UNITED TENNESSEE BANKSHARES, INC.

2023 ANNUAL REPORT

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UNITED TENNESSEE
BANKSHARES, INC.

United Tennessee Bankshares, Inc.

P O Box 249

Newport, Tennessee 37822-0249

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

To our Stockholders,

We are pleased to present this 2023 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 $263 million, and our deposits were $241 million as of December 31, 2023. The net income was $1,884,000, or $2.50 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 $0.61 during our February 20, 2024, 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,

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, 2023, there are 751,564 shares of the Company’s Common Stock outstanding, and approximately one hundred 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, 2023, and December 31, 2022

Total assets increased $11.8 million, or 4.7%, from $251.0 million on December 31, 2022, to $262.8 million on December 31, 2023. The Company’s asset increase was attributable principally to increases in cash and amounts due, interest earning deposits, and loans receivable, offset by a decrease in investment securities.

Cash and amounts due and interest earning deposits increased $13.9 million from previous year, from $9.3 million on December 31, 2022, to $23.1 million on December 31, 2023.

Investment securities available for sale decreased approximately $7.4 million, or 6.2%, from $119.8 million on December 31, 2022, to $112.3 million on December 31, 2023.

Net loans receivable increased $6.6 million, or 6.0%, from $109.0 million on December 31, 2022, to $115.6 million on December 31, 2023.

Total deposits increased approximately $7.4 million, or 3.2%, from $233.7 million on December 31, 2022, to $241.0 million on December 31, 2023. The majority of the growth in deposits was in time deposits.

The Company’s shareholders’ equity increased $3.8 million, from $15.0 million on December 31, 2022, to $18.7 million on December 31, 2023. The increase was primarily due to the increase in accumulated other comprehensive income of $2.4 million and net income of $1.9 million; offset by cash dividends paid to shareholders of $454,000. The change in accumulated other comprehensive income was a result of an increase in bond market prices for the quarter-ending December 31, 2023. These increases have been primarily driven by 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, 2023, and December 31, 2022

Net income was $1,884,000 for the year ended December 31, 2023, compared to net income of $2,108,000 for the year ended December 31, 2022. The decrease in net income during 2023 was primarily due to a decrease in our net interest income and an increase in our non-interest expense. Net income for 2023 represented a return on average assets (ROAA) of 0.73% compared to 0.83% for 2022, and a return on average equity (ROAE) of 11.19% for 2023 as compared to 10.97% for 2022.

Interest income totaled $9.4 million for 2023 and $7.5 million for 2022. The Company’s primary source of interest income is from loans receivable. Interest income from loans receivable was $5.8 million for the year ended December 31, 2023, and the average yield earned on loans receivable was 5.07%. Interest income from loans for the year ended December 31, 2022, was $5.0 million. Interest income on investment securities was $3.0 million for the year ended December 31, 2023, and $2.3 million for the year ended December 31, 2022. The average yield on interest-earning assets was 3.84% in 2023 and 3.06% in 2022.

Interest expense totaled $3,007,000 and $1,042,000 for the years ended December 31, 2023, and 2022, respectively. The increase in interest expense during 2023 was due to the increase in the average cost of funds from 0.45% to 1.27%.

Net interest income was $6.39 million and $6.44 million for the years ended December 31, 2023, and 2022, respectively. The net interest spread for 2023 was 2.57%, compared to 2.61% in 2022. The ratio of average interest-earning assets to average interest-bearing liabilities decreased slightly to 103.28% in 2023 from 104.84% in 2022. The Company's net interest margin decreased from 2.63% in 2022 to 2.61% in 2023.

Credit loss expense was $0 in 2023 and 2022. The amount of credit loss expense for any period is determined as of the end of the period based on a comparison of the amount of existing allowance for credit losses with management's analysis of various risk factors that affect the loan portfolio. On December 31, 2023, the ratio of the allowance to impaired loans was 99.16%.

Noninterest income for the years ended December 31, 2023, and 2022 was $678,000 and $645,000, 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, 2023, and 2022 was $4.75 million and $4.47 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, 2023, and 2022 was 67.18% and 63.10%, respectively.

The Company's effective tax rate was 18.86% and 19.31% for the years ended December 31, 2023, and 2022, 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, 2023, and 2022 was 6.55% and 7.55%, respectively. On December 31, 2023, 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 operating, financing, and investing activities during any given period. On December 31, 2023, and 2022, cash and amounts due from depository institutions totaled $12.8 million and $3.9 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, 2023, it had designated securities with a fair value of $112.3 million as available for sale. In addition to internal sources of funding, the Company, as a member of the FHLB of Cincinnati, has substantial borrowing authority with FHLB. The Company's use of a particular source of funds is based on need, comparative total costs, and availability.

On December 31, 2023, the Company had commitments of approximately $11.3 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 $78.6 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,				
	2023	2022	2021	2020	2019
Performance Ratios:					
Return on average assets (net income divided by average total assets)	0.73%	0.83%	0.61%	0.52%	0.72%
Return on average equity (net income divided by average equity)	11.19%	10.97%	6.03%	4.53%	6.21%
Dividend payout ratio (dividends per share divided by earnings per share)	24.00%	20.64%	28.93%	40.00%	31.25%
Interest rate spread (combined weighted average interest rate earned less combined weighted average interest rate cost)	2.57%	2.61%	2.22%	2.32%	2.69%
Net interest margin (net interest income divided by average interest earning assets)	2.61%	2.63%	2.25%	2.41%	2.79%
Ratio of average interest-earning assets to average interest-bearing liabilities	103.28%	104.84%	108.67%	110.18%	109.66%
Ratio of noninterest expense to average total assets	1.85%	1.75%	1.68%	1.87%	2.05%
Efficiency ratio (noninterest expense divided by total of net interest income and noninterest income)	67.18%	63.10%	69.74%	75.57%	69.91%
Asset Quality Ratios:					
Impaired assets to total assets at end of period	0.63%	0.58%	0.98%	1.06%	1.31%
Impaired loans to total loans at end of period	1.42%	1.31%	2.43%	2.37%	2.51%
Allowance for credit losses to total loans at end of period	1.41%	1.50%	1.62%	1.53%	1.36%
Allowance for credit losses to impaired loans at end of period	99.16%	114.41%	66.67%	64.58%	54.05%
Allowance for credit losses to total loans	0.00%	0.00%	0.03%	0.19%	0.00%
Net charge-offs to average loans outstanding	0.01%	0.03%	0.00%	0.00%	0.10%
Capital Ratios:					
Equity to total assets at end of period	7.12%	5.96%	9.09%	11.22%	12.00%
Average equity to average assets	6.55%	7.55%	10.11%	11.53%	11.58%
Stock Price (last trade prior to December 31):	$ 18.25	$ 20.00	$ 24.00	$ 19.53	$ 23.17

UNITED TENNESSEE BANKSHARES, INC.
AND SUBSIDIARY

Newport, Tennessee

CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER INFORMATION

December 31, 2023, 2022 and 2021

PUGH
CPAs

PUGH CPAs

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2023 and 2022, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2023, 2022 and 2021, 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, 2023 and 2022, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in the year ended December 31, 2023, the Company adopted new accounting guidance for the measurement of credit losses on financial instruments. Our opinion is not modified with respect to this matter.

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 are issued or 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.

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 15, 2024

UNITED TENNESSEE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

As of December 31,	2023	2022
ASSETS		
Cash and Amounts Due from Depository Institutions	$ 12,785,680	$ 3,913,541
Interest-Bearing Deposits in Other Banks	10,341,000	5,341,000
Investment Securities Available for Sale, at Fair Value (Amortized Cost of $123,723,201 and $134,387,742, Respectively, Net of Allowance for Credit Losses of $0 and $0, Respectively)	112,331,738	119,761,830
Loans, Net of Allowance for Credit Losses of $1,652,293 and $1,658,907 as of December 31, 2023 and 2022, Respectively	115,563,632	108,986,666
Equity Securities, at Cost	339,675	882,275
Premises and Equipment, Net	2,062,939	2,140,575
Accrued Interest Receivable	1,152,000	1,036,366
Cash Surrender Value of Life Insurance	4,619,950	4,535,711
Deferred Income Tax Asset	3,509,991	4,287,294
Prepaid Expenses and Other Assets	118,487	147,745
TOTAL ASSETS	$ 262,825,092	$ 251,033,003
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand	$ 120,214,004	$ 142,751,966
Term	120,820,179	90,909,578
Total Deposits	241,034,183	233,661,544
Accrued Interest Payable	528,034	9,931
Accrued Income Taxes	11,860	96,013
Accrued Benefit Plan Liabilities	1,794,392	1,695,089
Allowance for Credit Losses on Off-Balance Sheet Credit Exposures	114,755	0
Other Liabilities	625,903	606,038
Total Liabilities	244,109,127	236,068,615
SHAREHOLDERS' EQUITY		
Common Stock - No Par Value, Authorized 20,000,000 Shares; Issued 751,564 Shares in 2023 (751,244 Shares in 2022); Outstanding 751,564 Shares in 2023 (751,244 Shares in 2022)	1,540,715	1,522,717
Retained Earnings	25,588,984	24,244,369
Accumulated Other Comprehensive Income (Loss)	(8,413,734)	(10,802,698)
Total Shareholders' Equity	18,715,965	14,964,388
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 262,825,092	$ 251,033,003

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,	2023	2022	2021
INTEREST INCOME			
Loans	$ 5,773,152	$ 5,018,443	$ 5,020,963
Investment Securities	3,040,124	2,321,184	1,625,615
Other Interest-Earning Assets, Net	587,429	139,875	12,909
Total Interest Income	9,400,705	7,479,502	6,659,487
INTEREST EXPENSE			
Deposits	3,007,162	1,042,329	1,191,353
NET INTEREST INCOME	6,393,543	6,437,173	5,468,134
CREDIT LOSS EXPENSE			
Credit Loss Expense - Loans	0	0	30,000
NET INTEREST INCOME AFTER CREDIT LOSS EXPENSE	6,393,543	6,437,173	5,438,134
NONINTEREST INCOME			
Deposit Account Service Charges	356,986	339,623	282,234
Loan Service Charges and Fees	48,382	47,440	39,845
Gain (Loss) on Sales of Premises and Equipment	0	5,542	(1,933)
Increase in Cash Surrender Value of Life Insurance	84,239	81,984	87,850
Other	188,887	170,016	166,372
Total Noninterest Income	678,494	644,605	574,368
NONINTEREST EXPENSE			
Compensation and Benefits	2,822,470	2,586,116	2,390,189
Occupancy and Equipment	441,599	481,055	445,306
Federal Deposit Insurance and Regulatory Assessments	147,486	142,220	135,197
Data Processing Fees	627,341	574,245	535,286
Advertising and Promotion	56,154	59,216	56,977
(Gain)/Loss on Foreclosed Real Estate	(873)	(13,519)	0
Other	656,414	640,111	630,079
Total Noninterest Expense	4,750,591	4,469,444	4,193,034
INCOME BEFORE INCOME TAXES	2,321,446	2,612,334	1,819,468
INCOME TAXES	(437,907)	(504,342)	(299,425)
NET INCOME	$ 1,883,539	$ 2,107,992	$ 1,520,043
EARNINGS PER SHARE	$ 2.50	$ 2.81	$ 1.97

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,	2023	2022	2021
NET INCOME	$ 1,883,539	$ 2,107,992	$ 1,520,043
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Unrealized Gains (Losses) on Investment Securities Available for Sale	3,234,449	(13,944,521)	(2,022,935)
Income Taxes Related to Unrealized Gains/Losses on Investment Securities Available for Sale	(845,485)	3,645,098	528,795
Other Comprehensive Income (Loss), Net of Tax	2,388,964	(10,299,423)	(1,494,140)
COMPREHENSIVE INCOME (LOSS)	$ 4,272,503	$ (8,191,431)	$ 25,903

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, 2023

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances, January 1, 2021	$ 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)
Balances, December 31, 2021	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)
Balances, December 31, 2022	1,522,717	24,244,369	(10,802,698)	14,964,388
Cumulative Change in Accounting Principle (Note 1)	0	(84,758)	0	(84,758)
Net Income	0	1,883,539	0	1,883,539
Issuance of Common Stock	99,946	0	0	99,946
Dividends Paid	0	(454,166)	0	(454,166)
Retirement of Common Stock	(100,960)	0	0	(100,960)
Stock-Based Compensation	19,012	0	0	19,012
Other Comprehensive Income (Loss)	0	0	2,388,964	2,388,964
Balances, December 31, 2023	$ 1,540,715	$ 25,588,984	$ (8,413,734)	$ 18,715,965

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,	2023	2022	2021
OPERATING ACTIVITIES			
Net Income	$ 1,883,539	$ 2,107,992	$ 1,520,043
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Credit Loss Expense	0	0	30,000
Depreciation	109,129	108,715	111,025
Stock-Based Compensation	19,012	19,683	20,722
Amortization of Investment Securities Premiums and Discounts, Net	761,524	997,487	1,142,998
Increase (Decrease) in Unearned Loan Fees	49,696	36,190	12,186
Net Loss (Gain) on Sales of Foreclosed Real Estate	0	(18,744)	0
Net Loss (Gain) on Sales of Premises and Equipment	0	(5,542)	1,933
Increase in Cash Surrender Value of Life Insurance	(84,239)	(81,984)	(87,850)
Deferred Income Tax (Benefit)	(38,185)	(7,775)	(13,802)
(Increase) Decrease in:			
Accrued Interest Receivable	(115,634)	(221,172)	(30,043)
Prepaid Expenses and Other Assets	29,258	(14,542)	(5,770)
Increase (Decrease) in:			
Accrued Interest Payable	518,103	4,196	(2,373)
Accrued Income Taxes	(84,153)	85,730	(7,708)
Accrued Benefit Plan Liabilities	99,303	57,139	8,142
Other Liabilities	19,865	143,815	65,239
Total Adjustments	1,283,679	1,103,196	1,244,699
Net Cash Provided by (Used in) Operating Activities	3,167,218	3,211,188	2,764,742
INVESTING ACTIVITIES			
Purchase of Investment Securities Available for Sale	(2,361,063)	(20,063,398)	(45,064,208)
Proceeds from Maturities and Calls of Investment Securities Available for Sale	4,535,000	2,315,000	9,650,000
Principal Payments Received on Investment Securities Available for Sale	7,729,080	14,200,006	15,372,513
Net (Increase) Decrease in Interest-Bearing Deposits in Other Banks	(5,000,000)	249,000	(4,743,000)
Net (Increase) Decrease in Loans	(6,626,662)	(6,331,539)	2,683,892
Purchases of Premises and Equipment	(31,493)	(56,650)	(35,180)
Proceeds from Sales of Premises and Equipment	0	5,542	0
Proceeds from Sales of Foreclosed Real Estate	0	213,538	0
Proceeds from Redemption of FHLB Stock	542,600	344,200	0
Proceeds from Bank Owned Life Insurance	0	0	233,509
Net Cash Provided by (Used in) Investing Activities	(1,212,538)	(9,124,301)	(21,902,474)

UNITED TENNESSEE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended December 31,	2023	2022	2021
FINANCING ACTIVITIES			
Dividends Paid	(454,166)	(435,025)	(484,818)
Proceeds from Issuance of Common Stock	99,946	99,072	116,541
Retirement of Common Stock	(100,960)	0	(3,183,418)
Net Increase (Decrease) in Deposits	7,372,639	920,263	21,303,535
Net Cash Provided by (Used in) Financing Activities	6,917,459	584,310	17,751,840
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,872,139	(5,328,803)	(1,385,892)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,913,541	9,242,344	10,628,236
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 12,785,680	$ 3,913,541	$ 9,242,344
Supplementary Disclosures of Cash Flow Information:			
Cash Paid During the Year for:			
Interest	$ 2,489,059	$ 1,038,133	$ 1,193,726
Income Taxes	$ 559,356	$ 426,167	$ 310,595
Supplementary Disclosures of Noncash Investing Activities:			
Acquisition of Foreclosed Real Estate	$ 0	$ 301,044	$ 0
Sale of Foreclosed Real Estate by Origination of Mortgage Loans	$ 0	$ 106,250	$ 0
Change in Unrealized Gain/Loss on Investment Securities Available for Sale	$ 3,234,449	$ (13,944,521)	$ (2,022,935)
Change in Deferred Income Taxes Associated with Unrealized Gain/Loss on Investment Securities Available for Sale	$ 845,485	$ (3,645,098)	$ (528,795)
Change in Net Unrealized Gain/Loss on Investment Securities Available for Sale	$ 2,388,964	$ (10,299,423)	$ (1,494,140)

UNITED TENNESSEE BANKSHARES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023, 2022 and 2021

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Consolidation - On January 1, 1998, Newport Federal Savings and Loan Association converted from a mutual savings association to a capital stock savings bank, changed its name to Newport Federal Bank and was simultaneously acquired by its holding company, United Tennessee Bankshares, Inc. ("Company"). See Note 17 for additional information concerning the Association's stock conversion. The consolidated financial statements include the accounts of United Tennessee Bankshares, Inc. and its wholly owned subsidiary, Newport Federal Bank ("Bank"). All intercompany accounts have been eliminated.

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

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. Because of uncertainties associated with regional economic conditions, collateral values, and future cash flows on loans to borrowers experiencing financial difficulty, it is reasonably possible that management's estimate of credit losses inherent in the loan portfolio and the related allowance may change materially in the near term.

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:

	2023	2022
Unrestricted Deposits at FHLB	$ 12,133,446	$ 1,578,132

Interest-Bearing Deposits in Other Banks - These deposits include term deposits with the FHLB totaling $8,000,000 as of December 31, 2023 ($3,000,000 in 2022) 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 18). 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.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Premiums on callable debt securities are amortized to their earliest call date. Realized gains or losses on the sales of investment securities available for sale are based on the net proceeds and amortized cost of the securities sold, using the specific identification method.

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against interest income. No accrued interest was reversed against interest income for the years ended December 31, 2023 and 2022.

See Note 2 for additional information on investment securities.

Allowance for Credit Losses - Available for Sale Securities - For available for sale debt securities in an unrealized loss position, the Bank first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available for sale that do not meet the aforementioned criteria, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

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

Accrued interest receivable on available for sale debt securities totaled $613,143 and $605,249 at December 31, 2023 and 2022, respectively, and is included within accrued interest receivable on the consolidated balance sheets. Accrued interest is excluded from both the fair value and amortized costs basis of available for sale securities and is also excluded from the estimate of credit losses.

Loans - Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost, net of the allowance for credit losses. Amortized cost is the principal balance outstanding, net of deferred loan fees and costs. Accrued interest receivable totaled $470,484 and $399,935 at December 31, 2023 and 2022, respectively, and is reported in accrued interest receivable on the consolidated balance sheets. Accrued interest is excluded from the amortized costs basis of loans and the estimate of credit losses. Interest income is accrued on the unpaid principal balance. 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. Interest on loans is calculated by using the simple interest method on the principal outstanding.

Interest income on loans is discontinued and placed on nonaccrual status at the time the loan is 90 days delinquent unless the loan is well secured and in process of collection. Loans are charged off to the extent principal or interest is deemed uncollectible. Past-due status is based on the contractual terms of the loan. Loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exists. Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a modification will be executed with an individual borrower experiencing financial difficulty or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Bank.

See Note 3 for more information.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures - The Bank estimates expected credit losses over the contractual period in which the Bank is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Bank. The allowance for credit losses on off-balance sheet credit exposures is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The allowance is calculated for all unadvanced lines of credit and outstanding letters of credit and utilizes the same loan segments and life of loan loss rates used to compute the allowance for credit losses for loans.

Equity Securities, at Cost - The Bank maintains a required investment in the Federal Home Loan Bank (“FHLB”) of Cincinnati totaling $238,900 as of December 31, 2023 ($781,500 as of December 31, 2022), 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 7). 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.

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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 754,845, 750,458 and 770,830 for 2023, 2022 and 2021, respectively. The Company did not have any dilutive securities during these periods.

Reclassifications - Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

Adoption of New Accounting Standards - On January 1, 2023, the Bank adopted ASU 2016-13 *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Bank adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Bank recorded a net decrease to retained earnings of $84,758 as of January 1, 2023, for the cumulative effect of adopting ASC 326.

The following table illustrates the impact of ASC 326:

	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Deferred Income Tax Assets, Net	$ 4,317,291	$ 4,287,294	$ 29,997
Liabilities:			
Allowance for Credit Losses on Off-Balance Sheet Credit Exposures	$ 114,755	$ 0	$ 114,755

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Evaluation of Subsequent Events - Management has evaluated subsequent events through March 15, 2024, 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 following table summarizes the amortized cost, fair value and allowance for credit losses of securities available for sale at December 31, 2023, and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss):

	Investment Securities Available for Sale				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Estimated Fair Value
December 31, 2023					
Debt Securities:					
Obligations of U.S. Government Corporations and Agencies	$ 33,708,807	$ 27,013	$ (2,098,790)	$ 0	$ 31,637,030
Residential Mortgage-Backed and Related Securities	32,648,588	8,494	(3,644,982)	0	29,012,100
Corporate Debt Securities	7,811,789	4,390	(810,357)	0	7,005,822
Obligations of States and Political Subdivisions	49,554,017	34,808	(4,912,039)	0	44,676,786
Total Debt Securities	$ 123,723,201	$ 74,705	$ (11,466,168)	$ 0	$ 112,331,738

The following table summarizes the amortized cost and fair value of securities available for sale at December 31, 2022, and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses:

	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

Gross realized gains and losses from sales of investment securities classified as available for sale were $0 for the years ended December 31, 2023, 2022, and 2021.

NOTE 2 - INVESTMENT SECURITIES (Continued)

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

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in One Year or Less	$ 1,596,934	$ 1,582,814
Due After One Year To Five Years	38,065,249	35,529,165
Due After Five Years To Ten Years	19,387,927	17,605,166
Due After Ten Years	19,301,216	16,480,071
	78,351,326	71,197,216
Mortgage-Backed and SBA Pooled Securities	45,371,875	41,134,522
	$ 123,723,201	$ 112,331,738

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

Investments with book values of approximately $63,823,000 and $61,040,000 (which approximates market values) as of December 31, 2023 and 2022, respectively, were pledged to secure deposits of public funds.

The following table summarizes debt securities available for sale in an unrealized loss position for which an allowance for credit losses has not been recorded at December 31, 2023, aggregated by major security type and length of time in a continuous unrealized loss position:

	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, 2023						
Debt Securities:						
Obligations of U.S. Government Corporations and Agencies	$ 1,392,992	$ (2,443)	$ 28,689,189	$ (2,096,347)	$ 30,082,181	$ (2,098,790)
Residential Mortgage-Backed and Related Securities	2,434,415	(41,215)	24,686,215	(3,603,767)	27,120,630	(3,644,982)
Corporate Debt Securities	0	0	6,003,748	(810,357)	6,003,748	(810,357)
Obligations of States and Political Subdivisions	424,724	(276)	41,060,922	(4,911,763)	41,485,646	(4,912,039)
Total Debt Securities	$ 4,252,131	$ (43,934)	$ 100,440,074	$ (11,422,234)	$ 104,692,205	$ (11,466,168)

As of December 31, 2023, the Bank's security portfolio consisted of 292 securities, 259 of which were in an unrealized loss position. These securities have depreciated 10% from the Bank’s amortized cost basis. The unrealized losses are related to the Bank's investments in U.S. government corporations and agencies, mortgage-backed securities, corporate debt securities, and obligations of states and political subdivisions, as discussed below:

U.S. Government Corporations and Agencies

At December 31, 2023, the Bank’s U.S. government corporation and agency securities are primarily made up of securities with the Small Business Administration (SBA), the Federal Home Loan Bank (FHLB) and the Federal Farm Credit Bank (FFCB). The contractual cash flows of the SBA securities are guaranteed by the SBA. Unrealized losses on these bonds have not been recognized into income because the bonds are of high credit quality (the FHLB and FFCB bonds are rated AA+), management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

NOTE 2 - INVESTMENT SECURITIES (Continued)

Mortgage-Backed Securities

At December 31, 2023, approximately 63% of the mortgage-backed securities held by the Bank were issued by U.S. government-sponsored entities and agencies. These contractual cash flows are guaranteed by an agency of the U.S. government. The unrealized losses on mortgage-backed securities are attributed to interest rate increases. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Bank's investments. The Bank does not intend to sell the investments, and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized costs bases.

Corporate Debt Securities

At December 31, 2023, approximately 84% of the corporate debt securities held by the Bank were issued by large financial institutions. The unrealized losses are attributable to interest rate increases as well as other market conditions. The contractual terms of these investments do not permit these institutions to settle the securities at a price less than the amortized cost basis of the investment. The issuers' bonds are of high credit quality (rated BBB or higher). The Bank does not intend to sell the investments, and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized costs bases.

Obligations of States and Political Subdivisions

As of December 31, 2023, the unrealized losses on the Bank's investments in obligations of states and political subdivisions is attributed to interest rate increases and other market conditions. The issuers' bonds are of high credit quality (rated A or higher) and the issuers continue to make timely principal and interest payments on the bonds. The Bank expects to recover the entire amortized cost bases of the securities. The Bank does not intend to sell the investments, and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized costs bases.

The following table summarizes securities with unrealized and unrecognized losses at December 31, 2022, aggregated by major security type and length of time in a continuous unrealized or unrecognized loss position:

	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)

During 2022, management evaluated securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

NOTE 2 - INVESTMENT SECURITIES (Continued)

At December 31, 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 as of December 31, 2022.

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES

The Bank provides mortgage and consumer lending services to individuals primarily in the East Tennessee area. A summary of loans is as follows:

	As of December 31,	
	2023	2022
Loans Secured by Real Estate		
Residential	$ 82,824,146	$ 76,642,005
Construction and Land Development	12,521,787	14,375,642
Commercial Properties	17,563,302	14,963,846
Total Loans Secured by Real Estate	112,909,235	105,981,493
Commercial and Industrial Loans	1,893,423	2,436,714
Consumer Loans	2,814,959	2,579,362
	4,708,382	5,016,076
Net Deferred Loan Origination Fees	(401,692)	(351,996)
Allowance for Credit Losses	(1,652,293)	(1,658,907)
	(2,053,985)	(2,010,903)
Net Loans	$ 115,563,632	$ 108,986,666

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 $11,299,000 and $12,154,000 at December 31, 2023 and 2022. Outstanding letters of credit were $37,000 and $39,000 at December 31, 2023 and 2022.

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, 2023 and 2022 totaled approximately $1,733,000 and $1,218,000, respectively.

Management performs a quarterly evaluation of the adequacy of the allowance for credit losses consistent with guidance set forth in ASC 326 and the Interagency Policy Statement on Allowances for Credit Losses. 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.

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

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

For the purposes of calculating the allowance for credit losses, 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.

For all loan segments, the Bank measures the allowance for credit losses based on the “Scaled CECL Allowance for Losses Estimator (SCALE)” method developed by the Federal Reserve Bank. This tool uses publicly available peer data derived from Call Reports to derive proxy lifetime loss rates. The Bank then applies additional qualitative factors to reflect bank-specific facts and circumstances to arrive at an estimate for the allowance for credit losses that reflects the Bank’s loss history and the credit risk in the Bank’s loan portfolio.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Bank applies life of loan loss rates specific to each loan segment to determine the estimated credit losses. These cumulative loss rates are comprised of the SCALE method proxy lifetime loss rates plus qualitative adjustments to reflect the Bank’s level of past-due and nonaccrual loans compared to its peers, as well as the Bank’s historical loan loss rate compared to its peers. The SCALE method proxy expected lifetime loss rates for the December 31, 2023 calculation of the allowance for credit losses were based on publicly available Schedule RI-C filings from all filers with assets between $1 and $10 billion as of September 30, 2023. As of December 31, 2023, management adjusted the proxy loss rates for to adjust for its expectations of actual and expected changes in local economic and business conditions and the nature and volume of the Bank’s loan portfolio for the next two years. No reversion adjustments were necessary, as the starting point for the Bank's estimate was a cumulative loss rate covering the expected contractual term of the portfolio.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are excluded from the collective evaluation. For these evaluations, the Bank assesses loans with balances exceeding $200,000 that are rated substandard or worse. These loans are considered to be collateral-dependent assets, whereby estimated credit losses are based on the fair value of the collateral, less costs to sell. It is management's general practice to obtain a new appraisal or asset valuation for any loan that it has rated as substandard or lower, including loans on nonaccrual of interest. Management, at its discretion, may determine that additional adjustments to the appraisal or valuation are required. Valuation adjustments will be made as necessary based on other factors including, but not limited to, the economy, maintenance and general condition of the collateral, industry, type of property/equipment/vehicle, and the knowledge management has about a particular situation. In addition, the cost to sell or liquidate the collateral is also estimated when determining the realizable value to the Bank.

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

As of December 31, 2022, prior to the adoption of ASC 326, the Bank calculated an allowance for loan losses (ALLL) consistent with guidance set forth in ASC 310 and 450 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 following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2023 and the activity in the allowance for loan losses for the year ended December 31, 2022:

	Residential Real Estate	Construction & Land	Commercial Real Estate	Commercial & Industrial	Consumer	Unallocated	Total
Allowance at							
December 31, 2021	$ 784,306	$ 111,024	$ 232,000	$ 42,210	$ 46,336	$ 478,172	$ 1,694,048
Charge-offs	(35,018)	0	0	0	(1,923)	0	(36,941)
Recoveries	900	900	0	0	0	0	1,800
Provision	46,889	37,583	(7,614)	22,627	(1,544)	(97,941)	0
Allowance at							
December 31, 2022	797,077	149,507	224,386	64,837	42,869	380,231	1,658,907
Impact of Adopting ASC 326	86,647	96,842	3,955	(25,461)	19,922	(181,905)	0
Charge-offs	0	0	0	0	(13,576)	0	(13,576)
Recoveries	1,176	900	0	0	4,886	0	6,962
Credit Loss Expense	59,102	(21,460)	44,411	(7,188)	25,666	(100,531)	0
Allowance at							
December 31, 2023	$ 944,002	$ 225,789	$ 272,752	$ 32,188	$ 79,767	$ 97,795	$ 1,652,293

The following table presents, by loan segment, loans that were evaluated for the allowance for loan losses under the specific reserve (individually) and those that were evaluated under the general reserve (collectively) as of December 31, 2022.

	Residential Real Estate	Construction & Land	Commercial Real Estate	Commercial & Industrial	Consumer	Unallocated	Total
December 31, 2022							
Loans Evaluated for Allowance:							
Individually	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Collectively	76,642,005	14,375,642	14,963,846	2,436,714	2,579,362	0	110,997,569
Total	$ 76,642,005	$ 14,375,642	$ 14,963,846	$ 2,436,714	$ 2,579,362	$ 0	$ 110,997,569
Allowance Established for Loans Evaluated:							
Individually	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Collectively	797,077	149,507	224,386	64,837	42,869	380,231	1,658,907
Allowance at December 31, 2022	$ 797,077	$ 149,507	$ 224,386	$ 64,837	$ 42,869	$ 380,231	$ 1,658,907

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

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents the amortized cost basis of loans on nonaccrual as of December 31, 2023:

	December 31, 2023		
	Nonaccrual	Nonaccrual With No Allowance for Credit Losses	Interest Income Recognized During Year
Residential Real Estate:			
1-4 Family First Liens	$ 220,046	$ 0	$ 0
Total	$ 220,046	$ 0	$ 0

The Bank did not have any collateral-dependent loans as of December 31, 2023.

The following tables present the aging of the amortized cost basis in past-due loans as of December 31, 2023 and 2022 by class of loans:

	Current	Past Due Loans 30-89 Days	90 + Days	Total	Non-Accrual	Total Loans
December 31, 2023						
Residential Real Estate:						
1-4 Family First Liens	$ 80,365,753	$ 1,894,826	$ 0	$ 1,894,826	$ 220,046	$ 82,480,625
1-4 Family Junior Liens	343,521	0	0	0	0	343,521
Total	80,709,274	1,894,826	0	1,894,826	220,046	82,824,146
Construction & Land:						
1-4 Family	2,780,315	0	0	0	0	2,780,315
Land & Other	9,733,785	7,687	0	7,687	0	9,741,472
Total	12,514,100	7,687	0	7,687	0	12,521,787
Commercial Real Estate:						
Farmland	1,103,556	0	0	0	0	1,103,556
Multifamily	975,290	0	0	0	0	975,290
Owner-Occupied Nonfarm Properties	12,110,804	0	0	0	0	12,110,804
Other Nonfarm Properties	3,373,652	0	0	0	0	3,373,652
Total	17,563,302	0	0	0	0	17,563,302
Commercial & Industrial						
Agricultural Production	13,622	0	0	0	0	13,622
Commercial and Industrial	1,879,801	0	0	0	0	1,879,801
Total	1,893,423	0	0	0	0	1,893,423
Consumer:						
Automobiles	1,636,695	0	0	0	0	1,636,695
Other	1,172,904	5,360	0	5,360	0	1,178,264
Total	2,809,599	5,360	0	5,360	0	2,814,959
Total	$ 115,489,698	$ 1,907,873	$ 0	$ 1,907,873	$ 220,046	$ 117,617,617

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

	Current	Past Due Loans 30-89 Days	Past Due Loans 90 + Days	Past Due Loans Total	Non-Accrual	Total Loans
December 31, 2022						
Residential Real Estate:						
1-4 Family First Liens	$ 74,341,546	$ 1,753,573	$ 0	$ 1,753,573	$ 294,995	$ 76,390,114
1-4 Family Junior Liens	251,891	0	0	0	0	251,891
Total	74,593,437	1,753,573	0	1,753,573	294,995	76,642,005
Construction & Land:						
1-4 Family	3,376,331	0	0	0	0	3,376,331
Land & Other	10,999,311	0	0	0	0	10,999,311
Total	14,375,642	0	0	0	0	14,375,642
Commercial Real Estate:						
Farmland	1,211,423	0	0	0	0	1,211,423
Multifamily	1,164,201	0	0	0	0	1,164,201
Owner-Occupied Nonfarm Properties	9,207,494	0	0	0	0	9,207,494
Other Nonfarm Properties	3,380,728	0	0	0	0	3,380,728
Total	14,963,846	0	0	0	0	14,963,846
Commercial & Industrial						
Agricultural Production	5,574	0	0	0	0	5,574
Commercial and Industrial	2,431,140	0	0	0	0	2,431,140
Total	2,436,714	0	0	0	0	2,436,714
Consumer:						
Automobiles	1,165,268	1,156	0	1,156	0	1,166,424
Other	1,403,215	9,723	0	9,723	0	1,412,938
Total	2,568,483	10,879	0	10,879	0	2,579,362
Total	$ 108,938,122	$ 1,764,452	$ 0	$ 1,764,452	$ 294,995	$ 110,997,569

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.

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

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 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES(Continued)

Based on the most recent analysis performed, the risk category of loans by class of loans as of December 31, 2023 is as follows:

	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
As of December 31, 2023							
Residential Construction							
Risk Rating							
Pass	$ 994,284	$ 1,786,031	$ 0	$ 0	$ 0	$ 0	$ 2,780,315
Total Residential Construction	$ 994,284	$ 1,786,031	$ 0	$ 0	$ 0	$ 0	$ 2,780,315
Residential Construction							
Current Period Gross Writeoffs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Other Construction and Land							
Risk Rating							
Pass	$ 1,609,359	$ 728,913	$ 5,592,468	$ 1,664,330	$ 146,402	$ 0	$ 9,741,472
Total Other Construction and Land	$ 1,609,359	$ 728,913	$ 5,592,468	$ 1,664,330	$ 146,402	$ 0	$ 9,741,472
Other Construction and Land							
Current Period Gross Writeoffs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Residential - First Liens							
Risk Rating							
Pass	$ 9,214,294	$ 13,975,923	$ 9,990,847	$ 44,911,307	$ 2,643,324	$ 0	$ 80,735,695
Special Mention	0	0	0	78,541	0	0	78,541
Substandard	0	0	141,178	1,525,211	0	0	1,666,389
Total Residential - First Liens	$ 9,214,294	$ 13,975,923	$ 10,132,025	$ 46,515,059	$ 2,643,324	$ 0	$ 82,480,625
Residential - First Liens							
Current Period Gross Writeoffs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Residential - Junior Liens							
Risk Rating							
Pass	$ 34,178	$ 0	$ 0	$ 309,343	$ 0	$ 0	$ 343,521
Total Residential - Junior Liens	$ 34,178	$ 0	$ 0	$ 309,343	$ 0	$ 0	$ 343,521
Residential - Junior Liens							
Current Period Gross Writeoffs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Farmland							
Risk Rating							
Pass	$ 0	$ 0	$ 0	$ 924,174	$ 179,382	$ 0	$ 1,103,556
Total Farmland	$ 0	$ 0	$ 0	$ 924,174	$ 179,382	$ 0	$ 1,103,556
Farmland							
Current Period Gross Writeoffs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Multifamily Properties							
Risk Rating							
Pass	$ 0	$ 319,138	$ 0	$ 656,152	$ 0	$ 0	$ 975,290
Total Multifamily Properties	$ 0	$ 319,138	$ 0	$ 656,152	$ 0	$ 0	$ 975,290
Multifamily Properties							
Current Period Gross Writeoffs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Commercial - Owner Occupied							
Risk Rating							
Pass	$ 1,917,489	$ 1,529,201	$ 2,049,205	$ 6,614,909	$ 0	$ 0	$ 12,110,804
Total Commercial - Owner Occupied	$ 1,917,489	$ 1,529,201	$ 2,049,205	$ 6,614,909	$ 0	$ 0	$ 12,110,804
Commercial - Owner Occupied							
Current Period Gross Writeoffs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Commercial - Other							
Risk Rating							
Pass	$ 0	$ 0	$ 0	$ 3,259,711	$ 113,941	$ 0	$ 3,373,652
Total Commercial - Other	$ 0	$ 0	$ 0	$ 3,259,711	$ 113,941	$ 0	$ 3,373,652

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES(Continued)

	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Commercial - Other							
Current Period Gross Writeoffs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Commercial and Industrial							
Risk Rating							
Pass	$ 0	$ 1,117,907	$ 710,739	$ 51,155	$ 0	$ 0	$ 1,879,801
Total Commercial and Industrial	$ 0	$ 1,117,907	$ 710,739	$ 51,155	$ 0	$ 0	$ 1,879,801
Commercial and Industrial							
Current Period Gross Writeoffs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Ag & Loans to Farmers							
Risk Rating							
Pass	$ 10,124	$ 0	$ 0	$ 0	$ 3,498	$ 0	$ 13,622
Total Ag & Loans to Farmers	$ 10,124	$ 0	$ 0	$ 0	$ 3,498	$ 0	$ 13,622
Ag & Loans to Farmers							
Current Period Gross Writeoffs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Consumer - Vehicles							
Risk Rating							
Pass	$ 774,503	$ 513,618	$ 162,115	$ 28,457	$ 158,002	$ 0	$ 1,636,695
Total Consumer - Vehicles	$ 774,503	$ 513,618	$ 162,115	$ 28,457	$ 158,002	$ 0	$ 1,636,695
Consumer - Vehicles							
Current Period Gross Writeoffs	$ 0	$ 5,896	$ 4,716	$ 0	$ 0	$ 0	$ 10,612
Consumer - Other							
Risk Rating							
Pass	$ 348,574	$ 166,707	$ 119,492	$ 543,491	$ 0	$ 0	$ 1,178,264
Total Consumer - Other	$ 348,574	$ 166,707	$ 119,492	$ 543,491	$ 0	$ 0	$ 1,178,264
Consumer - Other							
Current Period Gross Writeoffs	$ 0	$ 0	$ 0	$ 2,964	$ 0	$ 0	$ 2,964
Total Loan Portfolio							
Rist Rating							
Pass	$ 14,902,805	$ 20,137,438	$ 18,624,866	$ 58,963,029	$ 3,244,549	$ 0	$ 115,872,687
Special Mention	0	0	0	78,541	0	0	78,541
Substandard	0	0	141,178	1,525,211	0	0	1,666,389
Doubtful	0	0	0	0	0	0	0
Loss	0	0	0	0	0	0	0
Total Loan Portfolio	$ 14,902,805	$ 20,137,438	$ 18,766,044	$ 60,566,781	$ 3,244,549	$ 0	$ 117,617,617
Total Loan Portfolio							
Current Period Gross Writeoffs	$ 0	$ 5,896	$ 4,716	$ 2,964	$ 0	$ 0	$ 13,576

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES(Continued)

The following table reports the internal credit rating for loans as of December 31, 2022 by class of loans:

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2022					
Residential Real Estate:					
1-4 Family First Liens	$ 74,361,670	$ 578,024	$ 1,450,420	$ 0	$ 76,390,114
1-4 Family Junior Liens	251,891	0	0	0	251,891
Total	74,613,561	578,024	1,450,420	0	76,642,005
Construction & Land:					
1-4 Family	3,376,331	0	0	0	3,376,331
Land & Other	10,999,311	0	0	0	10,999,311
Total	14,375,642	0	0	0	14,375,642
Commercial Real Estate:					
Farmland	1,211,423	0	0	0	1,211,423
Multifamily	1,164,201	0	0	0	1,164,201
Owner-Occupied Nonfarm Properties	9,207,494	0	0	0	9,207,494
Other Nonfarm Properties	3,380,728	0	0	0	3,380,728
Total	14,963,846	0	0	0	14,963,846
Commercial & Industrial:					
Agricultural Production	5,574	0	0	0	5,574
Commercial and Industrial	2,431,140	0	0	0	2,431,140
Total	2,436,714	0	0	0	2,436,714
Consumer:					
Automobiles	1,166,424	0	0	0	1,166,424
Other	1,412,938	0	0	0	1,412,938
Total	2,579,362	0	0	0	2,579,362
Total	$ 108,969,125	$ 578,024	$ 1,450,420	$ 0	$ 110,997,569

Occasionally, the Bank modifies loans to borrowers in financial distress by providing principle forgiveness, term extension, an other-than-insignificant payment delay or interest rate reduction. When principle forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses. Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount. No loans were modified for the year ended December 31, 2023.

Certain loan modifications as of December 31, 2022 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, 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 year ended December 31, 2022.

NOTE 4 - PREMISES AND EQUIPMENT, NET

Premises and equipment, net are summarized as follows:

	As of December 31, 2023	As of December 31, 2022
Land	$ 510,262	$ 510,262
Buildings	3,414,962	3,414,962
Furniture and Equipment	1,052,918	1,021,424
	4,978,142	4,946,648
Less Accumulated Depreciation	(2,915,203)	(2,806,073)
	$ 2,062,939	$ 2,140,575

NOTE 5 - FORECLOSED REAL ESTATE

An analysis of foreclosed real estate for the years ended December 31, 2023 and 2022 follows:

	2023	2022
Balance at Beginning of Year	$ 0	$ 0
Transfers from Loans	0	301,044
Foreclosed Real Estate Sold	0	(301,044)
Balance at End of Year	$ 0	$ 0

Expenses applicable to foreclosed real estate for the year ended December 31, 2023 and 2022 include the following:

	2023	2022
Net (Gain) Loss on Sales of Foreclosed Real Estate	$ 0	$ (18,744)
Rental Income from Foreclosed Real Estate	0	0
Operating Expenses	(873)	5,225
	$ (873)	$ (13,519)

NOTE 6 - DEPOSITS

A summary of deposits is as follows:

	As of December 31, 2023	As of December 31, 2022
Demand Deposits:		
Noninterest-Bearing Accounts	$ 37,170,600	$ 46,461,919
NOW Accounts	34,822,895	37,131,981
Money Market Deposit Accounts	8,932,391	12,518,619
Passbook Savings	39,288,118	46,639,447
Total Demand Deposits	120,214,004	142,751,966
Term Deposits:		
Less Than $250,000	73,211,412	60,363,021
$250,000 or More	47,608,767	30,546,557
Total Term Deposits	120,820,179	90,909,578
Total Deposits	$ 241,034,183	$ 233,661,544

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

NOTE 6 - DEPOSITS

The scheduled maturities of certificates of deposit as of December 31, 2023 are as follows:

2024	$ 78,629,537
2025	33,849,073
2026	2,677,657
2027	878,252
2028	4,785,660
	$ 120,820,179

The aggregate amount of overdrafts reclassified as loans receivable were $44,371 and $42,159 at December 31, 2023 and 2022, respectively.

NOTE 7 - 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, 2023 and 2022.

NOTE 8 - REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Bank’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 Bank’s revenue streams accounted for under ASC 606 follows:

Service Charges on Deposit Accounts - The Bank 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 Bank 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 Bank 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 Bank recognizes interchange income upon settlement with the interchange network. Based on the Bank’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 $202,549, $198,362 and $155,278 for the years ended December 31, 2023, 2022 and 2021, respectively. Net interchange fees totaled $107,220, $88,831 and $106,884 for the years ended December 31, 2023, 2022 and 2021, respectively, and are reported within other noninterest income.

Gains/Losses on Sales of Foreclosed Real Estate - The Bank 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 Bank finances the sale of foreclosed real estate to the buyer, the Bank 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 Bank adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

NOTE 9 - 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 2020. The Company has not accrued or expensed any amounts for interest or penalties associated with income taxes for the years ended December 31, 2023, 2022 and 2021.

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

	2023		2022		2021	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Federal Income Tax at Statutory Rate	$ 487,504	21.0 %	$ 548,590	21.0 %	$ 382,088	21.0 %
State Income Tax, Net	86,624	3.7	101,122	3.9	69,036	3.8
Tax Exempt Interest	(135,097)	(5.8)	(132,729)	(5.1)	(130,130)	(7.2)
Other Nontaxable Income	(18,410)	(0.8)	(17,738)	(0.7)	(24,606)	(1.4)
Nondeductible Expenses	17,117	0.7	5,790	0.2	7,035	0.4
Credits and Other, Net	169	0.0	(693)	(0.0)	(3,998)	(0.2)
	$ 437,907	18.9 %	$ 504,342	19.3 %	$ 299,425	16.5 %
Income Taxes (Benefit) Consist of :						
Current	$ 476,092		$ 512,117		$ 313,227	
Deferred Taxes (Benefit)	(38,185)		(7,775)		(13,802)	
	$ 437,907		$ 504,342		$ 299,425	

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 credit 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,	
	2023	2022
Deferred Tax Assets	$ 3,975,061	$ 4,748,360
Deferred Tax Liabilities	(465,070)	(461,066)
Net Deferred Tax Asset	$ 3,509,991	$ 4,287,294

Included in the 2023 deferred tax assets above is $2,977,728 of deferred tax effect on the net unrealized losses on investment securities available for sale ($3,823,213 in deferred tax assets on net unrealized losses in 2022).

NOTE 10 - 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 10 - 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, 2023 and 2022, that the Bank and Company meet all capital adequacy requirements to which they are subject.

As of December 31, 2023 and 2022, 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 9%. 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 8%.

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, 2023 and 2022, 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, 2023 and 2022 are also presented in the following table. All dollar amounts are in thousands of dollars.

			To Be Well Capitalized Under Prompt Corrective Action Provisions (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
As of December 31, 2023				
Tier I Capital (to Average Assets):				
Company (Consolidated)	$ 27,129	10.32%	$ 23,654	9.0%
Bank	$ 26,997	10.27%	$ 23,650	9.0%
As of December 31, 2022				
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%

NOTE 11 - 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 $160,000, $150,000 and $166,000 for the years ended December 31, 2023, 2022 and 2021, respectively.

NOTE 12 - 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 $19,012, $19,683 and $20,722 for the years ended December 31, 2023, 2022 and 2021, respectively. The related income tax benefit recognized was $4,959 for 2023, $5,145 for 2022 and $5,417 for 2021.

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

Directors Stock Purchase Plan - The maximum number of shares of common stock that can be sold under this plan is 120,000 shares. As of December 31, 2023, there are 82,205 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:	2023	2022	2021
Number of Shares Purchased	$ 4,700	$ 3,600	$ 3,400
Exercise Price for Purchased Shares	$ 16.94	$ 20.64	$ 16.89
Grant-Date Fair Value for Options Granted	$ 3.14	$ 3.86	$ 2.98
Total Intrinsic Value for Options Exercised	$ 14,053	$ 13,104	$ 10,132
Total Cost of Shares Purchased	$ 79,618	$ 74,304	$ 57,426

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, 2023, there are 26,000 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:	2023	2022	2021
Number of Shares Purchased	$ 1,200	$ 1,200	$ 3,500
Exercise Price for Purchased Shares	$ 16.94	$ 20.64	$ 16.89
Grant-Date Fair Value for Options Granted	$ 3.54	$ 4.80	$ 3.02
Total Intrinsic Value for Options Exercised	$ 3,588	$ 4,368	$ 10,430
Total Cost of Shares Purchased	$ 20,328	$ 24,768	$ 59,115

NOTE 13 - 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 highest term 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:

	2023	2022	2021
Balances, Beginning of Year	$ 1,332,247	$ 1,324,614	$ 1,317,539
Directors Fees Deferred During Year	68,450	50,050	45,900
Amounts Accrued and Expensed for Officers Plan	21,785	10,785	8,301
Income During Year	61,249	6,819	7,374
Withdrawals	(39,500)	(60,021)	(54,500)
Balances, End of Year	$ 1,444,231	$ 1,332,247	$ 1,324,614

NOTE 14 - 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 $78,633 at December 31, 2023 ($80,747 at December 31, 2022). Expense (revenue) related to this plan was $(2,144), $(1,393) and $(27,971) for the years ended December 31, 2023, 2022 and 2021, respectively.

NOTE 15 - 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, 2023, 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 16 - 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 17 - 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 18 - 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 18 - 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.

Individually Assessed Loans - The Bank's loans individually assessed for impairment are considered to be collateral-dependent and are primarily valued using third-party appraisals or other valuations based on sales of similar assets, less selling costs. 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:

		Fair Value Measurements Using		
	Carrying Amount in the Balance Sheet	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2023				
Obligations of U.S. Government Corporations and Agencies	$ 31,637,030	$ 0	$ 31,637,030	$ 0
Residential Mortgage-Backed and Related Securities	29,012,100	0	29,012,100	0
Corporate Debt Securities	7,005,822	0	7,005,822	0
Obligations of States and Political Subdivisions	44,676,786	0	44,676,786	0
Investment Securities Available for Sale	$ 112,331,738	$ 0	$ 112,331,738	$ 0
As of December 31, 2022				
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	$ 119,761,830	$ 0	$ 119,761,830	$ 0

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, 2023 or December 31, 2022.

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, 2023 and December 31, 2022.

			Fair Value Measurements Using		
	Carrying Amount in the Balance Sheet	Estimated Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2023					
Financial Assets:					
Cash and Amounts Due from Depository Institutions	$ 12,785,680	$ 12,785,680	$ 12,785,680	$ 0	$ 0
Interest Bearing Deposits in Other Banks	10,341,000	10,341,000	10,341,000	0	0
Loans Receivable, Net	115,563,632	113,861,729	0	0	113,861,729
Cash Surrender Value of Life Insurance	4,619,950	4,619,950	0	0	4,619,950
Financial Liabilities:					
Deposits	$ 241,034,183	$ 242,109,293	$ 0	$ 0	$ 242,109,293
As of December 31, 2022					
Financial Assets:					
Cash and Amounts Due from Depository Institutions	$ 3,913,541	$ 3,913,541	$ 3,913,541	$ 0	$ 0
Interest Bearing Deposits in Other Banks	5,341,000	5,341,000	5,341,000	0	0
Loans Receivable, Net	108,986,666	106,151,309	0	0	106,151,309
Cash Surrender Value of Life Insurance	4,535,711	4,535,711	0	0	4,535,711
Financial Liabilities:					
Deposits	$ 233,661,544	$ 233,471,540	$ 0	$ 0	$ 233,471,540

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, 2023 and 2022, 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, 2023 and 2022 and for the years ended December 31, 2023, 2022 and 2021 and have issued our report thereon, dated March 15, 2024, 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 15, 2024

UNITED TENNESSEE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATING SCHEDULE - STATEMENT OF FINANCIAL CONDITION

As of December 31, 2023

	United Tennessee Bankshares, Inc.	Newport Federal Bank	Intercompany Eliminations	Consolidated
ASSETS				
Cash and Amounts Due from Depository Institutions	$ 119,151	$ 12,736,460	$ (69,931)	$ 12,785,680
Interest-Bearing Deposits in Other Banks	0	10,341,000	0	10,341,000
Investment Securities Available for Sale, at Fair Value	0	112,331,738	0	112,331,738
Net Loans	0	115,563,632	0	115,563,632
Equity Securities, at Cost	0	339,675	0	339,675
Premises and Equipment, Net	0	2,062,939	0	2,062,939
Accrued Interest Receivable	0	1,152,000	0	1,152,000
Cash Surrender Value of Life Insurance	0	4,619,950	0	4,619,950
Investment in Subsidiary	26,996,811	0	(26,996,811)	0
Deferred Income Tax Asset	0	3,509,991	0	3,509,991
Prepaid Expenses and Other Assets	0	118,487	0	118,487
TOTAL ASSETS	$ 27,115,962	$ 262,775,872	$ (27,066,742)	$ 262,825,092
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Deposits:				
Demand	$ 0	$ 120,283,935	$ (69,931)	$ 120,214,004
Term	0	120,820,179	0	120,820,179
Total Deposits	0	241,104,114	(69,931)	241,034,183
Accrued Interest Payable	0	528,034	0	528,034
Accrued Income Taxes	(13,737)	25,597	0	11,860
Accrued Benefit Plan Liabilities	0	1,794,392	0	1,794,392
Allowance for Credit Losses on Off-Balance Sheet Credit Exposures	0	114,755	0	114,755
Other Liabilities	0	625,903	0	625,903
Total Liabilities	(13,737)	244,192,795	(69,931)	244,109,127
SHAREHOLDERS' EQUITY				
Common Stock	1,540,715	7,100,000	(7,100,000)	1,540,715
Retained Earnings	25,588,984	19,896,811	(19,896,811)	25,588,984
Accumulated Other Comprehensive Income (Loss)	0	(8,413,734)	0	(8,413,734)
Total Shareholders' Equity	27,129,699	18,583,077	(26,996,811)	18,715,965
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 27,115,962	$ 262,775,872	$ (27,066,742)	$ 262,825,092

UNITED TENNESSEE BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATING SCHEDULE - STATEMENT OF INCOME

For the Year Ended December 31, 2023

	United Tennessee Bankshares, Inc.	Newport Federal Bank	Intercompany Eliminations	Consolidated
INTEREST INCOME				
Loans	$ 0	$ 5,773,152	$ 0	$ 5,773,152
Investment Securities	0	3,040,124	0	3,040,124
Other Interest-Earning Assets, Net	2,286	585,292	(149)	587,429
Total Interest Income	2,286	9,398,568	(149)	9,400,705
INTEREST EXPENSE				
Deposits	0	3,007,311	(149)	3,007,162
Total Interest Expense	0	3,007,311	(149)	3,007,162
NET INTEREST INCOME	2,286	6,391,257	0	6,393,543
NONINTEREST INCOME				
Deposit Account Service Charges	0	356,986	0	356,986
Loan Service Charges and Fees	0	48,382	0	48,382
Net Gain (Loss) on Sales of Investment Securities				
Gain (Loss) on Sales of Premises and Equipment	0	0	0	0
Income of Subsidiary	1,928,168	0	(1,928,168)	0
Increase in Cash Surrender Value of Life Insurance	0	84,239	0	84,239
Other	0	188,887	0	188,887
Total Noninterest Income	1,928,168	678,494	(1,928,168)	678,494
NONINTEREST EXPENSE				
Compensation and Benefits	19,012	2,803,458	0	2,822,470
Occupancy and Equipment	0	441,599	0	441,599
Federal Deposit Insurance and Regulatory Assessments	0	147,486	0	147,486
Data Processing Fees	0	627,341	0	627,341
Advertising and Promotion	0	56,154	0	56,154
(Gain)/Loss on Foreclosed Real Estate	0	(873)	0	(873)
Other	41,939	614,475	0	656,414
Total Noninterest Expense	60,951	4,689,640	0	4,750,591
INCOME BEFORE INCOME TAXES	1,869,503	2,380,111	(1,928,168)	2,321,446
INCOME TAX BENEFIT (EXPENSE)	14,036	(451,943)	0	(437,907)
NET INCOME	$ 1,883,539	$ 1,928,168	$ (1,928,168)	$ 1,883,539

See Independent Auditor’s Report on Consolidating Information.

OTHER INFORMATION

PUGH CPAs

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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, 2023, 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 15, 2024