78,797	\$ 8,058	\$ 4,650	\$ 1,036	\$ 2,671	\$ 0	\$ 95,212
Allowance Established							
for Loans Evaluated:							
Individually	\$ 28	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 28
Collectively	1,426	88	49	11	76	484	2,134
Allowance at							
December 31, 2014	\$ 1,454	\$ 88	\$ 49	\$ 11	\$ 76	\$ 484	\$ 2,162
December 31, 2015							
Loans Evaluated for							
Allowance:							
Individually	\$ 950	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 950
Collectively	78,865	7,367	5,115	965	2,349	0	94,661
Total	\$ 79,815	\$ 7,367	\$ 5,115	\$ 965	\$ 2,349	\$ 0	\$ 95,611
Allowance Established							
for Loans Evaluated:							
Individually	\$ 27	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 27
Collectively	1,351	79	129	24	67	352	2,002
Allowance at							
December 31, 2015	\$ 1,378	\$ 79	\$ 129	\$ 24	\$ 67	\$ 352	\$ 2,029

NOTE 4 - LOAN QUALITY (Continued)

The following tables show additional information about those loans considered to be impaired at December 31, 2014 and 2015.

	December 31,			For the Year Ended December 31,	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<i>(Dollars in thousands)</i>					
2014					
Impaired Loans with Specific Allowance:					
Residential Real Estate:					
1-4 Family First Liens	\$ 114	\$ 114	\$ 28	\$ 113	\$ 0
Totals	<u>\$ 114</u>	<u>\$ 114</u>	<u>\$ 28</u>	<u>\$ 113</u>	<u>\$ 0</u>
2015					
Impaired Loans with Specific Allowance:					
Residential Real Estate:					
1-4 Family First Liens	\$ 950	\$ 950	\$ 27	\$ 954	\$ 24
Totals	<u>\$ 950</u>	<u>\$ 950</u>	<u>\$ 27</u>	<u>\$ 954</u>	<u>\$ 24</u>

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

<i>(Dollars in thousands)</i>	Current	Past Due Loans			Non-Accrual	Total Loans
		30-89 Days	90 + Days	Total		
December 31, 2014						
Residential Real Estate:						
1-4 Family First Liens	\$ 73,361	\$ 3,094	\$ 0	\$ 3,094	\$ 213	\$ 76,668
1-4 Family Junior Liens	424	0	0	0	0	424
MultiFamily	1,705	0	0	0	0	1,705
Total	<u>75,490</u>	<u>3,094</u>	<u>0</u>	<u>3,094</u>	<u>213</u>	<u>78,797</u>
Construction & Land:						
1-4 Family	454	0	0	0	0	454
Land & Other	7,299	156	0	156	149	7,604
Total	<u>7,753</u>	<u>156</u>	<u>0</u>	<u>156</u>	<u>149</u>	<u>8,058</u>
Commercial Real Estate:						
Owner-Occupied Nonfarm Properties	4,092	112	0	112	185	4,389
Other Nonfarm Properties	261	0	0	0	0	261
Total	<u>4,353</u>	<u>112</u>	<u>0</u>	<u>112</u>	<u>185</u>	<u>4,650</u>
Commercial & Industrial	<u>1,036</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,036</u>
Consumer:						
Automobiles	1,042	17	0	17	0	1,059
Other	1,594	18	0	18	0	1,612
Total	<u>2,636</u>	<u>35</u>	<u>0</u>	<u>35</u>	<u>0</u>	<u>2,671</u>
Total	<u>\$ 91,268</u>	<u>\$ 3,397</u>	<u>\$ 0</u>	<u>\$ 3,397</u>	<u>\$ 547</u>	<u>\$ 95,212</u>

(Table Continued on Next Page)

NOTE 4 - LOAN QUALITY (Continued)

	Current	Past Due Loans			Non-Accrual	Total Loans
		30-89 Days	90 + Days	Total		
December 31, 2015						
Residential Real Estate:						
1-4 Family First Liens	\$ 75,000	\$ 2,366	\$ 0	\$ 2,366	\$ 540	\$ 77,906
1-4 Family Junior Liens	274	0	0	0	0	274
MultiFamily	1,635	0	0	0	0	1,635
Total	<u>76,909</u>	<u>2,366</u>	<u>0</u>	<u>2,366</u>	<u>540</u>	<u>79,815</u>
Construction & Land:						
1-4 Family	943	0	0	0	0	943
Land & Other	6,265	152	0	152	7	6,424
Total	<u>7,208</u>	<u>152</u>	<u>0</u>	<u>152</u>	<u>7</u>	<u>7,367</u>
Commercial Real Estate:						
Owner-Occupied Nonfarm Properties	4,791	77	0	77	0	4,868
Other Nonfarm Properties	247	0	0	0	0	247
Total	<u>5,038</u>	<u>77</u>	<u>0</u>	<u>77</u>	<u>0</u>	<u>5,115</u>
Commercial & Industrial	<u>965</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>965</u>
Consumer:						
Automobiles	844	13	0	13	0	857
Other	1,479	13	0	13	0	1,492
Total	<u>2,323</u>	<u>26</u>	<u>0</u>	<u>26</u>	<u>0</u>	<u>2,349</u>
Total	<u>\$ 92,443</u>	<u>\$ 2,621</u>	<u>\$ 0</u>	<u>\$ 2,621</u>	<u>\$ 547</u>	<u>\$ 95,611</u>

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.

NOTE 4 - LOAN QUALITY (Continued)

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.

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

<i>(Dollars in thousands)</i>	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
December 31, 2014					
Residential Real Estate	\$ 75,549	\$ 1,536	\$ 1,712	\$ 0	\$ 78,797
Construction & Land	6,888	868	302	0	8,058
Commercial Real Estate	4,240	147	263	0	4,650
Commercial & Industrial	1,036	0	0	0	1,036
Consumer	2,633	38	0	0	2,671
Total	<u>\$ 90,346</u>	<u>\$ 2,589</u>	<u>\$ 2,277</u>	<u>\$ 0</u>	<u>\$ 95,212</u>
December 31, 2015					
Residential Real Estate	\$ 76,592	\$ 1,143	\$ 2,080	\$ 0	\$ 79,815
Construction & Land	7,155	41	171	0	7,367
Commercial Real Estate	5,038	77	0	0	5,115
Commercial & Industrial	965	0	0	0	965
Consumer	2,333	16	0	0	2,349
Total	<u>\$ 92,083</u>	<u>\$ 1,277</u>	<u>\$ 2,251</u>	<u>\$ 0</u>	<u>\$ 95,611</u>

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, 2014 and 2015, 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. Additionally, the Bank did not have any loans modified as TDRs during the years ending December 31, 2014 and 2015.

NOTE 5 - PREMISES AND EQUIPMENT, NET

Premises and equipment, net are summarized as follows:

	As of December 31,	
	<u>2015</u>	<u>2014</u>
Land	\$ 510,262	\$ 510,262
Buildings	3,414,962	3,414,962
Furniture and Equipment	<u>934,244</u>	<u>802,051</u>
	4,859,468	4,727,275
Less Accumulated Depreciation	<u>(2,083,431)</u>	<u>(1,940,720)</u>
	<u>\$ 2,776,037</u>	<u>\$ 2,786,555</u>

NOTE 6 - FORECLOSED REAL ESTATE

An analysis of foreclosed real estate for the years ended December 31, 2015 and 2014 follows:

	<u>2015</u>	<u>2014</u>
Balance at Beginning of Year	\$ 551,738	\$ 1,012,525
Transfers from Loans	489,250	830,517
Foreclosed Real Estate Sold	(706,475)	(1,276,189)
Write-downs of Foreclosed Real Estate	<u>(22,500)</u>	<u>(15,115)</u>
Balance at End of Year	<u>\$ 312,013</u>	<u>\$ 551,738</u>

Expenses applicable to foreclosed real estate for the year ended December 31, 2015 and 2014 include the following:

	<u>2015</u>	<u>2014</u>
Net (Gain) Loss on Sales of Foreclosed Real Estate	\$ (44,480)	\$ 59,391
Write-downs of Foreclosed Real Estate	22,500	15,115
Operating Expenses, Net of Rental Income	<u>30,982</u>	<u>42,432</u>
	<u>\$ 9,002</u>	<u>\$ 116,938</u>

NOTE 7 - INTANGIBLE ASSETS

During 1998, the Bank purchased a branch from Union Planters Bank of the Lakeway Area. The Bank evaluates its intangible assets each year. The Bank's intangible assets as of December 31 are as follows:

	<u>2015</u>	<u>2014</u>
Amortized Intangible Assets:		
Branch Depositor Relationships (Core Deposits) with Definite Useful Lives of 15 Years Gross Carrying Amount	\$ 1,199,876	\$ 1,199,876
Accumulated Amortization	<u>(1,199,876)</u>	<u>(1,199,876)</u>
	<u>\$ 0</u>	<u>\$ 0</u>

NOTE 8 - DEPOSITS

A summary of deposits is as follows:

	As of December 31,	
	<u>2015</u>	<u>2014</u>
Demand Deposits:		
Noninterest-Bearing Accounts	\$ 6,097,311	\$ 5,308,439
NOW Accounts	15,459,030	14,226,940
Money Market Deposit Accounts	27,656,430	27,473,038
Passbook Savings	<u>24,352,426</u>	<u>20,726,738</u>
Total Demand Deposits	<u>73,565,197</u>	<u>67,735,155</u>
Term Deposits:		
Less Than \$250,000	74,810,035	78,614,606
\$250,000 or More	<u>25,712,119</u>	<u>23,044,113</u>
Total Term Deposits	<u>100,522,154</u>	<u>101,658,719</u>
Total Deposits	<u>\$ 174,087,351</u>	<u>\$ 169,393,874</u>

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

The scheduled maturities of certificates of deposit as of December 31, 2015 are as follows:

2016	\$ 66,450,065
2017	20,573,836
2018	12,438,776
2019	<u>1,059,477</u>
	<u>\$ 100,522,154</u>

NOTE 9 - 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, 2015 and 2014.

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, 2015, 2014 and 2013.

Income taxes as shown in the consolidated statements of income differ from the amount computed using the statutory federal income tax rate due to tax exempt interest, dividends, and other nontaxable income, and state income tax expense.

Income taxes consist of:

	For the Years Ended December 31,		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current	\$ 676,826	\$ 715,984	\$ 628,643
Deferred Taxes (Benefit)	<u>80,950</u>	<u>(74,832)</u>	<u>147,273</u>
	<u>\$ 757,776</u>	<u>\$ 641,152</u>	<u>\$ 775,916</u>

NOTE 10 - INCOME TAXES (Continued)

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, unrealized losses on investment securities, nonqualified retirement plans and deferred compensation plans. The net deferred tax assets in the accompanying consolidated statements of financial condition include the following components:

	As of December 31,	
	<u>2015</u>	<u>2014</u>
Deferred Tax Assets	\$ 1,719,362	\$ 1,718,468
Deferred Tax Liabilities	<u>(731,525)</u>	<u>(719,916)</u>
Net Deferred Tax Assets	<u>\$ 987,837</u>	<u>\$ 998,552</u>

Included in the 2015 deferred tax assets above is \$137,036 of deferred tax effect on the unrealized net losses on investment securities available for sale (\$66,801 in deferred tax assets on unrealized net loss in 2014).

NOTE 11 - REGULATORY MATTERS

The Bank and Company are subject to various regulatory capital requirements administered by their primary federal regulator. 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 and on the Company's consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank and Company must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under GAAP, regulatory reporting requirements, and regulatory capital standards. 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.

In 2013, the Office of the Comptroller, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (together, the agencies) adopted a final rule that revises their risk-based and leverage capital requirements for banking organizations. The regulatory capital rule is effective for the Company and Bank on January 1, 2015, with certain transition provisions through December 31, 2017. The final rule implements a revised definition of regulatory capital, a new common equity Tier 1 minimum capital requirement, a higher minimum Tier 1 capital requirement, and amends the methodologies for determining risk-weighted assets. The final rule incorporates these new requirements into the agencies' prompt corrective action (PCA) framework. In addition, the final rule establishes limits on a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a specified amount of common equity Tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. Management does not believe the revised regulatory capital rules will have a significant impact on the Company and Bank and their compliance with capital adequacy requirements.

Quantitative measures established by regulatory capital standards 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, 2015, that the Bank and Company meet all capital adequacy requirements to which they are subject.

As of December 31, 2015, 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.

NOTE 11 - REGULATORY MATTERS (Continued)

The Company's and Bank's actual capital amounts and ratios as of December 31, 2015 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, 2015:						
Total Capital (to Risk-Weighted Assets):	\$ 21,855	26.1%	\$ 6,696	8.0%	N/A	N/A
Company (Consolidated)	\$ 21,505	25.7%	\$ 6,695	8.0%	\$ 8,369	10.0%
Bank						
Common Equity Tier I Capital (to Risk-Weighted Assets):						
Company (Consolidated)	\$ 20,797	24.8%	\$ 3,766	4.5%	N/A	N/A
Bank	\$ 20,447	24.4%	\$ 3,766	4.5%	\$ 5,440	6.5%
Tier I Capital (to Risk-Weighted Assets):						
Company (Consolidated)	\$ 20,797	24.8%	\$ 5,022	6.0%	N/A	N/A
Bank	\$ 20,447	24.4%	\$ 5,021	6.0%	\$ 6,695	8.0%
Tier I Capital (to Average Assets):						
Company (Consolidated)	\$ 20,797	10.6%	\$ 7,831	4.0%	N/A	N/A
Bank	\$ 20,447	10.5%	\$ 7,824	4.0%	\$ 9,781	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 \$144,000, \$125,000, and \$105,000 for the years ended December 31, 2015, 2014, and 2013, respectively.

Directors Long-Term Incentive Plan - In June 1997, the Bank established a long-term incentive plan for the board of directors to provide target retirement benefits of 75% of board fees for ten years for directors who retire with twenty or more years of service. In 2012, the board of directors voted to terminate this plan, with the participant balances to be paid out by 2013. The balances are credited with a rate equivalent to the Bank's IRA deposit account rate. Activity in the directors' retirement plan for the years ended December 31 is as follows:

	2015	2014	2013
Liability Balance at Beginning of Year	\$ 0	\$ 0	\$ 73,912
Accrued and Expensed	0	0	0
Interest Credited to Balances	0	0	193
Withdrawals	0	0	(74,105)
Liability Balance at End of Year	\$ 0	\$ 0	\$ 0

NOTE 13 - STOCK PURCHASE PLANS

In 2009, the Company's board of directors adopted and its shareholders approved a Director Stock Purchase Plan and an Employee Stock Purchase Plan. The plans are more fully described below.

Directors Stock Purchase Plan - The maximum number of shares of common stock that can be sold under this plan is 20,000 shares. Each participant cannot be sold more than 1,200 shares of common stock 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.

<u>Directors Plan Activity:</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Number of Shares Purchased	1,200	0	0
Total Cost of Shares Purchased	\$ 17,712	\$ 0	\$ 0

Employees Stock Purchase Plan - The maximum number of shares of common stock that can be sold under this plan is 40,000 shares. All full-time employees and certain part-time employees are eligible to purchase shares 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.

<u>Employees Plan Activity:</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Number of Shares Purchased	1,200	1,200	0
Total Cost of Shares Purchased	\$ 17,712	\$ 14,280	\$ 0

NOTE 14 - DIRECTORS AND OFFICERS DEFERRED COMPENSATION

In 1998, the Company established 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.

In 2012 the Bank established 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, 1/2 of the calculated bonus is paid in cash immediately and 1/2 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.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Balances, Beginning of Year	\$ 1,501,096	\$ 1,439,587	\$ 1,383,305
Directors Fees Deferred During Year	47,600	46,800	46,800
Amounts Accrued and Expensed for Officers Plan	10,729	14,492	8,298
Income During Year	15,195	15,217	16,184
Withdrawals	(21,505)	(15,000)	(15,000)
Balances, End of Year	<u>\$ 1,553,115</u>	<u>\$ 1,501,096</u>	<u>\$ 1,439,587</u>

NOTE 15 - SPLIT DOLLAR LIFE INSURANCE BENEFITS

GAAP requires the Bank to recognize a liability for the estimated cost of providing life insurance benefits to employees during the postretirement period. The Bank accrued and expensed \$0, \$200 and \$1,406 for the cost attributable to the years ended December 31, 2015, 2014, and 2013, 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, 2015, 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.

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 exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. 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.

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.

NOTE 19 - FAIR VALUE DISCLOSURES (Continued)**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, 2015:				
Obligations of U.S. Government Corporations and Agencies	\$ 18,532,481	\$ 0	\$ 18,532,481	\$ 0
Residential Mortgage-Backed and Related Securities	28,347,408	0	28,347,408	0
Corporate Debt Securities	9,986,540	0	9,986,540	0
Obligations of States and Political Subdivisions	28,435,773	0	28,435,773	0
Investment Securities Available for Sale	<u>\$ 85,302,202</u>	<u>\$ 0</u>	<u>\$ 85,302,202</u>	<u>\$ 0</u>
As of December 31, 2014:				
Obligations of U.S. Government Corporations and Agencies	\$ 18,703,002	\$ 0	\$ 18,703,002	\$ 0
Residential Mortgage-Backed and Related Securities	24,615,508	0	24,615,508	0
Corporate Debt Securities	9,620,855	0	9,620,855	0
Obligations of States and Political Subdivisions	26,264,100	0	26,264,100	0
Investment Securities Available for Sale	<u>\$ 79,203,465</u>	<u>\$ 0</u>	<u>\$ 79,203,465</u>	<u>\$ 0</u>

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, 2015:				
Impaired Loans, Net of Allowance	\$ 923,000	\$ 0	\$ 0	\$ 923,000
Foreclosed Real Estate	312,013	0	0	312,013
	<u>\$ 1,235,013</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,235,013</u>
As of December 31, 2014:				
Impaired Loans, Net of Allowance	\$ 86,000	\$ 0	\$ 0	\$ 86,000
Foreclosed Real Estate	551,738	0	0	551,738
	<u>\$ 637,738</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 637,738</u>

GAAP also requires the Company to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the balance sheets, for which it is practicable to estimate fair value, and which are not already recorded at fair value.

NOTE 19 - FAIR VALUE DISCLOSURES (Continued)

A financial instrument is defined as cash, evidence of an ownership interest in an entity, or a contract that both: (1) imposes on one entity a contractual obligation to deliver cash or another financial instrument to a second entity, or to exchange other financial instruments on potentially unfavorable terms with the second entity, and (2) conveys to that second entity a contractual right to receive cash or another financial instrument from the first entity, or to exchange other financial instruments on potentially favorable terms with the first entity.

For the Bank, as for most financial institutions, the majority of its assets and liabilities are considered financial instruments as defined above. However, a large majority of those assets and liabilities do not have an active trading market nor are their characteristics similar to other financial instruments for which an active trading market exists. In addition, it is the Bank's practice and intent to hold the majority of its financial instruments to maturity and not to engage in trading or sales activities. Therefore, much of the information as well as the amounts disclosed below 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, 2015 and 2014, the amounts which will actually be realized or paid upon settlement or maturity of the various financial instruments could be significantly different.

The estimates of fair value are based on existing financial instruments without attempting to estimate the value of anticipated future business or activity nor the value of assets and liabilities that are not considered financial instruments. For example, the value of mortgage loan servicing rights and the value of the Bank's long-term relationships with depositors, commonly known as core deposit intangibles, have not been considered in the estimates of fair values presented below. In addition, the tax implications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been included in the estimated fair values below.

The following methods and assumptions were used to estimate the fair value of the following classes of financial instruments:

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.

Investment Securities Available for Sale - See disclosure above.

Loans Receivable, Net - The estimated fair value of fixed rate mortgage loans is calculated by discounting future cash flows to their present value. Future cash flows, consisting of both principal and interest payments, are discounted using current local market rates for similar loans with similar maturities. The estimated fair value of variable rate loans is considered equal to recorded book value. The estimated fair value of the allowance for loan losses is considered to be its recorded book value. Additionally, the credit exposure known to exist in the loan portfolio is embodied in the allowance for loan losses. Fair values for non-performing 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.

Equity Securities, at Cost - Management does not consider it practicable to estimate the fair value of equity securities carried at cost and also considers their carrying values to be immaterial in relation to the Company's other financial instruments. Therefore, no estimate of fair value for these investments is disclosed.

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.

NOTE 19 - FAIR VALUE DISCLOSURES (Continued)

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 below.

The recorded book value and estimated fair value of the Company's financial instruments which are not carried at fair value as of December 31, 2015 and 2014 are as follows:

	As of December 31, 2015		As of December 31, 2014	
	Recorded Book Value	Estimated Fair Value	Recorded Book Value	Estimated Fair Value
	(amounts in thousands)			
FINANCIAL ASSETS:				
Cash and Amounts Due				
from Depository Institutions	\$ 4,302	\$ 4,302	\$ 3,796	\$ 3,796
Interest Bearing Deposits in Other Banks	\$ 5,329	\$ 5,329	\$ 6,325	\$ 6,325
Net Loans, Excluding Net Impaired Loans	\$ 92,382	\$ 92,058	\$ 92,693	\$ 92,758
Cash Surrender Value of Life Insurance	\$ 2,319	\$ 2,319	\$ 2,308	\$ 2,308
FINANCIAL LIABILITIES:				
Deposits	\$ 174,087	\$ 174,253	\$ 169,394	\$ 169,501

CONSOLIDATING INFORMATION

KNOXVILLE OFFICE:

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660



PUGH & COMPANY, P.C.
www.pughcpas.com

OAK RIDGE OFFICE:

800 OAK RIDGE TURNPIKE – SUITE A404
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634

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 subsidiary as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014, and 2013 and have issued our report thereon, dated March 11, 2016, 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 consolidating supplementary 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 audit 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 11, 2016



UNITED TENNESSEE BANKSHARES, INC. AND SUBSIDIARY
CONSOLIDATING SCHEDULE – STATEMENT OF FINANCIAL CONDITION

As of December 31, 2015

	United Tennessee Bankshares, Inc.	Newport Federal Bank	Intercompany Eliminations	Consolidated
ASSETS				
Cash and Amounts Due from Depository Institutions	\$ 337,985	\$ 4,166,102	\$ (201,782)	\$ 4,302,305
Interest-Bearing Deposits in Other Banks	0	5,329,000	0	5,329,000
Investment Securities Available for Sale, at Fair Value	0	85,302,202	0	85,302,202
Loans Receivable, Net	0	93,305,338	0	93,305,338
Equity Securities, at Cost	0	1,209,550	0	1,209,550
Premises and Equipment, Net	0	2,776,037	0	2,776,037
Accrued Interest Receivable	0	774,508	0	774,508
Foreclosed Real Estate	0	312,013	0	312,013
Cash Surrender Value of Life Insurance	0	2,319,182	0	2,319,182
Investment in Subsidiary	20,446,516	0	(20,446,516)	0
Deferred Income Tax Benefit	0	987,837	0	987,837
Prepaid Expenses and Other Assets	10,907	160,170	0	171,077
TOTAL ASSETS	\$ 20,795,408	\$ 196,641,939	\$ (20,648,298)	\$ 196,789,049
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits:				
Demand	\$ 0	\$ 73,766,979	\$ (201,782)	\$ 73,565,197
Term	0	100,522,154	0	100,522,154
Total Deposits	0	174,289,133	(201,782)	174,087,351
Accrued Interest Payable	0	28,048	0	28,048
Accrued Income Taxes	(1,330)	37,221	0	35,891
Accrued Benefit Plan Liabilities	0	1,822,855	0	1,822,855
Other Liabilities	0	241,751	0	241,751
Total Liabilities	(1,330)	176,419,008	(201,782)	176,215,896
SHAREHOLDERS' EQUITY				
Common Stock	4,336,180	7,100,000	(7,100,000)	4,336,180
Retained Earnings	16,462,412	13,346,516	(13,346,516)	16,462,412
Treasury Stock, at Cost	(1,854)	0	0	(1,854)
Accumulated Other Comprehensive Income (Loss)	0	(223,585)	0	(223,585)
Total Shareholders' Equity	20,796,738	20,222,931	(20,446,516)	20,573,153
TOTAL LIABILITIES AND EQUITY	\$ 20,795,408	\$ 196,641,939	\$ (20,648,298)	\$ 196,789,049

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, 2015

	United Tennessee Bankshares, Inc.	Newport Federal Bank	Intercompany Eliminations	Consolidated
INTEREST INCOME				
Loans	\$ 0	\$ 5,419,902	\$ 0	\$ 5,419,902
Investment Securities	0	1,222,289	0	1,222,289
Other Interest-Earning Assets, Net	0	65,755	0	65,755
Total Interest Income	<u>0</u>	<u>6,707,946</u>	<u>0</u>	<u>6,707,946</u>
INTEREST EXPENSE				
Deposits	0	958,359	0	958,359
NET INTEREST INCOME	<u>0</u>	<u>5,749,587</u>	<u>0</u>	<u>5,749,587</u>
PROVISION FOR LOAN LOSSES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>0</u>	<u>5,749,587</u>	<u>0</u>	<u>5,749,587</u>
NONINTEREST INCOME				
Deposit Account Service Charges	0	324,899	0	324,899
Loan Service Charges and Fees	0	37,094	0	37,094
Net Gain (Loss) on Sales of Investment Securities				
Available for Sale	0	11,260	0	11,260
Income of Subsidiary	1,686,589	0	(1,686,589)	0
Increase in Cash Surrender Value of Life Insurance	0	11,142	0	11,142
Other	0	82,385	0	82,385
Total Noninterest Income	<u>1,686,589</u>	<u>466,780</u>	<u>(1,686,589)</u>	<u>466,780</u>
NONINTEREST EXPENSE				
Compensation and Benefits	0	2,088,052	0	2,088,052
Occupancy and Equipment	0	391,213	0	391,213
Federal Deposit Insurance Assessments	0	185,243	0	185,243
Data Processing Fees	0	419,034	0	419,034
Advertising and Promotion	0	77,187	0	77,187
Loss on Foreclosed Real Estate	0	9,002	0	9,002
Other	34,310	589,134	0	623,444
Total Noninterest Expense	<u>34,310</u>	<u>3,758,865</u>	<u>0</u>	<u>3,793,175</u>
INCOME BEFORE INCOME TAXES	<u>1,652,279</u>	<u>2,457,502</u>	<u>(1,686,589)</u>	<u>2,423,192</u>
INCOME TAXES (BENEFIT)	<u>(13,137)</u>	<u>770,913</u>	<u>0</u>	<u>757,776</u>
NET INCOME	<u>\$ 1,665,416</u>	<u>\$ 1,686,589</u>	<u>\$ (1,686,589)</u>	<u>\$ 1,665,416</u>

See Independent Auditor's Report on Consolidating Information.

OTHER INFORMATION

KNOXVILLE OFFICE:
315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660



PUGH & COMPANY, P.C.
www.pughcpas.com

OAK RIDGE OFFICE:
800 OAK RIDGE TURNPIKE – SUITE A404
OAK RIDGE, TENNESSEE 37830
TELEPHONE 865-483-5634

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 Newport Federal Bank as of and for the year ended December 31, 2015, 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 consolidated 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, during our audit we did not identify any deficiencies in internal control 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 11, 2016



