

UNITED TENNESSEE BANKSHARES, INC.

2022 ANNUAL REPORT



United Tennessee Bankshares, Inc.

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To our Stockholders,

We are pleased to present this 2022 Annual Report to our shareholders. This report reflects the continued progress and profitability of the Bank. The total assets of United Tennessee Bankshares, Inc. were \$251 million, and our deposits were \$234 million as of December 31, 2022. The net income was \$2,108,000, or \$2.81 per share. We congratulate the staff for their hard work that made these results possible.

The Board of Directors is pleased to have increased our dividend to \$0.60 during our February 23, 2023, board meeting. The investors who purchased UNTN stock at its initial offering have received cumulative cash dividends in excess of their initial investment.

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

Sincerely,

A handwritten signature in dark ink, appearing to read "Chris Triplett", with a stylized flourish at the end.

Chris Triplett, President
UNITED TENNESSEE
BANKSHARES, INC.

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

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

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

MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock trades on the OTC Markets Group (OTCQB) under the symbol "UNTN." As of December 31, 2022, there are 751,244 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, in addition to originating a limited amount of commercial real estate loans and consumer loans. The Bank also maintains a portfolio of investment securities. The Bank's investment securities portfolio consists of U.S. government corporations and agency securities, municipal bonds of governmental entities in Tennessee, corporate debt, and mortgage-backed securities, which are guaranteed as to principal and interest by the FHLMC, GNMA, FNMA or other governmental agencies. The Bank also maintains an investment in FHLB of Cincinnati common stock.

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

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

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

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, 2022, and December 31, 2021

Total assets decreased \$7.3 million, or 2.8%, from \$258.3 million on December 31, 2021, to \$251.0 million on December 31, 2022. The Company's asset decrease was attributable principally to decreases in investment securities and cash and amounts due from depository institutions, offset by an increase in net loans receivable.

Investment securities available for sale decreased approximately \$11.4 million, or 8.7%, from \$131.2 million on December 31, 2021, to \$119.8 million on December 31, 2022.

Net loans receivable increased \$6.1 million, or 5.9%, from \$102.9 million on December 31, 2021, to \$109.0 million on December 31, 2022.

Total deposits increased approximately \$1 million, or 0.4%, from \$232.7 million on December 31, 2021, to \$233.7 million on December 31, 2022. The majority of the growth in deposits was in demand deposits.

The Company's shareholders' equity decreased \$8.5 million, from \$23.5 million on December 31, 2021, to \$15.0 million on December 31, 2022. The decrease was primarily due to the decrease in accumulated other comprehensive income of \$10.3 million and cash dividends paid to shareholders of \$435,000; offset by stock transactions of \$119,000 and net income for the year of \$2.1 million. The change in accumulated other comprehensive income was a result of a decrease in bond market prices for the quarter-ended December 31, 2022. These decreases have been primarily driven by increases in investment market rates. The Bank generally holds bond investment securities until maturity but is required to mark-to-market its bonds on a quarterly basis. The Company's regulatory capital is unaffected by fluctuations in its accumulated other comprehensive income.

Comparison of Results of Operations for the Years Ended December 31, 2022, and December 31, 2021

Net income was \$2,108,000 for the year ended December 31, 2022, compared to net income of \$1,520,000 for the year ended December 31, 2021. The increase in net income during 2022 was primarily due to an increase in our net interest income and noninterest income offset by an increase in noninterest expense and income taxes. Net income for 2022 represented a return on average assets (ROAA) of 0.83% compared to 0.61% for 2021, and a return on average equity (ROAE) of 10.97% for 2022 as compared to 6.03% for 2021.

Interest income totaled \$7.5 million for 2022 and \$6.7 million for 2021. The Company's primary source of interest income is from loans receivable. Interest income from loans receivable was \$5.0 million for the year ended December 31, 2022, and the average yield earned on loans receivable was 4.66%. Interest income from loans for the year ended December 31, 2021, was \$5.0 million. Interest income on investment securities was \$2.3 million for the year ended December 31, 2022, and \$1.6 million for the year ended December 31, 2021. The average yield on interest-earning assets was 3.06% in 2022 and 2.76% in 2021.

Interest expense totaled \$1,042,000 and \$1,191,000 for the years ended December 31, 2022, and 2021, respectively. The decrease in interest expense during 2022 was due to the decrease in the average cost of funds from 0.54% to 0.45%.

Net interest income was \$6.4 million and \$5.5 million for the years ended December 31, 2022, and 2021, respectively. The net interest spread for 2022 was 2.61%, compared to 2.22% in 2021. The ratio of average interest-earning assets to average interest-bearing liabilities decreased slightly to 104.84% in 2022 from 108.67% in 2021. The Company's net interest margin increased in 2022 to 2.63% from 2.25% in 2021.

The provision for loan losses was \$0 in 2022 and \$30,000 in 2021. 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. On December 31, 2022, the ratio of the allowance to impaired loans was 114.41%.

Noninterest income for the years ended December 31, 2022, and 2021 was \$645,000 and \$574,000, respectively. Noninterest income consists primarily of customer service fees related to customers' deposit accounts, loan service charges, and increases in the cash surrender value of life insurance.

Noninterest expense for the years ended December 31, 2022, and 2021 was \$4.47 million and \$4.19 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 ratio (noninterest expense divided by the total of net interest income and noninterest income), for the years ended December 31, 2022, and 2021 was 63.10% and 69.74%, respectively.

The Company's effective tax rate was 19.30% and 16.46% for the years ended December 31, 2022, and 2021, 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 on December 31, 2022, and 2021 was 7.55% and 10.11%, respectively. On December 31, 2022, 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. On December 31, 2022, and 2021, cash and amounts due from depository institutions totaled \$3.9 million and \$9.2 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. On December 31, 2022, it had designated securities with a fair value of \$119.8 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.

On December 31, 2022, the Company had commitments of approximately \$12.2 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 \$58.7 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>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Performance Ratios:					
Return on average assets (net income divided by average total assets)	0.83%	0.61%	0.52%	0.72%	0.90%
Return on average equity (net income divided by average equity)	10.97%	6.03%	4.53%	6.21%	8.14%
Dividend payout ratio (dividends per share divided by earnings per share)	20.64%	28.93%	40.00%	31.25%	24.88%
Interest rate spread (combined weighted average interest rate earned less combined weighted average interest rate cost)	2.61%	2.22%	2.32%	2.69%	2.99%
Net interest margin (net interest income divided by average interest earning assets)	2.63%	2.25%	2.41%	2.79%	3.04%
Ratio of average interest-earning assets to average interest-bearing liabilities	104.84%	108.67%	110.18%	109.66%	108.76%
Ratio of noninterest expense to average total assets	1.75%	1.68%	1.87%	2.05%	2.07%
Efficiency ratio (noninterest expense divided by total of net interest income and noninterest income)	63.10%	69.74%	75.57%	69.91%	65.01%
Asset Quality Ratios:					
Impaired assets to total assets at end of period	0.58%	0.95%	1.06%	1.31%	1.66%
Impaired loans to total loans at end of period	1.31%	2.43%	2.37%	2.51%	3.19%
Allowance for loan losses to total loans at end of period	1.50%	1.62%	1.53%	1.36%	1.50%
Allowance for loan losses to impaired loans at end of period	114.41%	69.14%	64.58%	54.05%	46.94%
Provision for loan losses to total loans	0.00%	0.03%	0.19%	0.00%	0.00%
Net charge-offs to average loans outstanding	0.03%	0.00%	0.00%	0.10%	0.18%
Capital Ratios:					
Equity to total assets at end of period	5.96%	9.09%	11.22%	12.00%	11.15%
Average equity to average assets	7.55%	10.11%	11.53%	11.58%	11.06%
Stock Price (last trade prior to December 31):	\$ 20.00	\$ 24.00	\$ 19.53	\$ 23.17	\$ 21.00
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Avg Cost of Funds	0.45%	0.54%	0.91%	1.08%	0.71%

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

Newport, Tennessee

**CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER INFORMATION**

December 31, 2022, 2021 and 2020





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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the consolidated financial statements of United Tennessee Bankshares, Inc. and its subsidiary, (the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2022, 2021 and 2020, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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



An independently owned member
RSM US Alliance



TSCPA
Members of the Tennessee Society
Of Certified Public Accountants

In performing an audit in accordance with GAAS, we:

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

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

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
March 13, 2023

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

	As of December 31,	<u>2022</u>	<u>2021</u>
ASSETS			
Cash and Amounts Due from Depository Institutions	\$	3,913,541	\$ 9,242,344
Interest-Bearing Deposits in Other Banks		5,341,000	5,590,000
Investment Securities Available for Sale, at Fair Value		119,761,830	131,155,446
Loans Receivable, Net		108,986,666	102,886,111
Equity Securities, at Cost		882,275	1,226,475
Premises and Equipment, Net		2,140,575	2,192,640
Accrued Interest Receivable		1,036,366	815,194
Cash Surrender Value of Life Insurance		4,535,711	4,453,727
Deferred Income Tax Asset		4,287,294	634,421
Prepaid Expenses and Other Assets		147,745	133,203
TOTAL ASSETS	\$	<u>251,033,003</u>	\$ <u>258,329,561</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Deposits:			
Demand	\$	142,751,966	\$ 138,565,492
Term		90,909,578	94,175,789
Total Deposits		233,661,544	232,741,281
Accrued Interest Payable		9,931	5,735
Accrued Income Taxes		96,013	10,283
Accrued Benefit Plan Liabilities		1,695,089	1,637,950
Other Liabilities		606,038	462,223
Total Liabilities		<u>236,068,615</u>	<u>234,857,472</u>
SHAREHOLDERS' EQUITY			
Common Stock - No Par Value, Authorized 20,000,000 Shares; Issued 751,244 Shares in 2022 (746,444 Shares in 2021); Outstanding 751,244 Shares in 2022 (746,444 Shares in 2021)		1,522,717	1,403,962
Retained Earnings		24,244,369	22,571,402
Accumulated Other Comprehensive Income (Loss)		(10,802,698)	(503,275)
Total Shareholders' Equity		<u>14,964,388</u>	<u>23,472,089</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$	<u>251,033,003</u>	\$ <u>258,329,561</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,	<u>2022</u>	<u>2021</u>	<u>2020</u>
INTEREST INCOME				
Loans		\$ 5,018,443	\$ 5,020,963	\$ 5,316,167
Investment Securities		2,321,184	1,625,615	1,656,966
Other Interest-Earning Assets, Net		<u>139,875</u>	<u>12,909</u>	<u>75,066</u>
Total Interest Income		<u>7,479,502</u>	<u>6,659,487</u>	<u>7,048,199</u>
INTEREST EXPENSE				
Deposits		<u>1,042,329</u>	<u>1,191,353</u>	<u>1,801,819</u>
NET INTEREST INCOME		6,437,173	5,468,134	5,246,380
PROVISION FOR LOAN LOSSES		<u>0</u>	<u>(30,000)</u>	<u>(200,000)</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES		<u>6,437,173</u>	<u>5,438,134</u>	<u>5,046,380</u>
NONINTEREST INCOME				
Deposit Account Service Charges		339,623	282,234	285,749
Loan Service Charges and Fees		47,440	39,845	43,439
Net Gain (Loss) on Sales of Investment Securities				
Available for Sale		0	0	18,947
Gain (Loss) on Sales of Premises and Equipment		5,542	(1,933)	0
Increase in Cash Surrender Value of Life Insurance		81,984	87,850	96,081
Other		<u>170,016</u>	<u>166,372</u>	<u>143,415</u>
Total Noninterest Income		<u>644,605</u>	<u>574,368</u>	<u>587,631</u>
NONINTEREST EXPENSE				
Compensation and Benefits		2,586,116	2,390,189	2,506,828
Occupancy and Equipment		481,055	445,306	461,812
Federal Deposit Insurance and Regulatory Assessments		142,220	135,197	100,952
Data Processing Fees		574,245	535,286	487,191
Advertising and Promotion		59,216	56,977	85,323
(Gain)/Loss on Foreclosed Real Estate		(13,519)	0	(9,844)
Other		<u>640,111</u>	<u>630,079</u>	<u>607,132</u>
Total Noninterest Expense		<u>4,469,444</u>	<u>4,193,034</u>	<u>4,239,394</u>
INCOME BEFORE INCOME TAXES		2,612,334	1,819,468	1,394,617
INCOME TAXES		<u>(504,342)</u>	<u>(299,425)</u>	<u>(208,684)</u>
NET INCOME		<u>\$ 2,107,992</u>	<u>\$ 1,520,043</u>	<u>\$ 1,185,933</u>
EARNINGS PER SHARE		<u>\$ 2.81</u>	<u>\$ 1.97</u>	<u>\$ 1.40</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>2022</u>	<u>2021</u>	<u>2020</u>
NET INCOME		\$ <u>2,107,992</u>	\$ <u>1,520,043</u>	\$ <u>1,185,933</u>
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Unrealized Gains (Losses) on Investment Securities Available for Sale		(13,944,521)	(2,022,935)	1,324,991
Reclassification Adjustment for (Gains) Losses Included in Net Income		0	0	(18,947)
Income Taxes Related to Unrealized Gains/Losses on Investment Securities Available for Sale		<u>3,645,098</u>	<u>528,795</u>	<u>(341,400)</u>
Other Comprehensive Income (Loss), Net of Tax		<u>(10,299,423)</u>	<u>(1,494,140)</u>	<u>964,644</u>
COMPREHENSIVE INCOME (LOSS)		\$ <u><u>(8,191,431)</u></u>	\$ <u><u>25,903</u></u>	\$ <u><u>2,150,577</u></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, 2022

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
<u>Balances, January 1, 2019</u>	\$ 4,566,724	\$ 20,825,689	\$ 26,221	\$ 25,418,634
Net Income	0	1,185,933	0	1,185,933
Issuance of Common Stock	32,102	0	0	32,102
Dividends Paid	0	(475,445)	0	(475,445)
Retirement of Common Stock	(154,000)	0	0	(154,000)
Stock-Based Compensation	5,291	0	0	5,291
Other Comprehensive Income (Loss)	0	0	964,644	964,644
<u>Balances, December 31, 2020</u>	4,450,117	21,536,177	990,865	26,977,159
Net Income	0	1,520,043	0	1,520,043
Issuance of Common Stock	116,541	0	0	116,541
Dividends Paid	0	(484,818)	0	(484,818)
Retirement of Common Stock	(3,183,418)	0	0	(3,183,418)
Stock-Based Compensation	20,722	0	0	20,722
Other Comprehensive Income (Loss)	0	0	(1,494,140)	(1,494,140)
<u>Balances, December 31, 2021</u>	1,403,962	22,571,402	(503,275)	23,472,089
Net Income	0	2,107,992	0	2,107,992
Issuance of Common Stock	99,072	0	0	99,072
Dividends Paid	0	(435,025)	0	(435,025)
Stock-Based Compensation	19,683	0	0	19,683
Other Comprehensive Income (Loss)	0	0	(10,299,423)	(10,299,423)
<u>Balances, December 31, 2022</u>	<u>\$ 1,522,717</u>	<u>\$ 24,244,369</u>	<u>\$ (10,802,698)</u>	<u>\$ 14,964,388</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,		
	2022	2021	2020
OPERATING ACTIVITIES			
Net Income	\$ 2,107,992	\$ 1,520,043	\$ 1,185,933
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Provision for Loan Losses	0	30,000	200,000
Depreciation	108,715	111,025	133,784
Stock-Based Compensation	19,683	20,722	5,291
Amortization of Investment Securities Premiums and Discounts, Net	997,487	1,142,998	899,608
Increase (Decrease) in Unearned Loan Fees	36,190	12,186	(3,189)
Net Loss (Gain) on Sales of Foreclosed Real Estate	(18,744)	0	(10,318)
Net Loss (Gain) on Sales of Premises and Equipment	(5,542)	1,933	0
Increase in Cash Surrender Value of Life Insurance	(81,984)	(87,850)	(96,081)
Net (Gain) Loss on Sales of Investment Securities Available for Sale	0	0	(18,947)
Deferred Income Tax (Benefit)	(7,775)	(13,802)	(60,451)
(Increase) Decrease in:			
Accrued Interest Receivable	(221,172)	(30,043)	11,313
Prepaid Expenses and Other Assets	(14,542)	(5,770)	2,190
Increase (Decrease) in:			
Accrued Interest Payable	4,196	(2,373)	(16,932)
Accrued Income Taxes	85,730	(7,708)	14,543
Accrued Benefit Plan Liabilities	57,139	8,142	736
Other Liabilities	143,815	65,239	66,573
Total Adjustments	1,103,196	1,244,699	1,128,120
Net Cash Provided by (Used in) Operating Activities	3,211,188	2,764,742	2,314,053
INVESTING ACTIVITIES			
Purchase of Investment Securities Available for Sale	(20,063,398)	(45,064,208)	(64,752,784)
Proceeds from Sales of Investment Securities Available for Sale	0	0	7,766,906
Proceeds from Maturities and Calls of Investment Securities Available for Sale	2,315,000	9,650,000	9,580,000
Principal Payments Received on Investment Securities Available for Sale	14,200,006	15,372,513	12,477,353
Net (Increase) Decrease in Interest-Bearing Deposits in Other Banks	249,000	(4,743,000)	498,000
Net (Increase) Decrease in Loans	(6,331,539)	2,683,892	452,202
Purchases of Premises and Equipment	(56,650)	(35,180)	(18,499)
Proceeds from Sales of Premises and Equipment	5,542	0	0
Proceeds from Sales of Foreclosed Real Estate	213,538	0	170,316
Redemption of FHLB Stock	344,200	0	0
Proceeds from Bank Owned Life Insurance	0	233,509	0
Net Cash Provided by (Used in) Investing Activities	(9,124,301)	(21,902,474)	(33,826,506)

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>2022</u>	<u>2021</u>	<u>2020</u>
FINANCING ACTIVITIES				
Dividends Paid		(435,025)	(484,818)	(475,445)
Proceeds from Issuance of Common Stock		99,072	116,541	32,102
Retirement of Common Stock		0	(3,183,418)	(154,000)
Net Increase (Decrease) in Deposits		<u>920,263</u>	<u>21,303,535</u>	<u>26,983,040</u>
Net Cash Provided by (Used in) Financing Activities		<u>584,310</u>	<u>17,751,840</u>	<u>26,385,697</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(5,328,803)	(1,385,892)	(5,126,756)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		<u>9,242,344</u>	<u>10,628,236</u>	<u>15,754,992</u>
CASH AND CASH EQUIVALENTS, END OF YEAR		<u>\$ 3,913,541</u>	<u>\$ 9,242,344</u>	<u>\$ 10,628,236</u>
Supplementary Disclosures of Cash Flow Information:				
Cash Paid During the Year for:				
Interest		\$ 1,038,133	\$ 1,193,726	\$ 1,818,751
Income Taxes		\$ 426,167	\$ 310,595	\$ 264,932
Supplementary Disclosures of Noncash Investing Activities:				
Acquisition of Foreclosed Real Estate		\$ 301,044	\$ 0	\$ 85,611
Sale of Foreclosed Real Estate by Origination of Mortgage Loans		\$ 106,250	\$ 0	\$ 0
Change in Unrealized Gain/Loss on Investment Securities Available for Sale		\$ (13,944,521)	\$ (2,022,935)	\$ 1,306,044
Change in Deferred Income Taxes Associated with Unrealized Gain/Loss on Investment Securities Available for Sale		\$ (3,645,098)	\$ (528,795)	\$ 341,400
Change in Net Unrealized Gain/Loss on Investment Securities Available for Sale		\$ (10,299,423)	\$ (1,494,140)	\$ 964,644

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, 2022, 2021 and 2020

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Comprehensive Income - Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes net unrealized gains and losses on investment securities available for sale, net of any related tax effects, which is also recognized as a separate component of equity.

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.

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 amounts on deposit with the Federal Home Loan Bank of Cincinnati (FHLB) as of December 31:

	<u>2022</u>	<u>2021</u>
Unrestricted Deposits at FHLB	\$ 1,578,132	\$ 7,609,066

Interest-Bearing Deposits in Other Banks - These deposits include term deposits with the FHLB totaling \$3,000,000 as of December 31, 2022 and 2021 and certificates of deposits that mature within one to two years, are covered by FDIC insurance at correspondent banks and are carried at cost, which approximates estimated fair value.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Equity Securities, at Cost - The Bank maintains a required investment in the Federal Home Loan Bank ("FHLB") of Cincinnati totaling \$781,500 as of December 31, 2022 (\$1,125,700 as of December 31, 2021), which is carried at cost and evaluated for impairment. The investment in FHLB stock is in part based on the amount of borrowings from the FHLB (see Note 8). The Bank also has stock in its data processing provider at a cost of \$65,000 as well as stock in Bankers Title of East Tennessee, LLC at a cost of \$35,775. These investments do not have readily determinable fair values, and the Bank has elected to account for them at cost minus impairment, if any, with adjustments to fair value when there are observable price changes.

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

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

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

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

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being recognized upon ultimate settlement. The amount of unrecognized tax benefits is adjusted as appropriate for changes in facts and circumstances, such as significant amendments to existing tax law, new regulations or interpretations by the taxing authorities, new information obtained during a tax examination, or resolution of an examination.

Earnings Per Share - Earnings per share is based on the weighted average number of shares outstanding of 750,458, 770,830 and 847,417 for 2022, 2021 and 2020, respectively. The Company did not have any dilutive securities during these periods.

Adoption of New Accounting Standards - On January 1, 2022, the Company adopted ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects related to accounting for income taxes. The adoption of this guidance did not result in a significant impact on the consolidated financial statements.

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

Evaluation of Subsequent Events - Management has evaluated subsequent events through March 13, 2023, 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, 2022				
Debt Securities:				
Obligations of U.S. Government Corporations and Agencies	\$ 36,702,212	\$ 35,983	\$ (2,719,007)	\$ 34,019,188
Residential Mortgage-Backed and Related Securities	35,634,060	34,492	(4,053,492)	31,615,060
Corporate Debt Securities	12,082,340	1,383	(1,018,854)	11,064,869
Obligations of States and Political Subdivisions	49,969,130	4,160	(6,910,577)	43,062,713
Total Debt Securities	\$ 134,387,742	\$ 76,018	\$ (14,701,930)	\$ 119,761,830
December 31, 2021				
Debt Securities:				
Obligations of U.S. Government Corporations and Agencies	\$ 30,467,632	\$ 84,070	\$ (385,304)	\$ 30,166,398
Residential Mortgage-Backed and Related Securities	40,139,263	73,279	(703,946)	39,508,596
Corporate Debt Securities	12,355,031	218,466	(144,063)	12,429,434
Obligations of States and Political Subdivisions	48,874,911	559,211	(383,104)	49,051,018
Total Debt Securities	\$ 131,836,837	\$ 935,026	\$ (1,616,417)	\$ 131,155,446

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

	For the Years Ended December 31,		
	2022	2021	2020
Gross Realized Gains	\$ 0	\$ 0	\$ 75,686
Gross Realized Losses	0	0	(56,739)
	\$ 0	\$ 0	\$ 18,947

The amortized cost and estimated fair value of debt securities available for sale as of December 31, 2022 by contractual maturity, are as follows:

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in One Year or Less	\$ 4,539,145	\$ 4,524,170
Due After One Year To Five Years	32,435,641	29,571,610
Due After Five Years To Ten Years	23,198,197	20,534,631
Due After Ten Years	22,362,896	17,947,868
	82,535,879	72,578,279
Mortgage-Backed and SBA Pooled Securities	51,851,863	47,183,551
	\$ 134,387,742	\$ 119,761,830

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

NOTE 2 - INVESTMENT SECURITIES (Continued)

Investments with book values of approximately \$61,040,000 and \$46,075,000 (which approximates market values) as of December 31, 2022 and 2021, respectively, were pledged to secure deposits of public funds.

Investment securities with gross unrealized losses at December 31, 2022 and 2021, 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, 2022						
Debt Securities:						
Obligations of U.S. Government Corporations and Agencies	\$ 13,834,132	\$ (577,362)	\$ 18,014,385	\$ (2,141,645)	\$ 31,848,517	\$ (2,719,007)
Residential Mortgage-Backed and Related Securities	6,406,962	(384,687)	22,603,562	(3,668,805)	29,010,524	(4,053,492)
Corporate Debt Securities	6,561,025	(185,165)	4,000,023	(833,689)	10,561,048	(1,018,854)
Obligations of States and Political Subdivisions	16,430,929	(1,633,129)	25,414,828	(5,277,448)	41,845,757	(6,910,577)
Total Debt Securities	\$ 43,233,048	\$ (2,780,343)	\$ 70,032,798	\$ (11,921,587)	\$ 113,265,846	\$ (14,701,930)
As of December 31, 2021						
Debt Securities:						
Obligations of U.S. Government Corporations and Agencies	\$ 12,049,841	\$ (136,344)	\$ 11,655,396	\$ (248,960)	\$ 23,705,237	\$ (385,304)
Residential Mortgage-Backed and Related Securities	20,165,758	(502,744)	9,755,119	(201,202)	29,920,877	(703,946)
Corporate Debt Securities	3,278,760	(66,497)	1,672,434	(77,566)	4,951,194	(144,063)
Obligations of States and Political Subdivisions	23,658,390	(345,162)	1,695,712	(37,942)	25,354,102	(383,104)
Total Debt Securities	\$ 59,152,749	\$ (1,050,747)	\$ 24,778,661	\$ (565,670)	\$ 83,931,410	\$ (1,616,417)

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2022, the 269 investment securities with unrealized losses have depreciated approximately 12% from the Bank's amortized cost basis. Except for the corporate debt securities, these securities are guaranteed by U.S. government agencies or corporations or issued by state and local governments. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

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

NOTE 3 - LOANS RECEIVABLE

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

	As of December 31,	
	2022	2021
Loans Secured by Real Estate		
Residential	\$ 79,017,629	\$ 77,429,997
Construction and Land Development	14,375,642	10,624,348
Commercial Properties	12,588,222	13,054,770
Total Loans Secured by Real Estate	105,981,493	101,109,115
Commercial and Industrial Loans	2,436,714	1,434,753
Consumer Loans	2,579,362	2,352,096
	5,016,076	3,786,849
Net Deferred Loan Origination Fees	(351,996)	(315,805)
Allowance for Loan and Lease Losses (see Note 4)	(1,658,907)	(1,694,048)
	(2,010,903)	(2,009,853)
Net Loans	\$ 108,986,666	\$ 102,886,111

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 \$12,154,000 and \$12,492,000 at December 31, 2022 and 2021. Outstanding letters of credit were \$39,000 and \$50,000 at December 31, 2022 and 2021.

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, 2022 and 2021 totaled approximately \$1,218,000 and \$1,335,000, respectively.

NOTE 4 - LOAN QUALITY

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

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

NOTE 4 - LOAN QUALITY (Continued)

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

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

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

The total allowance reflects the Bank's estimate of loan losses inherent in the loan portfolio and management considers the ALLL to be adequate to cover losses inherent in the portfolio as of December 31, 2022 and 2021.

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, 2022 and 2021.

<i>(Dollars in thousands)</i>	<u>Residential Real Estate</u>	<u>Construction & Land</u>	<u>Commercial Real Estate</u>	<u>Commercial & Industrial</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
Allowance at							
December 31, 2020	\$ 929	\$ 65	\$ 205	\$ 35	\$ 53	\$ 377	\$ 1,664
Charge-offs	(2)	0	0	0	(1)	0	(3)
Recoveries	2	1	0	0	0	0	3
Provision	(114)	45	(3)	7	(6)	101	30
Allowance at							
December 31, 2021	815	111	202	42	46	478	1,694
Charge-offs	(35)	0	0	0	(2)	0	(37)
Recoveries	1	1	0	0	0	0	2
Provision	47	37	(8)	23	(1)	(98)	0
Allowance at							
December 31, 2022	<u>\$ 828</u>	<u>\$ 149</u>	<u>\$ 194</u>	<u>\$ 65</u>	<u>\$ 43</u>	<u>\$ 380</u>	<u>\$ 1,659</u>

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, 2022 and 2021.

<i>(Dollars in thousands)</i>	<u>Residential Real Estate</u>	<u>Construction & Land</u>	<u>Commercial Real Estate</u>	<u>Commercial & Industrial</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
December 31, 2022							
Loans Evaluated for							
Allowance:							
Individually	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Collectively	79,018	14,376	12,588	2,437	2,579	0	110,998
Total	<u>\$ 79,018</u>	<u>\$ 14,376</u>	<u>\$ 12,588</u>	<u>\$ 2,437</u>	<u>\$ 2,579</u>	<u>\$ 0</u>	<u>\$ 110,998</u>
Allowance Established							
for Loans Evaluated:							
Individually	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Collectively	828	149	194	65	43	380	1,659
Allowance at							
December 31, 2020	<u>\$ 828</u>	<u>\$ 149</u>	<u>\$ 194</u>	<u>\$ 65</u>	<u>\$ 43</u>	<u>\$ 380</u>	<u>\$ 1,659</u>
December 31, 2021							
Loans Evaluated for							
Allowance:							
Individually	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Collectively	77,430	10,624	13,055	1,435	2,352	0	104,896
Total	<u>\$ 77,430</u>	<u>\$ 10,624</u>	<u>\$ 13,055</u>	<u>\$ 1,435</u>	<u>\$ 2,352</u>	<u>\$ 0</u>	<u>\$ 104,896</u>
Allowance Established							
for Loans Evaluated:							
Individually	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Collectively	815	111	202	42	46	478	1,694
Allowance at							
December 31, 2019	<u>\$ 815</u>	<u>\$ 111</u>	<u>\$ 202</u>	<u>\$ 42</u>	<u>\$ 46</u>	<u>\$ 478</u>	<u>\$ 1,694</u>

The Bank did not have any loans as of December 31, 2022 and 2021 that were individually evaluated and deemed to be impaired.

NOTE 4 - LOAN QUALITY (Continued)

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

<i>(Dollars in thousands)</i>	<u>Current</u>	<u>Past Due Loans</u>			<u>Non-Accrual</u>	<u>Total Loans</u>
		<u>30-89 Days</u>	<u>90 + Days</u>	<u>Total</u>		
<u>December 31, 2022</u>						
Residential Real Estate:						
1-4 Family First Liens and Farmland	\$ 75,554	\$ 1,753	\$ 0	\$ 1,753	\$ 295	\$ 77,602
1-4 Family Junior Liens	252	0	0	0	0	252
MultiFamily	1,164	0	0	0	0	1,164
Total	<u>76,970</u>	<u>1,753</u>	<u>0</u>	<u>1,753</u>	<u>295</u>	<u>79,018</u>
Construction & Land:						
1-4 Family	3,376	0	0	0	0	3,376
Land & Other	11,000	0	0	0	0	11,000
Total	<u>14,376</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>14,376</u>
Commercial Real Estate:						
Owner-Occupied Nonfarm Properties	9,207	0	0	0	0	9,207
Other Nonfarm Properties	3,381	0	0	0	0	3,381
Total	<u>12,588</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>12,588</u>
Commercial & Industrial	<u>2,437</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,437</u>
Consumer:						
Automobiles	1,166	1	0	1	0	1,167
Other	1,402	10	0	10	0	1,412
Total	<u>2,568</u>	<u>11</u>	<u>0</u>	<u>11</u>	<u>0</u>	<u>2,579</u>
Total	<u>\$ 108,939</u>	<u>\$ 1,764</u>	<u>\$ 0</u>	<u>\$ 1,764</u>	<u>\$ 295</u>	<u>\$ 110,998</u>
<u>December 31, 2021</u>						
Residential Real Estate:						
1-4 Family First Liens	\$ 74,350	\$ 1,006	\$ 0	\$ 1,006	\$ 702	\$ 76,058
1-4 Family Junior Liens	278	0	0	0	0	278
MultiFamily	1,094	0	0	0	0	1,094
Total	<u>75,722</u>	<u>1,006</u>	<u>0</u>	<u>1,006</u>	<u>702</u>	<u>77,430</u>
Construction & Land:						
1-4 Family	2,010	0	0	0	0	2,010
Land & Other	8,614	0	0	0	0	8,614
Total	<u>10,624</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10,624</u>
Commercial Real Estate:						
Owner-Occupied Nonfarm Properties	9,096	0	0	0	0	9,096
Other Nonfarm Properties	3,959	0	0	0	0	3,959
Total	<u>13,055</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>13,055</u>
Commercial & Industrial	<u>1,435</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,435</u>
Consumer:						
Automobiles	834	2	0	2	0	836
Other	1,516	0	0	0	0	1,516
Total	<u>2,350</u>	<u>2</u>	<u>0</u>	<u>2</u>	<u>0</u>	<u>2,352</u>
Total	<u>\$ 103,186</u>	<u>\$ 1,008</u>	<u>\$ 0</u>	<u>\$ 1,008</u>	<u>\$ 702</u>	<u>\$ 104,896</u>

NOTE 4 - LOAN QUALITY (Continued)

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

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

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

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

Special Mention - Loans included in this category are currently protected but are potentially weak. These loans constitute an undue and unwarranted credit risk but do not presently expose the Bank to a sufficient degree of risk to warrant adverse classification. As a general rule, for the purpose of calculating a loan loss reserve, loans in this category will have the historical loss reserve percentage applied and will remain in a pool with loans that are considered acceptable or better when determining the general valuation reserves. Loans classified as special mention have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard - Substandard loans are inadequately protected by the current net worth and financial capacity of the borrower or of the collateral pledged, if any. The borrower or guarantor is unwilling or unable to meet loan terms or loan covenants for the foreseeable future.

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

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

NOTE 4 - LOAN QUALITY (Continued)

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

<i>(Dollars in thousands)</i>	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
December 31, 2022					
Residential Real Estate	\$ 76,990	\$ 578	\$ 1,450	\$ 0	\$ 79,018
Construction & Land	14,376	0	0	0	14,376
Commercial Real Estate	12,588	0	0	0	12,588
Commercial & Industrial	2,437	0	0	0	2,437
Consumer	<u>2,579</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,579</u>
Total	<u>\$ 108,970</u>	<u>\$ 578</u>	<u>\$ 1,450</u>	<u>\$ 0</u>	<u>\$ 110,998</u>
December 31, 2021					
Residential Real Estate	\$ 74,989	\$ 548	\$ 1,893	\$ 0	\$ 77,430
Construction & Land	10,615	9	0	0	10,624
Commercial Real Estate	13,055	0	0	0	13,055
Commercial & Industrial	1,435	0	0	0	1,435
Consumer	<u>2,352</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,352</u>
Total	<u>\$ 102,446</u>	<u>\$ 557</u>	<u>\$ 1,893</u>	<u>\$ 0</u>	<u>\$ 104,896</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, 2022 and 2021, 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.

No TDRs were modified during the years ending December 31, 2022 or December 31, 2021.

NOTE 5 - PREMISES AND EQUIPMENT, NET

Premises and equipment, net are summarized as follows:

	As of December 31,	
	<u>2022</u>	<u>2021</u>
Land	\$ 510,262	\$ 510,262
Buildings	3,414,962	3,414,962
Furniture and Equipment	<u>1,021,424</u>	<u>974,006</u>
	4,946,648	4,899,230
Less Accumulated Depreciation	<u>(2,806,073)</u>	<u>(2,706,590)</u>
	<u>\$ 2,140,575</u>	<u>\$ 2,192,640</u>

NOTE 6 - FORECLOSED REAL ESTATE

An analysis of foreclosed real estate for the years ended December 31, 2022 and 2021 follows:

	<u>2022</u>	<u>2021</u>
Balance at Beginning of Year	\$ 0	\$ 0
Transfers from Loans	301,044	0
Foreclosed Real Estate Sold	<u>(301,044)</u>	<u>0</u>
Balance at End of Year	<u>\$ 0</u>	<u>\$ 0</u>

Expenses applicable to foreclosed real estate for the year ended December 31, 2022 and 2021 include the following:

	<u>2022</u>	<u>2021</u>
Net (Gain) Loss on Sales of Foreclosed Real Estate	\$ (18,744)	\$ 0
Rental Income from Foreclosed Real Estate	0	0
Operating Expenses	<u>5,225</u>	<u>0</u>
	<u>\$ (13,519)</u>	<u>\$ 0</u>

NOTE 7 - DEPOSITS

A summary of deposits is as follows:

	<u>As of December 31,</u>	
	<u>2022</u>	<u>2021</u>
Demand Deposits:		
Noninterest-Bearing Accounts	\$ 46,461,919	\$ 44,581,009
NOW Accounts	37,131,981	37,059,994
Money Market Deposit Accounts	12,518,619	12,108,123
Passbook Savings	<u>46,639,447</u>	<u>44,816,366</u>
Total Demand Deposits	<u>142,751,966</u>	<u>138,565,492</u>
Term Deposits:		
Less Than \$250,000	60,363,021	63,535,248
\$250,000 or More	<u>30,546,557</u>	<u>30,640,541</u>
Total Term Deposits	<u>90,909,578</u>	<u>94,175,789</u>
Total Deposits	<u>\$ 233,661,544</u>	<u>\$ 232,741,281</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, 2022 are as follows:

2023	\$ 58,716,988
2024	24,509,607
2025	6,256,135
2026	338,563
2027	<u>1,088,285</u>
	<u>\$ 90,909,578</u>

The aggregate amount of overdrafts reclassified as loans receivable were \$42,159 and \$36,000 at December 31, 2022 and 2021, respectively.

NOTE 8 - ADVANCES FROM FEDERAL HOME LOAN BANK

The Bank maintains a line of credit advance agreement with the Federal Home Loan Bank (FHLB) which allows borrowings up to approximately \$8,000,000. Pursuant to the Bank's collateral agreement with the FHLB, advances are secured by the Bank's FHLB stock and qualifying first mortgage loans. There were no advances outstanding as of December 31, 2022 and 2021.

NOTE 9 - REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

Interchange Income - Interchange income represents fees for standing ready to authorize and providing settlement on credit card and debit card transactions processed through the Visa© interchange network. The levels of service and structure of interchange rates are set by Visa© and can vary based on cardholder purchase volume. The Company recognizes interchange income upon settlement with the interchange network. Based on the Company's underlying contracts, ASC 606 requires reporting network costs associated with debit card and credit card transactions netted against the related fees from such transactions. Interchange network costs reduced interchange income by \$198,362, \$155,278 and \$110,162 for the years ended December 31, 2022, 2021 and 2020, respectively. Net interchange fees totaled \$88,831, \$106,884 and \$83,698 for the years ended December 31, 2022, 2021 and 2020, respectively, and are reported within other noninterest income.

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

NOTE 10 - INCOME TAXES

The Company files income tax returns in the U.S. federal jurisdiction and Tennessee state jurisdiction. With few exceptions, the Company is no longer subject to tax examinations by tax authorities for years before 2019. The Company has not accrued or expensed any amounts for interest or penalties associated with income taxes for the years ended December 31, 2022, 2021 and 2020.

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

	2022		2021		2020	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Federal Income Tax at Statutory Rate	\$ 548,590	21.0 %	\$ 382,088	21.0 %	\$ 292,870	21.0 %
State Income Tax, Net	101,122	3.9	69,036	3.8	51,408	3.7
Tax Exempt Interest	(132,729)	(5.1)	(130,130)	(7.2)	(127,793)	(9.2)
Other Nontaxable Income	(17,738)	(0.7)	(24,606)	(1.4)	(20,476)	(1.5)
Nondeductible Expenses	5,790	0.2	7,035	0.4	10,074	0.7
Credits and Other, Net	(693)	(0.0)	(3,998)	(0.2)	2,601	0.2
	<u>\$ 504,342</u>	<u>19.3 %</u>	<u>\$ 299,425</u>	<u>16.5 %</u>	<u>\$ 208,684</u>	<u>15.0 %</u>
Income Taxes (Benefit) Consist of :						
Current	\$ 512,117		\$ 313,227		\$ 269,135	
Deferred Taxes (Benefit)	<u>(7,775)</u>		<u>(13,802)</u>		<u>(60,451)</u>	
	<u>\$ 504,342</u>		<u>\$ 299,425</u>		<u>\$ 208,684</u>	

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

	As of December 31,	
	2022	2021
Deferred Tax Assets	\$ 4,748,360	\$ 1,099,640
Deferred Tax Liabilities	<u>(461,066)</u>	<u>(465,219)</u>
Net Deferred Tax Asset	<u>\$ 4,287,294</u>	<u>\$ 634,421</u>

Included in the 2022 deferred tax assets above is \$3,823,213 of deferred tax effect on the net unrealized losses on investment securities available for sale (\$178,115 in deferred tax assets on net unrealized losses in 2021).

NOTE 11 - REGULATORY MATTERS

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

NOTE 11 - REGULATORY MATTERS (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank and Company to maintain minimum amounts and ratios. Management believes, as of December 31, 2022 and 2021, that the Bank and Company meet all capital adequacy requirements to which they are subject.

As of December 31, 2022 and 2021, the Bank is categorized as *well capitalized* under the regulatory framework for prompt corrective action. There are no conditions or events since that date that management believes have changed the Bank's category.

In November 2019, the Office of the Comptroller, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio (CBLR) framework, for qualifying community banking organizations, consistent with section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank and Company for the year ending December 31, 2020.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a leverage ratio (equal to tier 1 capital divided by average total consolidated assets). Qualifying banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the risk-based and leverage capital requirements in the agencies' generally applicable capital rule and will be considered to have met the well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the final rules, the community bank leverage ratio minimum requirement is 8% as of December 31, 2020, 8.5% for 2021, and 9% for 2022 and beyond. The rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the banking organization maintains a leverage ratio of 7% as of December 31, 2020, 7.5% for 2021, and 8% for 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2022 and 2021, both the Bank and Company were qualifying community banking organizations as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

The Company's and Bank's actual capital amounts and ratios as of December 31, 2022 and 2021 are also presented in the following table. All dollar amounts are in thousands of dollars.

	Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions (CBLR Framework)	
			Amount	Ratio
<u>As of December 31, 2022</u>				
Tier I Capital (to Average Assets):				
Company (Consolidated)	\$ 25,767	10.17%	\$ 22,806	9.0%
Bank	\$ 25,653	10.13%	\$ 22,802	9.0%
<u>As of December 31, 2021</u>				
Tier I Capital (to Average Assets):				
Company (Consolidated)	\$ 23,975	9.36%	\$ 21,776	8.5%
Bank	\$ 23,602	9.22%	\$ 21,770	8.5%

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 \$150,000, \$166,000 and \$160,000 for the years ended December 31, 2022, 2021 and 2020, respectively.

NOTE 13 - STOCK PURCHASE PLANS

The Company has a Director Stock Purchase Plan and an Employee Stock Purchase Plan, which are more fully described below. Stock-based compensation cost related to those plans were \$19,683, \$20,722 and \$5,291 for the years ended December 31, 2022, 2021 and 2020, respectively. The related income tax benefit recognized was \$5,145 for 2022, \$5,417 for 2021 and \$1,383 for 2020.

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

NOTE 13 - STOCK PURCHASE PLANS (Continued)

Directors Stock Purchase Plan - The maximum number of shares of common stock that can be sold under this plan is 120,000 shares. As of December 31, 2022, there are 86,905 shares remaining to be issued under the plan. Each participant cannot be sold more than 1,200 shares of common stock per year, and the purchase price is 85% of the fair value of the common stock, as determined by the Board of Directors. Options to purchase shares are required to be exercised in March of each year and in the same year that they are granted.

Directors Plan Activity:	2022	2021	2020
Number of Shares Purchased	\$ 3,600	\$ 3,400	\$ 1,200
Exercise Price for Purchased Shares	\$ 20.64	\$ 16.89	\$ 20.54
Grant-Date Fair Value for Options Granted	\$ 3.86	\$ 2.98	\$ 3.98
Total Intrinsic Value for Options Exercised	\$ 13,104	\$ 10,132	\$ 4,356
Total Cost of Shares Purchased	\$ 74,304	\$ 57,426	\$ 24,648

Employees Stock Purchase Plan - The maximum number of shares of common stock that can be sold under this plan is 40,000 shares. As of December 31, 2022, there are 27,200 shares remaining to be issued under the plan. All full-time employees and certain part-time employees are eligible to purchase up to 1,200 shares per year, and the purchase price is 85% of the fair value of the common stock, as determined by the Board of Directors. Options to purchase shares are required to be exercised in the same year that they are granted and expire if not exercised by year-end.

Employees Plan Activity:	2022	2021	2020
Number of Shares Purchased	\$ 1,200	\$ 3,500	\$ 400
Exercise Price for Purchased Shares	\$ 20.64	\$ 16.89	\$ 20.54
Grant-Date Fair Value for Options Granted	\$ 4.80	\$ 3.02	\$ 5.19
Total Intrinsic Value for Options Exercised	\$ 4,368	\$ 10,430	\$ 363
Total Cost of Shares Purchased	\$ 24,768	\$ 59,115	\$ 7,454

NOTE 14 - DIRECTORS AND OFFICERS DEFERRED COMPENSATION

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

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

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Balances, Beginning of Year	\$ 1,324,614	\$ 1,317,539	\$ 1,300,955
Directors Fees Deferred During Year	50,050	45,900	42,400
Amounts Accrued and Expensed for Officers Plan	10,785	8,301	8,446
Income During Year	6,819	7,374	20,238
Withdrawals	<u>(60,021)</u>	<u>(54,500)</u>	<u>(54,500)</u>
Balances, End of Year	<u>\$ 1,332,247</u>	<u>\$ 1,324,614</u>	<u>\$ 1,317,539</u>

NOTE 15 - SPLIT DOLLAR LIFE INSURANCE BENEFITS

The Company provides life insurance benefits to certain employees under split-dollar insurance contracts. The accrued liability for these benefits was \$80,747 at December 31, 2022 (\$82,140 at December 31, 2021). Expense (revenue) related to this plan was \$(1,393), \$(27,971) and \$241 for the years ended December 31, 2022, 2021 and 2020, 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, 2022, 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 price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date (exit price). It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes three levels of inputs that may be used to measure fair value:

- Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset and liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2: Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: Inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

NOTE 19 - FAIR VALUE DISCLOSURES (Continued)

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 - For impaired loans, a specific allowance is established as a component of the allowance for loan losses based on the present value of expected payments, the loans' observable market price, or the fair value of the collateral less selling costs if the loans are collateral-dependent. Impaired loans are classified within Level 3 of the valuation hierarchy. The Bank's impaired loans are considered to be collateral-dependent and are primarily valued using third-party appraisals or other valuations based on sales of similar assets. Collateral is primarily real estate but may sometimes include other business assets, including equipment, inventory, or accounts receivable. The appraisals or other valuations are sometimes further discounted based on management's historical knowledge, changes in market conditions from the date of the most recent appraisal, and management's expertise and knowledge of the customer and the customer's business. Such discounts by management are subjective and are typically significant unobservable inputs for determining fair value.

Foreclosed Real Estate - Foreclosed real estate is carried at the lower of the outstanding loan amount at time of foreclosure or estimated fair value less estimated selling costs. Estimated fair value is determined using third-party appraisals based on sales of comparable properties and is classified with Level 3 of the valuation hierarchy. The appraisals are sometimes further discounted based on management's historical knowledge, changes in market conditions from the date of the most recent appraisal, and management's expertise and knowledge of the customer and the customer's business. Such discounts are typically unobservable inputs for determining fair value.

Assets Recorded at Fair Value on a Recurring Basis

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

	Carrying Amount in the Balance Sheet	Fair Value Measurements Using		
		Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>As of December 31, 2022</u>				
Obligations of U.S. Government Corporations and Agencies	\$ 34,019,188	\$ 0	\$ 34,019,188	\$ 0
Residential Mortgage-Backed and Related Securities	31,615,060	0	31,615,060	0
Corporate Debt Securities	11,064,869	0	11,064,869	0
Obligations of States and Political Subdivisions	43,062,713	0	43,062,713	0
Investment Securities Available for Sale	<u>\$ 119,761,830</u>	<u>\$ 0</u>	<u>\$ 119,761,830</u>	<u>\$ 0</u>
<u>As of December 31, 2021</u>				
Obligations of U.S. Government Corporations and Agencies	\$ 30,166,398	\$ 0	\$ 30,166,398	\$ 0
Residential Mortgage-Backed and Related Securities	39,508,596	0	39,508,596	0
Corporate Debt Securities	12,429,434	0	12,429,434	0
Obligations of States and Political Subdivisions	49,051,018	0	49,051,018	0
Investment Securities Available for Sale	<u>\$ 131,155,446</u>	<u>\$ 0</u>	<u>\$ 131,155,446</u>	<u>\$ 0</u>

NOTE 19 - FAIR VALUE DISCLOSURES (Continued)

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. There were no assets recorded at fair value on a nonrecurring basis as of December 31, 2022 or December 31, 2021.

The following table presents the carrying amounts, estimated fair value and placement in the fair value hierarchy of the Bank's financial instruments that are not carried at fair value at December 31, 2022 and December 31, 2021.

<i>(Dollars in thousands)</i>	Carrying Amount in the Balance Sheet	Estimated Fair Value	Fair Value Measurements Using		
			Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>As of December 31, 2022</u>					
Financial Assets:					
Cash and Amounts Due from Depository Institutions	\$ 3,914	\$ 3,914	\$ 3,914	\$ 0	\$ 0
Interest Bearing Deposits in Other Banks	5,341	5,341	5,341	0	0
Loans Receivable, Net	108,987	106,151	0	0	106,151
Cash Surrender Value of Life Insurance	4,536	4,536	0	0	4,536
Financial Liabilities:					
Deposits	\$ 233,662	\$ 233,472	\$ 0	\$ 0	\$ 233,472
<u>As of December 31, 2021</u>					
Financial Assets:					
Cash and Amounts Due from Depository Institutions	\$ 9,242	\$ 9,242	\$ 9,242	\$ 0	\$ 0
Interest Bearing Deposits in Other Banks	5,590	5,590	5,590	0	0
Loans Receivable, Net	102,886	103,185	0	0	103,185
Cash Surrender Value of Life Insurance	4,454	4,454	0	0	4,454
Financial Liabilities:					
Deposits	\$ 232,741	\$ 233,267	\$ 0	\$ 0	\$ 233,267

NOTE 19 - FAIR VALUE DISCLOSURES (Continued)

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

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

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

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

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

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

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

Much of the information as well as the amounts disclosed above are highly subjective and judgmental in nature. The subjective factors include estimates of cash flows, risk characteristics, credit quality and interest rates, all of which are subject to change. Because the fair value is estimated as of December 31, 2022 and 2021, the amounts which will actually be realized or paid upon settlement or maturity of the various financial instruments could be significantly different.

CONSOLIDATING INFORMATION



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INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATING INFORMATION

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

We have audited the consolidated financial statements of United Tennessee Bankshares, Inc. and its subsidiary as of December 31, 2022 and 2021 and for the years ended December 31, 2022, 2021 and 2020 and have issued our report thereon, dated March 13, 2023, which contains an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole.

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

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
March 13, 2023



An independently owned member
RSM US Alliance



TSCPA
Members of the Tennessee Society
Of Certified Public Accountants

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

As of December 31, 2022

	United Tennessee Bankshares, Inc.	Newport Federal Bank	Intercompany Eliminations	Consolidated
ASSETS				
Cash and Amounts Due from Depository Institutions	\$ 98,590	\$ 3,864,604	\$ (49,653)	\$ 3,913,541
Interest-Bearing Deposits in Other Banks	0	5,341,000	0	5,341,000
Investment Securities Available for Sale, at Fair Value	0	119,761,830	0	119,761,830
Loans Receivable, Net	0	108,986,666	0	108,986,666
Equity Securities, at Cost	0	882,275	0	882,275
Premises and Equipment, Net	0	2,140,575	0	2,140,575
Accrued Interest Receivable	0	1,036,366	0	1,036,366
Cash Surrender Value of Life Insurance	0	4,535,711	0	4,535,711
Investment in Subsidiary	25,653,401	0	(25,653,401)	0
Deferred Income Tax Asset	0	4,287,294	0	4,287,294
Prepaid Expenses and Other Assets	0	147,745	0	147,745
TOTAL ASSETS	\$ 25,751,991	\$ 250,984,066	\$ (25,703,054)	\$ 251,033,003
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Deposits:				
Demand	\$ 0	\$ 142,801,619	\$ (49,653)	\$ 142,751,966
Term	0	90,909,578	0	90,909,578
Total Deposits	0	233,711,197	(49,653)	233,661,544
Accrued Interest Payable	0	9,931	0	9,931
Accrued Income Taxes	(15,095)	111,108	0	96,013
Accrued Benefit Plan Liabilities	0	1,695,089	0	1,695,089
Other Liabilities	0	606,038	0	606,038
Total Liabilities	(15,095)	236,133,363	(49,653)	236,068,615
SHAREHOLDERS' EQUITY				
Common Stock	1,522,717	7,100,000	(7,100,000)	1,522,717
Retained Earnings	24,244,369	18,553,401	(18,553,401)	24,244,369
Accumulated Other Comprehensive Income (Loss)	0	(10,802,698)	0	(10,802,698)
Total Shareholders' Equity	25,767,086	14,850,703	(25,653,401)	14,964,388
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 25,751,991	\$ 250,984,066	\$ (25,703,054)	\$ 251,033,003

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, 2022

	United Tennessee Bankshares, Inc.	Newport Federal Bank	Intercompany Eliminations	Consolidated
INTEREST INCOME				
Loans	\$ 0	\$ 5,018,443	\$ 0	\$ 5,018,443
Investment Securities	0	2,321,184	0	2,321,184
Other Interest-Earning Assets, Net	933	139,283	(341)	139,875
Total Interest Income	<u>933</u>	<u>7,478,910</u>	<u>(341)</u>	<u>7,479,502</u>
INTEREST EXPENSE				
Deposits	0	1,042,670	(341)	1,042,329
Total Interest Expense	<u>0</u>	<u>1,042,670</u>	<u>(341)</u>	<u>1,042,329</u>
NET INTEREST INCOME	933	6,436,240	0	6,437,173
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>933</u>	<u>6,436,240</u>	<u>0</u>	<u>6,437,173</u>
NONINTEREST INCOME				
Deposit Account Service Charges	0	339,623	0	339,623
Loan Service Charges and Fees	0	47,440	0	47,440
Net Gain (Loss) on Sales of Investment Securities				
Gain (Loss) on Sales of Premises and Equipment	0	5,542	0	5,542
Income of Subsidiary	2,151,504	0	(2,151,504)	0
Increase in Cash Surrender Value of Life Insurance	0	81,984	0	81,984
Other	0	170,016	0	170,016
Total Noninterest Income	<u>2,151,504</u>	<u>644,605</u>	<u>(2,151,504)</u>	<u>644,605</u>
NONINTEREST EXPENSE				
Compensation and Benefits	19,683	2,566,433	0	2,586,116
Occupancy and Equipment	0	481,055	0	481,055
Federal Deposit Insurance and Regulatory Assessments	0	142,220	0	142,220
Data Processing Fees	0	574,245	0	574,245
Advertising and Promotion	0	59,216	0	59,216
(Gain)/Loss on Foreclosed Real Estate	0	(13,519)	0	(13,519)
Other	40,157	599,954	0	640,111
Total Noninterest Expense	<u>59,840</u>	<u>4,409,604</u>	<u>0</u>	<u>4,469,444</u>
INCOME BEFORE INCOME TAXES	2,092,597	2,671,241	(2,151,504)	2,612,334
INCOME TAX BENEFIT (EXPENSE)	<u>15,395</u>	<u>(519,737)</u>	<u>0</u>	<u>(504,342)</u>
NET INCOME	<u>\$ 2,107,992</u>	<u>\$ 2,151,504</u>	<u>\$ (2,151,504)</u>	<u>\$ 2,107,992</u>

See Independent Auditor's Report on Consolidating Information.

OTHER INFORMATION



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Letter Concerning Material Weaknesses In Internal Control Over Financial Reporting

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

In planning and performing our audit of the consolidated financial statements of United Tennessee Bankshares, Inc. and subsidiary (the "Company") as of and for the year ended December 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

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

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

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

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
March 13, 2023



An independently owned member
RSM US Alliance



TSCPA
Members of the Tennessee Society
Of Certified Public Accountants