Annual Disclosure Statement

The attached annual report serves as Bank of Tennessee's 2024 Annual Disclosure Statement as required by the Federal Deposit Insurance Corporation ("FDIC"). The Annual Report has not been reviewed, or confirmed for accuracy or relevance, by the FDIC.

Please contact either William R. Barrett (President & CEO) or Darla M. Scott (EVP & CFO) for any additional information.

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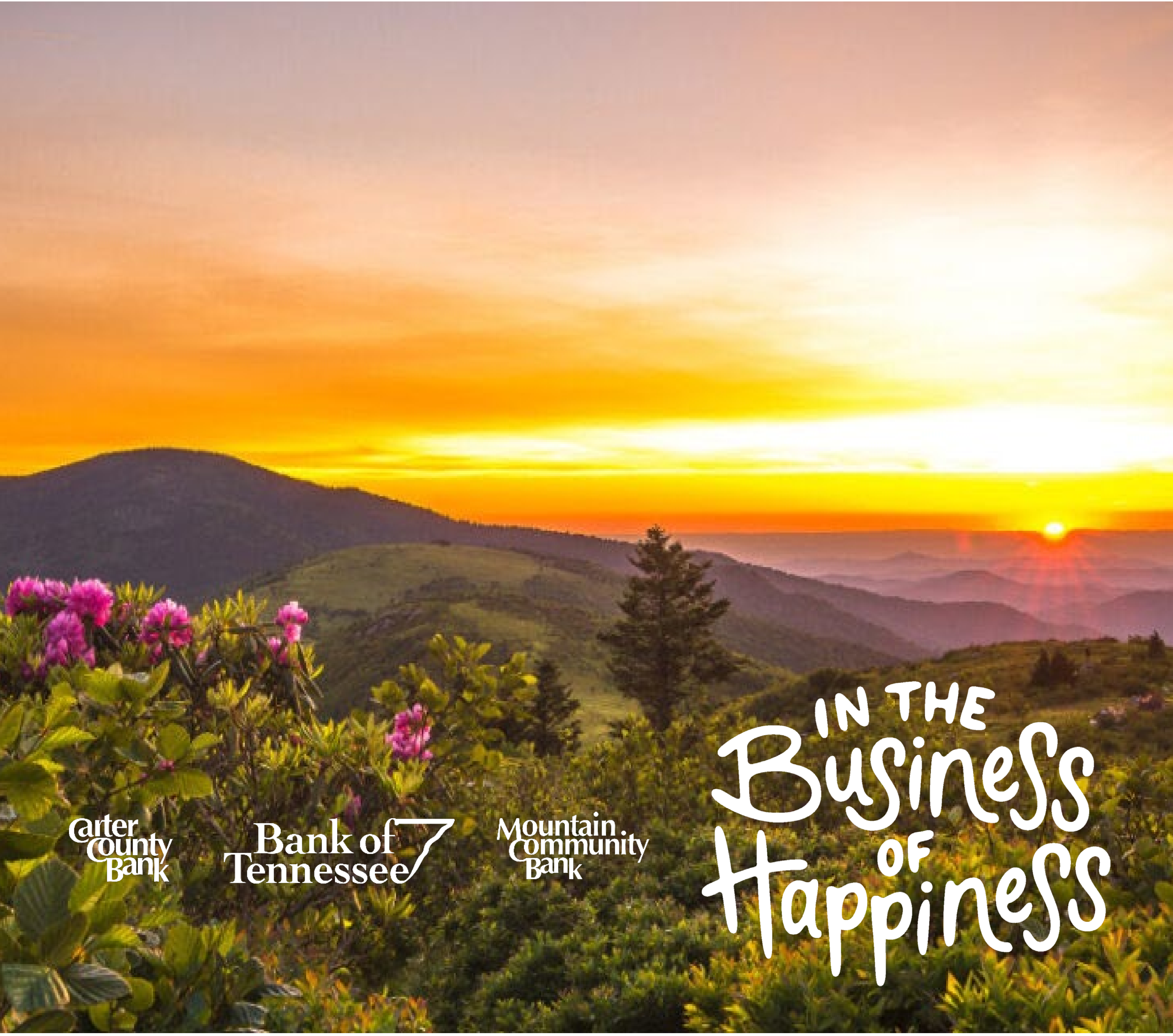
Darla M. Scott, CPA

Darla M. Scott

Bank of Tennessee
EVP and CFO



BT Annual Report 2024

BANCTENN CORP.
AND SUBSIDIARY

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2024

C O N T E N T S

MAULDIN & JENKINS

CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Stockholders and Board of Directors
BancTenn Corp.
Kingsport, Tennessee

Report on the Financial Statements and Internal Control

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the consolidated financial statements of BancTenn Corp. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of BancTenn Corp. and Subsidiary as of December 31, 2024 and 2023, 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.

We also have audited BancTenn Corp. and Subsidiary's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for preparation of Consolidated Reports of Condition and Income (Form FFIEC 41) as of December 31, 2024, based on criteria established in the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, BancTenn Corp. and Subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2024, based on criteria established in the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Basis for Opinions

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 Audits of the Financial Statements and Internal Control over Financial Reporting section of our report. We are required to be independent of BancTenn Corp. and Subsidiary 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 opinions.

Responsibilities of Management for the Financial Statements and Internal Control over Financial Reporting

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Assessment on Internal Control over Financial Reporting.

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

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MEMBERS OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of financial statements or an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material misstatement or a material weakness when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit of the consolidated financial statements and an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the consolidated financial statement audit in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control over financial reporting relevant to the audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about BancTenn Corp. and Subsidiary'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 financial statement audit.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An institution's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of BancTenn Corp. and Subsidiary's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and controls over preparation of schedules equivalent to basic financial statements in accordance with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions). An institution's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the institution; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Mauldin & Jenkins, LLC

Chattanooga, Tennessee
March 25, 2025

BANCTENN CORP. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2024 and 2023
(amounts in thousands, except share data)

	2024	2023
ASSETS		
Cash and due from banks:		
Noninterest-bearing	$ 27,807	$ 25,845
Interest-bearing	350	334
Total cash and due from banks	28,157	26,179
Federal funds sold	29,615	1,705
Certificates of deposit with other financial institutions	1,250	2,000
Securities available for sale, at fair value (amortized cost of $221,184 in 2024 and $229,339 in 2023)	196,955	204,748
Securities held to maturity (fair value of $15,948 in 2024 and $16,764 in 2023)	17,398	17,766
Restricted equity investments, at cost	5,620	6,900
Loans, net of allowance for credit losses of $15,362 in 2024 and $15,964 in 2023	1,550,659	1,495,409
Premises and equipment	35,696	34,803
Accrued interest receivable	5,294	4,940
Cash surrender value of life insurance	30,686	29,699
Annuity contracts	14,030	14,551
Other assets	14,515	12,876
Total assets	$1,929,875	$1,851,576
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 508,597	$ 484,998
Interest-bearing	1,213,254	1,124,650
Total deposits	1,721,851	1,609,648
Securities sold under agreements to repurchase	15,281	1,095
Federal Home Loan Bank advances	-	57,000
Subordinated debentures	15,465	15,465
Accrued interest payable	746	1,179
Accrued expenses and other liabilities	19,692	18,554
Total liabilities	1,773,035	1,702,941
Stockholders' equity:		
Common stock, $8 par value, 6,000,000 shares authorized, 2,539,304 shares issued and outstanding in 2024 and 2023	20,314	20,314
Additional paid-in capital	9,027	9,027
Retained earnings	150,152	142,287
Accumulated other comprehensive loss	(22,653)	(22,993)
Total stockholders' equity	156,840	148,635
Total liabilities and stockholders' equity	$1,929,875	$1,851,576

The Notes to Consolidated Financial Statements are an integral part of these statements.

BANCTENN CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2024 and 2023
(amounts in thousands)

	2024	2023
INTEREST INCOME		
Loans, including fees	$ 87,437	$ 75,916
Securities	6,308	5,652
Federal funds sold and other	363	550
	94,108	82,118
INTEREST EXPENSE		
Interest on deposits	31,463	19,355
Interest on other borrowed funds	3,297	3,852
	34,760	23,207
Net interest income	59,348	58,911
Provision for credit losses	460	1,802
Net interest income after provision for credit losses	58,888	57,109
NONINTEREST INCOME		
Customer service fees	2,547	2,366
Loan origination and settlement fees	2,058	1,847
Gain on sales of assets	179	62
Other	5,667	5,739
	10,451	10,014
NONINTEREST EXPENSES		
Salaries and employee benefits	29,961	27,512
Occupancy expenses	4,323	4,302
Software and digital services	5,982	5,664
Other operating expenses	10,483	7,710
	50,749	45,188
Income before income taxes	18,590	21,935
Income tax benefit	(194)	(252)
Net income	$ 18,784	$ 22,187

The Notes to Consolidated Financial Statements are an integral part of these statements.

BANCTENN CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2024 and 2023
(amounts in thousands)

	2024	2023
Net income	$18,784	$22,187
Other comprehensive income net of tax:		
Unrealized income on securities -		
Unrealized holding gain arising during the year, net of tax expense of $23 and $325 in 2024 and 2023, respectively	340	4,675
Total other comprehensive income	340	4,675
Comprehensive income	$19,124	$26,862

The Notes to Consolidated Financial Statements are an integral part of these statements.

BANCTENN CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2024 and 2023
(amounts in thousands, except share data)

	Total Stockholders' Equity	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss
BALANCE, December 31, 2022	$ 136,603	$ 20,314	$ 9,027	$ 134,930	$ (27,668)
Net income	22,187	-	-	22,187	-
Other comprehensive income, net of tax	4,675	-	-	-	4,675
Cumulative effect change in accounting principle (ASC 326)	(3,657)	-	-	(3,657)	-
Distributions to stockholders	(11,173)	-	-	(11,173)	-
BALANCE, December 31, 2023	148,635	20,314	9,027	142,287	(22,993)
Net income	18,784	-	-	18,784	-
Other comprehensive income, net of tax	340	-	-	-	340
Distributions to stockholders	(10,919)	-	-	(10,919)	-
BALANCE, December 31, 2024	$ 156,840	$ 20,314	$ 9,027	$ 150,152	$ (22,653)

The Notes to Consolidated Financial Statements are an integral part of these statements.

BANCTENN CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2024 and 2023
(amounts in thousands)

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 18,784	$ 22,187
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,860	1,835
Provision for credit losses	460	1,802
Deferred income taxes	(48)	(78)
Net amortization on securities	197	240
Other gains, net	(179)	(62)
Change in operating assets and liabilities:		
Accrued interest receivable	(354)	(1,013)
Accrued interest payable	(433)	977
Other assets and liabilities	(1,752)	(4,770)
Net cash provided by operating activities	18,535	21,118
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales, maturities, prepayments and calls of securities	35,418	23,859
Purchase of securities	(27,092)	(15,579)
Proceeds from redemption of restricted stock	4,800	5,582
Purchase of restricted stock	(3,520)	(6,112)
(Increase) decrease in federal funds sold	(27,910)	28,880
Net decrease certificates of deposit with other financial institutions	750	-
Proceeds from sales of foreclosed real estate and repossessed asssets	-	314
Net increase in loan originations and principal collections	(55,367)	(127,499)
Proceeds from sales of premises and equipment	817	-
Purchase of premises and equipment	(3,391)	(2,939)
Proceeds from payment of annuity contracts	468	926
Net cash used in investing activities	(75,027)	(92,568)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in demand deposits and NOW, money market, and savings accounts	143,128	(152,258)
Net (decrease)increase in time deposits	(30,925)	161,908
Net increase (decrease) in securities sold under agreements to repurchase	14,186	(26,317)
Net (decrease) increase in Federal Home Loan Bank advances	(57,000)	57,000
Distributions to stockholders	(10,919)	(11,173)
Net cash provided by financing activities	58,470	29,160
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	1,977	(42,290)
CASH AND DUE FROM BANKS, beginning of year	26,179	68,469
CASH AND DUE FROM BANKS, end of year	$ 28,157	26,179
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for income taxes	$ 17	$ 250
Cash paid during the year for interest	35,193	22,230
NONCASH INVESTING ACTIVITIES		
Real estate acquired in settlement of loans	$ -	$ 208
SUPPLEMENTAL DISCLOSURE OF NON CASH ITEMS		
Cumulative effect change in accounting principle (ASC 326)	$ -	$ (3,657)

The Notes to Consolidated Financial Statements are an integral part of these statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

BancTenn Corp. (the Company) is a bank holding company whose principal activity is the ownership and management of its wholly-owned Subsidiary, Bank of Tennessee (the Bank). The Bank generates commercial, mortgage and consumer loans and receives deposits from customers located primarily in eastern and middle Tennessee. The Bank's primary deposit products are transaction and savings accounts and certificates of deposit. Its primary lending products are commercial loans, residential real estate loans, and consumer loans.

Basis of Presentation and Accounting Estimates

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. Significant intercompany balances and transactions have been eliminated in consolidation.

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses and the fair value of financial instruments.

The determination of the adequacy of the allowance for credit losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Company's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

The Company has evaluated all transactions, events, and circumstances for consideration or disclosure through March 25, 2025, the date these financial statements were available to be issued, and has reflected or disclosed those items within the consolidated financial statements and related footnotes as deemed appropriate.

Cash, Due from Banks and Cash Flows

For purposes of reporting consolidated cash flows, cash and due from banks includes cash on hand, cash items in process of collection, amounts due from banks, and interest-bearing deposits in banks. Cash flows from loans, federal funds sold, federal funds purchased and securities sold under agreements to repurchase, Federal Home Loan Bank advances, borrowings under line of credit, ESOP transactions and deposits are reported net.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. The Company has made a policy election to exclude accrued interest from the amortized cost basis of debt securities and report accrued interest separately on the consolidated balance sheets. Accrued interest receivable on debt securities totaled $832 and $815 as of December 31, 2024 and 2023, respectively. A debt security is placed on nonaccrual status at the time any principal or interest payments become more than 90 days delinquent or if full collection of interest or principal becomes uncertain. Accrued interest for a security placed on nonaccrual is reversed against interest income. There was no accrued interest related to debt securities reversed against interest income for the years ended December 31, 2024 and 2023.

The Company evaluates available-for-sale securities in an unrealized loss position to determine if credit-related impairment exists. The Company first evaluates whether it intends to sell or more likely than not will be required to sell an impaired security before recovering its amortized cost basis. If this condition exists, the entire amount of unrealized loss is recognized in earnings with a corresponding adjustment to the security's amortized cost basis. If this condition does not exist, the Bank evaluates whether the decline in fair value is attributable to credit or resulted from other factors. If credit-related impairment exists, the Company recognizes an allowance for credit losses (ACL), limited to the amount by which the amortized cost basis exceeds the fair value. Any impairment not recognized through an ACL is recognized in other comprehensive income (loss), net of tax, as a non-credit-related impairment.

Securities borrowed or purchased under agreements to resell and securities loaned or sold under agreements to repurchase are treated as collateralized financial transactions. These agreements are recorded at the amount at which the securities were acquired or sold plus accrued interest. It is the Company's policy to take possession of securities purchased under resale agreements. The market value of these securities is monitored, and additional securities are obtained when deemed appropriate to ensure such transactions are adequately collateralized. The Company also monitors its exposure with respect to securities sold under repurchase agreements, and a request for the return of excess securities held by the counterparty is made when deemed appropriate.

Restricted Equity Investments

The Company is required to maintain an investment in capital stock of various entities. Based on redemption provisions of these entities, the stock has no quoted market value and is carried at cost. At their discretion, these entities may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in these stocks.

Equity Securities

Equity securities are carried at fair value, with changes in fair value reported in net income.

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 outstanding principal balances less unearned income, net of deferred fees, origination costs and unaccreted or unamortized non-credit purchase discounts or premiums, respectively. Interest income is accrued on the outstanding principal balance.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (Continued)

Loan origination fees and direct loan origination costs, as well as discounts recorded on retained government guaranteed loans, are deferred and recognized in income over the life of the loans using a method which approximates a level yield.

For all classes of loans, the accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to make payments as they become due, unless the loan is well secured and in the process of collection. Interest income on mortgage and commercial 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. Mortgage loans and commercial loans are charged off to the extent principal or interest is deemed uncollectible. Consumer loans continue to accrue interest until they are charged off, generally between 90 and 120 days past due, unless the loan is in the process of collection. All interest accrued, but not collected for loans that are placed on nonaccrual or charged off, is reversed against interest income. Interest received on nonaccrual loans is applied against principal until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses – Loans

Under the current expected credit loss model, the ACL on loans is a valuation allowance estimated at each balance sheet date in accordance with GAAP that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans.

The Company estimates the ACL on loans based on the underlying loans' amortized cost basis, which is the amount at which the financing receivable is originated or acquired, adjusted for applicable accretion or amortization of premium, discount, and net deferred fees or costs, collection of cash, and charge-offs. In the event that collection of principal becomes uncertain, the Company has policies in place to reverse accrued interest in a timely manner. Therefore, the Company has made a policy election to exclude accrued interest from the measurement of ACL. Accrued interest receivable on loans is reported separately on the consolidated balance sheets and totaled $4,444 and $4,095 at December 31, 2024 and 2023, respectively.

Expected credit losses are reflected in the allowance for credit losses through a charge to provision for credit losses. The Company measures expected credit losses of loans on a collective (pool) basis, when the loans share similar risk characteristics. 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 the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

The Company's methodologies for estimating the ACL consider available relevant information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. The methodologies apply historical loss information, adjusted for asset-specific characteristics, economic conditions at the measurement date, and forecasts about future economic conditions over a period that has been determined to be reasonable and supportable, to the identified pools of loans with similar risk characteristics for which the historical loss experience was observed.

Cohort Analysis Method

The Company's primary methodology for estimating expected credit losses for all loan types is the Cohort Analysis. This cohort approach captures loans that qualify for a segment as of a point in time to form a cohort, then tracks that cohort over their remaining lives to determine their loss behavior. This remaining lifetime loss rate is then applied to current loans that qualify for the same segmentation criteria to form a remaining life expectation on current loans.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Loans (Continued)

Individually Evaluated Loans

Loans that do not share risk characteristics are evaluated on an individual basis. For collateral dependent loans where the Company has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Company expects repayment of the loan to be provided substantially through the operation or sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the loan as of the measurement date. When repayment is expected to be from the operation of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the loan exceeds the present value of expected cash flows from the operation of the collateral. The Company may, in the alternative, measure the expected credit loss as the amount by which the amortized cost basis of the loan exceeds the estimated fair value of the collateral. When repayment is expected to be from the sale of the collateral, expected credit losses are calculated as the amount by which the amortized costs basis of the loan exceeds the fair value of the underlying collateral less estimated cost to sell. The ACL may be zero if the fair value of the collateral at the measurement date exceeds the loan's amortized cost basis.

Charge-offs and Recoveries

Loan losses are charged against the allowance when management believes the collection of a loan's principal is unlikely. Subsequent recoveries are credited to the allowance. If the loan is collateral dependent, the loss is more easily identified and is charged-off when it is identified, usually based upon receipt of an appraisal. However, when a loan has guarantor support, and the guarantor demonstrates willingness and capacity to support the debt, the Company may carry the estimated loss as a reserve against the loan while collection efforts with the guarantor are pursued. If, after collection efforts with the guarantor are complete, the deficiency is still considered uncollectible, the loss is charged-off and any further collections are treated as recoveries.

Loan Commitments and Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for credit losses in the Company's consolidated statements of income. The ACL on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees and is included in other liabilities on the Company's consolidated balance sheets.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

(amounts in thousands, except share data)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value determined by outstanding commitments from investors. Loans held for sale are classified as loans on the consolidated balance sheets and were $3,232 and $1,129 for the years ended December 31, 2024 and 2023, respectively.

Loan origination fees and related origination costs are recognized upon sale of loans to third parties. Gains and losses on sale of loans are recognized at the time of the sale. Losses on sales of loans are recognized when management has determined that such loans will be sold at a price less than the carrying value. Gains and losses are determined by the difference between the net sales proceeds and the cost basis of the loans sold.

Premises and Equipment

Land is carried at cost. Other premises and equipment are carried at cost net of accumulated depreciation. Depreciation is computed using the straight-line method based principally on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in other operating expenses.

	Years
Buildings	15-39
Furniture, fixtures and equipment	3-10

Foreclosed Real Estate

Foreclosed real estate acquired through, or in lieu of, loan foreclosure is held for sale and is initially recorded at fair value less estimated costs to sell. Any write-down to fair value at the time of transfer is charged to the allowance for credit losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell.

Costs of improvements are capitalized, whereas costs related to holding foreclosed real estate and subsequent write-downs to value are expensed. There was no foreclosed real estate outstanding nor formal foreclosure procedures in process at December 31, 2024 and 2023, respectively.

Income Taxes

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Earnings and losses are included in the personal income tax returns of the stockholders and taxed depending on their personal tax strategies. Accordingly, the Company does not incur federal income tax obligations, and the financial statements do not include a provision for federal income taxes. The Company incurs state income taxes, and the consolidated financial statements include an expense (benefit) for the state tax effect of transactions reported in the consolidated financial statements.

The income tax accounting guidance results in two components of state income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method.

Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. The Company's deferred taxes relate primarily to differences between the tax and book basis of the allowance for credit losses and accumulated depreciation.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets may be reduced by deferred tax liabilities and a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense charged to operations was $250 and $607 for the years ended December 31, 2024 and 2023, respectively.

Stock Compensation Plan

At December 31, 2024 and 2023, there were no stock options outstanding. The plan has been accounted for under the accounting guidance (FASB ASC 718, *Compensation - Stock Compensation*) which requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards and stock grants.

Variable Interest Entities

An entity is referred to as a variable interest entity (VIE) if it meets the criteria outlined in ASC Topic 810, which are: (1) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors that cannot make significant decisions about the entity's operations or that do not absorb the expected losses or receive the expected returns of the entity. A VIE must be consolidated by the Company if it is deemed to be the primary beneficiary of the VIE, which is the party involved with the VIE that has a majority of the expected losses, expected residual returns, or both. The Company has two wholly-owned subsidiary grantor trusts which are deemed to be VIEs. These two VIEs have not been consolidated by the Company as BancTenn Corp. is not the primary beneficiary.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee Benefit Plan

Employee benefit plan costs are based on a percentage of individual employee's salary, not to exceed the amount that can be deducted for federal income tax purposes.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities and cash flow hedges, are reported as a separate component of the equity section of the consolidated balance sheets, such items, along with net income, are components of comprehensive income.

Fair Value of Financial Instruments

Fair values of financial instruments are estimates using relevant market information and other assumptions, as more fully disclosed in Note 14. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Revenue Recognition

The Company recognizes revenue in accordance with Accounting Standards Codification 606 (collectively ASC 606), which (1) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (2) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as foreclosed assets. The majority of the Company's revenues come from interest, including loans and securities that are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include primarily customer service fees and interchange fees. See Note 17 for further discussion on the Company's accounting policies for revenue sources within the scope of ASC 606.

Adoption of New Accounting Standards

On January 1, 2023, the Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASC 326), 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, loan commitments, leases, financial guarantees, 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 that management does not intend to sell or believes that it is more likely than not they will not be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net decrease to retained earnings of $3,657 as of January 1, 2023, for the cumulative effect of adopting ASC 326. The transition adjustment includes a $2,143 impact due to an increase in the allowance for unfunded commitments.

(amounts in thousands, except share data)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards (Continued)

In addition, for available for sale debt securities, the new methodology replaces the other-than-temporary impairment model and requires the recognition of an allowance for reductions in a security's fair value attributable to declines in credit quality, instead of a direct write-down of the security when a valuation decline is determined to be other-than-temporary. There was no financial impact related to this implementation. The Company has made a policy election to exclude accrued interest from the amortized cost basis of debt securities and report accrued interest in accrued interest receivable in the consolidated balance sheets.

On January 1, 2023, the Company adopted ASU 2022-02 – *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* (ASU 2022-02). ASU 2022-02 eliminates the troubled debt restructuring (TDR) measurement and recognition guidance and requires that entities evaluate whether the modification represents a new loan or a continuation of an existing loan consistent with the accounting for other loan modifications. Additional disclosures relating to modifications to borrowers experiencing financial difficulty are required under ASU 2022-02. The Company adopted this ASU on a prospective basis.

NOTE 2. SECURITIES

Investment securities available for sale at December 31, 2024 and 2023 are as follows:

	2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities available for sale:				
U.S. Government-sponsored enterprises (GSEs)	$ 33,169	$ -	$ (3,767)	$ 29,402
Obligations of states and political subdivisions	65,083	52	(8,156)	56,979
Mortgage backed securities:				
Government National Mortgage Association guaranteed	33,211	64	(3,354)	29,921
GSE residential	79,763	20	(8,859)	70,924
U.S. Treasury	9,958	-	(229)	9,729
	$221,184	$136	$(24,365)	$196,955
Debt securities held to maturity:				
Obligations of states and political subdivisions	$ 1,455	$ -	$ (135)	$ 1,320
Mortgage backed securities:				
GSE residential	15,943	9	(1,324)	14,628
	$ 17,398	$ 9	$ (1,459)	$ 15,948

(amounts in thousands, except share data)

NOTE 2. SECURITIES (Continued)

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities available for sale:				
U.S. Government-sponsored enterprises (GSEs)	$ 37,021	$ 14	$ (4,033)	$ 33,002
Obligations of states and political subdivisions	63,725	200	(7,389)	56,536
Mortgage backed securities:				
Government National Mortgage Association guaranteed	27,730	129	(3,783)	24,076
GSE residential	86,960	28	(9,193)	77,795
U.S. Treasury	13,903	-	(564)	13,339
	$229,339	$371	$(24,962)	$204,748
Debt securities held to maturity:				
Obligations of states and political subdivisions	$ 1,770	$ -	$ (100)	$ 1,670
Mortgage backed securities:				
GSE residential	15,996	27	(929)	15,094
	$ 17,766	$ 27	$ (1,029)	$ 16,764

U.S. Government sponsored enterprises include entities such as Federal Nation Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Home Loan Banks.

The amortized cost and fair value of debt securities as of December 31, 2024, by contractual maturity are shown below. Actual maturities may differ from contractual maturities of mortgage-backed securities because the mortgages underlying the securities may be called or repaid without penalty. Therefore, these securities are not included in the maturity categories in the following summary.

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$ 9,243	$ 9,156	$ -	$ -
Due from one to five years	17,310	16,688	-	-
Due from five to ten years	45,606	39,086	1,455	1,320
Due after ten years	36,051	31,178	-	-
Mortgage-backed securities	112,974	100,847	15,943	14,628
	$221,184	$196,955	$17,398	$15,948

There were no sales of securities available for sale in 2024 and 2023.

(amounts in thousands, except share data)

NOTE 2. SECURITIES (Continued)

The following tables show the gross unrealized losses and fair value of the Company's investments with unrealized losses, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position at December 31, 2024 and 2023.

	Less Than 12 Months		12 Months or More		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Unrealized Losses
December 31, 2024:					
Available for sale securities:					
U.S. Government-sponsored enterprises (GSEs)	$ 1,223	$ (26)	$ 28,154	$ (3,741)	$ (3,767)
Obligations of states and political subdivisions	11,055	(170)	42,489	(7,986)	(8,156)
Mortgage-backed securities:					
Government National Mortgage Association guaranteed	-	-	23,863	(3,354)	(3,354)
GSE residential	9,703	(86)	55,978	(8,773)	(8,858)
U.S. Treasury	-	-	9,728	(229)	(229)
	$21,981	$(282)	$160,213	$(24,083)	$(24,365)
Debt securities held to maturity:					
Obligations of states and political subdivisions	$ 436	$ (4)	$ 884	$ (131)	$ (135)
Mortgage-backed securities:					
GSE residential	2,728	(92)	10,915	(1,232)	(1,324)
	$ 3,164	$ (96)	$ 11,799	$ (1,363)	$ (1,459)
December 31, 2023:					
Available for sale securities:					
U.S. Government-sponsored enterprises (GSEs)	$ -	$ -	$ 32,995	$ (4,033)	$ (4,033)
Obligations of states and political subdivisions	8,639	(93)	39,963	(7,296)	(7,389)
Mortgage-backed securities:					
Government National Mortgage Association guaranteed	-	-	24,176	(3,783)	(3,783)
GSE residential	-	-	69,658	(9,193)	(9,193)
U.S. Treasury	-	-	13,339	(564)	(564)
	$ 8,639	$ (93)	$180,131	$(24,869)	$(24,962)
Debt securities held to maturity:					
Obligations of states and political subdivisions	$ -	$ -	$ 915	$ (100)	$ (100)
Mortgage-backed securities:					
GSE residential	1,500	(33)	10,711	(896)	(929)
	$ 1,500	$ (33)	$ 11,626	$ (996)	$ (1,029)

(amounts in thousands, except share data)

NOTE 2. SECURITIES (Continued)

As of December 31, 2024 and 2023, no ACL has been recognized on available for sale securities in an unrealized loss position as management does not believe any of the securities are impaired due to reasons of credit quality. This is based upon an analysis of the underlying risk characteristics, including credit ratings, and other qualitative factors related to available for sale securities and in consideration of historical credit loss experience and internal forecasts. The issuers of these securities continue to make timely principal and interest payments under the contractual terms of the securities. Furthermore, the Company does not have the intent to sell any of the securities classified as available for sale in the table above and believes that it is more likely than not that they will not have to sell any such securities before a recovery of cost. The unrealized losses are due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline.

Securities with a carrying value of approximately $18,944 and $7,292 at December 31, 2024 and 2023, respectively, were pledged to secure various deposits and borrowings.

Restricted equity investments, at cost, consist of the following:

	2024	2023
Federal Home Loan Bank stock	$5,518	$6,798
Pacific Coast Bankers Bank stock	102	102
	$5,620	$6,900

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES

Portfolio Segmentation

At December 31, 2024 and 2023, the Company's loans consist of the following:

	2024	2023
Commercial real estate	$ 568,426	$ 533,235
Residential real estate	646,821	600,168
Construction and land development	172,701	186,135
Commercial and industrial	161,148	175,422
Consumer and other	16,926	16,415
Total loans	1,566,022	1,511,375
Less – Net unearned fees	(1)	(2)
Less – Allowance for loan losses	(15,362)	(15,964)
Net loans	$1,550,659	$1,495,409

For purposes of the disclosures required by ASC 310, the loan portfolio was disaggregated into segments. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. There are five loan portfolio segments that include commercial real estate, residential real estate, construction and land development, commercial and industrial, and consumer and other.

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

Portfolio Segmentation (Continued)

The following describe risk characteristics relevant to each of the portfolio segments:

Commercial Real Estate: Include owner-occupied commercial real estate loans and loans secured by income producing properties. Owner-occupied commercial real estate loans to operating businesses are long-term financing of land and buildings. These loans are repaid by cash flow generated from the business operation. Real estate loans for income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers are repaid from rent income derived from the properties. Loans within this segment are particularly sensitive to the valuation of real estate collateral.

Residential Real Estate: Include 1-4 family residential real estate loans, second liens, or open-end real estate loans, such as home equity lines and up to four-unit multifamily residential loans. These are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property. These loans are sensitive to the valuation of real estate collateral, unemployment and other key economic measures.

Construction and Land Development: Loans for real estate construction and land development are repaid through cash flow related to the operations, sale or refinance of the underlying property. This portfolio segment includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral. These loans are particularly sensitive to the valuation of real estate.

Commercial and Industrial: Include commercial, financial and agricultural loans. These loans include those loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or expansion projects. Loans are repaid by business cash flows. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly cash flows from the customers' business operations.

Consumer and Other: The consumer loan portfolio segment includes direct consumer installment loans, overdrafts and other revolving credit loans, and loans secured by farmland. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures.

Nonaccrual and Past Due Loans

A loan is placed on nonaccrual status when, in management's judgment, the collection of the interest income appears doubtful. Interest receivable that has been accrued and is subsequently determined to have doubtful collectability is charged to interest income. Interest on loans that are classified as nonaccrual is subsequently applied to principal until the loans are returned to accrual status. The Company's loan policy states that a nonaccrual loan may be returned to accrual status when (i) none of its principal and interest is due and unpaid, and the Company expects repayment of the remaining contractual principal and interest, or (ii) it otherwise becomes well secured and in the process of collection. Restoration to accrual status on any given loan must be supported by a well-documented credit evaluation of the borrower's financial condition and the prospects for full repayment. Past due loans are accruing loans whose principal or interest is past due 30 days or more.

(amounts in thousands, except share data)

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

Nonaccrual and Past Due Loans (Continued)

The following tables provide a summary of current, accruing past due, and nonaccrual loans by portfolio class as of December 31, 2024 and 2023.

	December 31, 2024						
	30-89 Days Past Due and Accruing	Past Due 90 Days or More and Accruing	Nonaccrual with an ACL	Nonaccrual without an ACL	Total Past Due	Current Loans	Total Loans
Commercial real estate	$ 510	$ -	$ -	$ -	$ 510	$ 567,916	$ 568,426
Residential real estate	3,657	-	2,326	458	6,441	640,380	646,821
Construction and land development	1,605	-	-	-	1,605	171,096	172,701
Commercial and industrial	3,689	-	84	100	3,873	157,275	161,148
Consumer and other	43	-	8	-	51	16,875	16,926
Total	$9,504	$ -	$2,418	$558	$12,480	$1,553,542	$1,566,022

	December 31, 2023						
	30-89 Days Past Due and Accruing	Past Due 90 Days or More and Accruing	Nonaccrual with an ACL	Nonaccrual without an ACL	Total Past Due	Current Loans	Total Loans
Commercial real estate	$ 460	$ -	$ -	$ -	$ 460	$ 532,775	$ 533,235
Residential real estate	3,331	-	2,884	605	6,820	593,348	600,168
Construction and land development	-	-	100	-	100	186,035	186,135
Commercial and industrial	54	-	538	-	592	174,830	175,422
Consumer and other	21	-	12	-	33	16,382	16,415
Total	$3,866	$ -	$3,534	$605	$8,005	$1,503,370	$1,511,375

There was no interest income recognized on nonaccrual loans during the years ended December 31, 2024 or 2023.

Collateral Dependent Loans

Collateral dependent loans are loans where repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty. If the Company determines that foreclosure is probable, these loans are written down to the lower of cost or collateral value less estimated costs to sell. When repayment is expected to be from the operation of the collateral, the allowance for credit losses is calculated as the amount by which the amortized cost basis of the financial asset exceeds the present value of expected cash flows from the operation of the collateral. The Company may, in the alternative, measure the allowance for credit loss as the amount by which the amortized cost basis of the financial asset exceeded the estimated fair value of the collateral. The following are loans considered to be collateral dependent.

	December 31, 2024		December 31, 2023	
	Balance	Allowance for Credit Losses	Balance	Allowance for Credit Losses
Commercial and industrial	$2,122	$ 695	$2,356	$349
Commercial real estate	6,976	831	2,301	-
Residential real estate	494	-	865	-
Total	$9,592	$1,526	$5,522	$349

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except share data)

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

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually to classify the loans as to credit risk. This analysis includes loans with an outstanding balance greater than $500,000 and non-homogeneous loans, such as commercial real estate loans. This analysis is performed on a quarterly basis.

The Company uses the following definitions for risk ratings:

Pass: Loans in this risk category involve borrowers of acceptable-to-strong credit quality and risk who have the apparent ability to satisfy their loan obligations. Loans in this risk grade would possess sufficient mitigating factors, such as adequate collateral or strong guarantors possessing the capacity to repay the debt if required, for any weakness that may exist.

Special Mention: Loans in this risk grade are the equivalent of the regulatory definition of “Other Assets Especially Mentioned” classification. Loans in this category possess some credit deficiency or potential weakness, which requires a high level of management attention. Potential weaknesses include declining trends in operating earnings and cash flows and /or reliance on the secondary source of repayment. If left uncorrected, these potential weaknesses may result in noticeable deterioration of the repayment prospects for the asset or in the Company’s credit position.

Substandard: Loans in this risk grade are inadequately protected by the borrower’s current financial condition and payment capability or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the orderly repayment of debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans in this risk grade have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or orderly repayment in full, on the basis of current existing facts, conditions and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the exposure, its classification as an estimated loss is deferred until its more exact status may be determined.

The following tables summarize the risk category of the Company's loan portfolio based upon on the most recent analysis performed as of December 31, 2024 and 2023:

	December 31, 2024					
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Total
Pass	$565,025	$639,067	$172,447	$159,649	$16,797	$1,552,985
Special mention	140	1,433	-	73	-	1,646
Substandard	3,261	6,321	254	1,426	129	11,391
Doubtful	-	-	-	-	-	-
Total	$568,426	$646,821	$172,701	$161,148	$16,926	$1,566,022

(amounts in thousands, except share data)

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

Credit Quality Indicators (Continued)

	December 31, 2023					
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Total
Pass	$529,883	$590,879	$186,035	$172,195	$16,316	$1,495,309
Special mention	788	3,357	-	78	-	4,222
Substandard	2,564	5,932	100	3,149	99	11,844
Doubtful	-	-	-	-	-	-
Total	$533,235	$600,168	$186,135	$175,422	$16,415	$1,511,375

Allowance for Credit Losses on Loans

The allowance for credit losses represents an allowance for expected losses over the remaining contractual life of the assets. The contractual term does not consider extensions, renewals or modifications. The Company segregates the loan portfolio by type of loan and utilizes this segregation in evaluating exposure to risks within the portfolio.

Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories. The following tables provide details related to the allowance for credit losses for the year ended December 31, 2024 and 2023.

	Year Ended December 31, 2024						
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Unallocated	Total
Balance, beginning of year	$5,533	$7,772	$ 359	$2,143	$ 157	$ -	$15,964
Provision for (reallocation of) loan losses	(754)	(4,427)	4,844	268	186	-	117
Recoveries of loans charged off	110	65	18	39	135	-	367
Loans charged off	-	(452)	(100)	(270)	(264)	-	(1,086)
Balance, end of year	$4,889	$2,958	$5,121	$2,180	$ 214	$ -	$15,362

	Year Ended December 31, 2023						
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Unallocated	Total
Balance, beginning of year	$3,433	$3,386	$ 801	$1,592	$ 103	$3,258	$12,573
Adoption of ASC 326	-	-	-	-	-	1,620	1,620
Provision for (reallocation of) loan losses	2,100	4,443	(410)	749	210	(4,878)	2,214
Recoveries of loans charged off	-	62	6	10	150	-	228
Loans charged off	-	(119)	(38)	(208)	(306)	-	(671)
Balance, end of year	$5,533	$7,772	$ 359	$2,143	$ 157	$ -	$15,964

(amounts in thousands, except share data)

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

Modifications to Borrowers Experiencing Financial Difficulty

The Company periodically provides modifications to borrowers experiencing financial difficulty. These modifications include either payment deferrals, term extensions, interest rate reductions, principal forgiveness or combinations of modification types. The determination of whether the borrower is experiencing financial difficulty is made on the date of the modification. When principal forgiveness is provided, the amount of principal forgiveness is charged off against the allowance for credit losses with a corresponding reduction in the amortized cost basis of the loan. A modified loan is tracked for at least 12 months following the modifications granted.

At December 31, 2024 and 2023, the loans modified to borrowers experiencing financial difficulty were $2.6 million and zero, respectively. The Company has no unfunded commitments to borrowers experiencing financial difficulty for which the Company has modified their loans at December 31, 2024 and 2023.

Related Party Loans

In the normal course of business, the Company has granted loans to certain related parties, including to directors, executive officers, and principal shareholders of the Company, on substantially the same terms, including interest rates and collateral as those prevailing at the time for comparable transactions with other borrowers. Annual activity consisted of the following:

	2024	2023
Balance beginning of year	$ 17,226	$14,391
Advances	31,042	10,095
Repayments	(27,542)	(7,260)
Balance end of year	$ 20,726	$17,226

NOTE 4. PREMISES AND EQUIPMENT

A summary of premises and equipment at December 31, 2024 and 2023, is as follows:

	2024	2023
Land	$ 8,556	$ 8,982
Building and leasehold improvements	44,779	43,359
Furniture and equipment	17,654	17,157
Transportation equipment	1,190	1,190
Construction in progress	66	828
	72,245	71,516
Accumulated depreciation	(36,549)	(36,713)
	$ 35,696	$ 34,803

At December 31, 2024, construction in progress consisted of costs related to renovating the bank's Med Tech office. Cost to complete this project is estimated to be $3,027.

(amounts in thousands, except share data)

NOTE 5. DEPOSITS

The composition of deposits at December 31, 2024 and 2023, is as follows:

	2024	2023
Demand deposits, noninterest bearing	$ 508,597	$ 484,998
NOW accounts	287,036	265,018
Money market accounts	522,611	428,733
Savings accounts	192,771	189,138
Time deposits	210,836	241,761
	$1,721,851	$1,609,648

The aggregate amount of time deposits in denominations of $250 or more at December 31, 2024 and 2023 were approximately $85,495 and $123,806, respectively. At December 31, 2024 and 2023, the scheduled maturities of time deposits are as follows:

	2024	2023
Less than one year	$189,162	$211,572
One through three years	15,678	26,897
Three through five years	5,996	3,292
	$210,836	$241,761

NOTE 6. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase represent the purchase of interest in securities by commercial checking customers. The Company may also enter into structured repurchase agreements with other financial institutions. Repurchase agreements with commercial checking customers generally settle the following business day, while structured repurchase agreements with other financial institutions will have varying terms.

At December 31, 2024 and 2023, the Company had securities sold under agreements to repurchase of $15,281 and $1,095, respectively, with commercial checking customers.

NOTE 7. FEDERAL HOME LOAN BANK ADVANCES

The Bank has an agreement with the Federal Home Loan Bank (FHLB) that can provide short-term and long-term funding to the Bank in an amount up to $591,294. The Bank has pledged its loans secured by one to four single-family mortgages, second mortgages and home equity lines, multi-family, commercial real estate, and farm real estate properties. The collateral to loan ratio ranges from 56% to 69%.

At December 31, 2024 and 2023, FHLB advances consist of the following:

	2024	2023
Overnight advance, principal and interest due at maturity, fixed at 5.41%, matures January 2, 2024	$ -	$57,000

NOTE 8. SUBORDINATED DEBENTURES

Effective June 22, 2004 and December 4, 2006, two wholly-owned subsidiary grantor trusts were established by the Company, BancTenn Capital Trust II and BancTenn Capital Trust III, respectively. These subsidiaries issued $6,000 and $9,000 of pooled Trust Preferred Securities (trust preferred securities), respectively. Trust preferred securities accrue and pay distributions periodically at specified annual rates as provided in the indentures. The trust used the net proceeds from the offering to purchase a like amount of Junior Subordinated Debentures (the Debentures) of the Company. The Debentures are the sole assets of the trust. The trust preferred securities are mandatorily redeemable upon the maturity of the Debentures, or upon earlier redemption as provided in the indentures.

The Company has the right to redeem the Debentures in whole or in part after specific dates, at a redemption price specified in the indenture plus any accrued but unpaid interest to the redemption date. The trust preferred securities have a maturity of 30 years and are redeemable at the Company's option with certain exceptions. At December 31, 2024, the floating-rate securities in BancTenn Capital Trust II had an 7.54% interest rate which resets quarterly at the three-month SOFR rate plus 2.65% and BancTenn Capital Trust III had a 6.27% interest rate which resets quarterly at the three-month SOFR rate plus 1.65%.

For regulatory capital purposes, these trust-preferred securities qualify as a component of Tier I capital, subject to certain limitations.

ASC Topic 810 resulted in the Company's investment in the common equity of the trust being included in the consolidated balance sheets as other assets, totaling $465 at December 31, 2024 and 2023. The outstanding balance of the subordinated debentures was $15,465 at December 31, 2024 and 2023.

NOTE 9. BORROWINGS UNDER LINE OF CREDIT

The Company has a $10 million line of credit with another financial institution, which is secured by 100% of the stock of Bank of Tennessee. Interest on borrowings ranges from Wall Street Journal (WSJ) Prime Rate minus .50% to WSJ Prime Rate plus .25% based upon the most recent quarterly average deposits the Company has on deposit at the financial institution. The interest rate floor is 3.25%. The line matures on March 25, 2025, unless annually renewed thereafter. There were no amounts outstanding under the line of credit at December 31, 2024 or 2023.

The line of credit requires the Bank to meet certain covenants, which include: (i) the Bank shall maintain a nonperforming asset ratio not to be greater than 3.25% of total assets, (ii) the Bank shall maintain a Texas ratio not to be greater than 35%, (iii) the Bank shall maintain a Liquidity ratio not to be less than 9.00%, (iv) the Bank shall maintain a return on average assets not to be less than .50%, (v) the Bank shall maintain a debt service coverage ratio of 1.25 times or better, (vi) the Bank shall be well capitalized; Tier 1 leverage ratio of 7.50% or better, (vii) the Bank shall maintain Tier 1 risk based capital ratio of 9.00% or better, and (vii) the Bank shall maintain a risk based capital ratio of 10.00% or better. At December 31, 2024 and 2023, the Bank was in compliance with all covenants.

NOTE 10. EMPLOYEE BENEFIT PLANS

Employee Retirement Plans

The Company has a salary reduction/profit-sharing plan under the provisions of Section 401(k) of the Internal Revenue Code. All employees are eligible to participate immediately upon hire. The Plan provides for contributions by the Company in such amounts as determined by the Board of Directors not to exceed 6 percent of the participant's annual compensation. In addition, the Plan provides for the Company to match employee contributions to the Plan equal to 50 percent of the first 6 percent of the participant's annual compensation. The Company contributed $575 and $511 to the Plan for the years ended December 31, 2024 and 2023, respectively.

NOTE 10. EMPLOYEE BENEFIT PLANS (Continued)

Employee Retirement Plans (Continued)

The Company and the Bank provide deferred compensation agreements for the benefit of executive and other key officers. The Bank records the estimated amount of future payments to be made over the active service periods of the officers. Interest costs are recorded beginning on the date the officer ends employment with the bank thru the final benefit payment to the officer. Deferred compensation expense under these agreements was $589 and $552 for the years ended December 31, 2024 and 2023, respectively. Accrued deferred compensation of approximately $10,499 and $10,528 is included in other liabilities at December 31, 2024 and 2023, respectively.

Employee Stock Ownership Plan

Effective January 1, 2004, the Company established an Employee Stock Ownership Plan (the Plan), within the guidelines as defined by the Internal Revenue Code, for the purpose of enabling participants to acquire an ownership interest in the Company. All employees are eligible to participate in the Plan after completing one year of service with a minimum of 1,000 hours. Initial funding for the purchase of the Company's common stock was provided by Security Acquisition Loans from the Company to the Plan. The Security Acquisition Loans call for principal and interest to be repaid in ten equal annual installments of principal and interest. Shares obtained in connection with Security Acquisition Loans are held in a suspense account and are classified as unallocated shares.

Contributions are made to the Plan as determined by the Company's Board of Directors, generally commensurate with the debt service requirements set forth in the loan agreements. Unallocated shares held in suspense by the Plan are released based on the ratio of principal payments made in the current year to total required future principal payments. Shares of the Company's common stock owned by the Plan are allocated as of each year end to each participant based on the ratio of individual compensation to total covered compensation, as defined by the agreement. Contributions can be in the form of cash, shares of Company stock, or other property as determined by the Board.

S Corporation distributions related to unallocated shares are used to fund the debt service requirements defined in the Security Acquisition Loans. Any remaining distributions are allocated proportionately to the participant, as defined by the plan agreement. At the Board's discretion, S Corporation distributions related to allocated shares may be used to make payments on Securities Acquisition Loans or shall be allocated to the participants, in accordance with the plan agreement.

The Company recognizes compensation expense for contributions and for allocated shares that were previously unallocated. The fair value, as determined by an independent appraisal, is used to calculate the compensation expense. Compensation expense recognized in association with the Plan for 2024 and 2023 totaled $255 and $300, respectively.

When a participant retires or otherwise terminates from the Plan, the Company is required to offer the participant the fair value for any allocated, vested shares of Company stock. If the participant declines this option, the Company retains the right of first refusal of such shares. At December 31, 2024 and 2023, there were no repurchase obligations outstanding.

The fair value of allocated shares at December 31, 2024 is $68.00 per share, as determined by the most recent stock trade date on May 7, 2024. The fair value at December 31, 2023 was $75.00 per share, as determined by the December 31, 2023 stock valuation. The number of shares allocated, unallocated and committed to be released totaled 92,317, zero, and zero, respectively, as of December 31, 2024 and December 31, 2023.

(amounts in thousands, except share data)

NOTE 10. EMPLOYEE BENEFIT PLANS (Continued)

Stock Option Plan

The Company has a stock option plan, which is administered by the Board of Directors that provides for both incentive stock options and nonqualified stock options. The Company also grants non-qualified stock options to the Board of Directors. The maximum number of common shares that can be sold or optioned under the Officer stock option plan and Director stock option plan is 480,000 shares and 190,000 shares, respectively. Under the plan, the exercise price of each option shall not be less than 100 percent of the fair market value of the common stock on the date of grant, those options awards generally vest based on five years of continuous service and have a ten-year contractual term.

As of December 31, 2024 and 2023, there were no stock options outstanding. There was no stock option activity in 2024 and 2023.

NOTE 11. INCOME TAXES

The Company files consolidated income tax returns with its subsidiary, Bank of Tennessee. Under the terms of a tax-sharing agreement, the subsidiary's allocated portion of the consolidated tax liability is computed as if it were reporting its income and expenses as a separate entity.

The income tax expense in the consolidated statements of income for the years ended December 31, 2024 and 2023, includes the following:

	2024	2023
Current tax expense (benefit):		
State	$(146)	$(174)
Deferred income taxes related to:		
Provision for credit losses	39	(88)
Depreciation	90	9
Deferred compensation retirement plans	(9)	(19)
Cash method of accounting	97	216
Other	(265)	(196)
Income tax benefit	$(194)	$(252)

Deferred tax assets recognized for deductible temporary differences totaled $8,611 and $9,127 at December 31, 2024 and 2023, respectively. Deferred tax liabilities for taxable temporary differences totaled $888 and $704 at December 31, 2024 and 2023, respectively.

For the years ended December 31, 2024 and 2023, the Company's income tax benefit differs from the amounts computed by applying the state income tax statutory rates to income before income taxes by $1,402 and $1,678 due primarily to state tax credits.

The income tax returns of the Company for 2023, 2022, and 2021 are subject to examination by the IRS, generally for three years after they were filed.

(amounts in thousands, except share data)

NOTE 12. COMMITMENTS AND CONTINGENCIES

Loan Commitments

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheets. The majority of all commitments to extend credit and standby letters of credit are variable rate instruments.

The Company's exposure to credit loss is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

A summary of the Company's commitments is as follows:

	2024	2023
Commitments to extend credit	$324,323	$281,979
Financial standby letters of credit	5,030	2,547
Other standby letters of credit	1,034	1,241
	$330,387	$285,767

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral held varies and is required in instances which the Company deems necessary.

The Company maintains an allowance for unfunded commitments such as unfunded balances for existing lines of credit, commitments to extend future credit, and standby letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable. The allowance for unfunded commitments is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans. The allowance for credit losses for unfunded commitments is separately classified on the consolidated balance sheets within accrued expenses and other liabilities.

The following table presents the balance and activity in the allowance for credit losses for unfunded commitments for the year ended December 31, 2024 and 2023:

	2024	2023
Beginning balance	$1,879	$ -
Adjustment to allowance for the adoption of ASC 326	-	2,291
Provision for credit losses	343	(412)
Ending balance	$2,222	$1,879

NOTE 12. COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies

During the normal course of business, the Company is subject to various lawsuits and claims. As of December 31, 2024, management believes that there are no current proceedings that would materially impact the consolidated financial statements of the Company.

NOTE 13. CONCENTRATIONS OF CREDIT RISK

The Company originates primarily commercial, residential, and consumer loans to customers in eastern and middle Tennessee and western North Carolina. The ability of the majority of the Company's customers to honor their contractual loan obligations is dependent on the economy in these areas.

At December 31, 2024, seventy-eight percent of the Company's loan portfolio is concentrated in loans secured by real estate, of which a substantial portion is secured by real estate in the Company's primary market area. Accordingly, the ultimate collectability of the loan portfolio and recovery of the carrying amount of foreclosed real estate is susceptible to changes in real estate conditions in the Company's primary market area. The other concentrations of credit by type of loan are set forth in Note 3.

The Company, as a matter of policy, does not generally extend credit to any single borrower or group of related borrowers in excess of 25% of statutory capital, or approximately $45,515.

NOTE 14. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the *Fair Value Measurements and Disclosures* topic (FASB ASC 820), the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques.

Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

(amounts in thousands, except share data)

NOTE 14. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Fair Value Hierarchy (Continued)

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Securities: Where quoted prices are available in an active market, management classifies the securities within Level 1 of the valuation hierarchy. Level 1 securities include exchange-traded equities. If quoted market prices are not available, management estimates fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include GSE obligations and other securities. Mortgage-backed securities are included in Level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, management classifies those securities in Level 3.

The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis.

	Balance as of December 31, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Securities available for sale:				
U.S. Government-sponsored enterprises (GSEs)	$ 29,402	$ -	$ 29,402	$ -
Obligations of states and political subdivisions	56,978	-	56,978	-
Mortgage-backed securities:				
Government National Mortgage Association guaranteed	29,921	-	29,921	-
GSE residential	70,926	-	70,926	-
U.S. Treasury	9,728	-	9,728	-
Total securities available for sale	$196,955	$ -	$196,955	$ -

There were no equity securities at fair value at December 31, 2024 or 2023.

(amounts in thousands, except share data)

NOTE 14. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Fair Value Hierarchy (Continued)

	Balance as of December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Securities available for sale:				
U.S. Government-sponsored enterprises (GSEs)	$ 33,002	$ -	$ 33,002	$ -
Obligations of states and political subdivisions	56,536	-	56,536	-
Mortgage-backed securities:				
Government National Mortgage Association guaranteed	24,076	-	24,076	-
GSE residential	77,795	-	77,795	-
U.S. Treasury	13,339	-	13,339	-
Total securities available for sale	$204,748	$ -	$204,748	$ -

Assets Measured at Fair Value on a Nonrecurring Basis: Under certain circumstances management adjusts fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following tables present the financial instruments carried on the consolidated balance sheets by caption and by level in the fair value hierarchy, for which a nonrecurring change in fair value has been recorded:

	Balance as of December 31, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Individually evaluated loans	$3,211	$ -	$ -	$3,211

	Balance as of December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Individually evaluated loans	$2,007	$ -	$ -	$2,007

Individually Evaluated Loans: The fair value of individually evaluated loans was primarily measured based on the value of the collateral securing these loans and classified within Level 3 of the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory, and/or accounts receivable. The Company determines the value of the collateral based on independent appraisals performed by qualified licensed appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraised values are discounted for costs to sell and may be discounted further based on management's historical knowledge, changes in market conditions from the date of the most recent appraisal, and/or 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. These loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors discussed above.

(amounts in thousands, except share data)

NOTE 14. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Quantitative Disclosures for Level 3 Fair Value Measurements: The Company had no Level 3 assets measured at fair value on a recurring basis at December 31, 2024 and 2023**.**

For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2024 and 2023, the significant unobservable inputs used in the fair value measurements are presented below.

	Carrying Amount	Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Nonrecurring - 2024:				
Individually evaluated loans	$3,211	Appraisal	Appraisal discounts	32%
Nonrecurring - 2023:				
Impaired loans	$2,007	Appraisal	Appraisal discounts	15%

NOTE 15. REGULATORY MATTERS

The Bank is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2024, approximately $33,137 of retained earnings were available for dividend declaration without regulatory approval.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total capital, Tier 1 capital, and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. In addition, the Bank is subject to an institution-specific capital buffer, which must exceed 2.50% to avoid limitations on distributions and discretionary bonus payments. The Bank's capital conservation buffer at December 31, 2024 was 4.47%. Management believes, as of December 31, 2024 and 2023, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2024, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have change the Bank's category.

(amounts in thousands, except share data)

NOTE 15. REGULATORY MATTERS (Continued)

The Bank's actual capital amounts and ratios are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2024:						
Total capital to risk-weighted assets	$197,818	12.47%	$126,859	8.00%	$158,573	10.00%
Tier I capital to risk weighted assets	182,061	11.48%	95,144	6.00%	126,859	8.00%
CETI capital to risk weighted assets	182,061	11.48%	71,358	4.50%	103,073	6.50%
Tier I capital to average assets	182,061	9.49%	76,763	4.00%	95,954	5.00%
As of December 31, 2023:						
Total capital to risk-weighted assets	$190,613	12.45%	$122,492	8.00%	$153,116	10.00%
Tier I capital to risk weighted assets	175,513	11.46%	91,869	6.00%	122,492	8.00%
CETI capital to risk weighted assets	175,513	11.46%	68,902	4.50%	99,525	6.50%
Tier I capital to average assets	175,513	9.45%	74,319	4.00%	92,899	5.00%

NOTE 16. CONCENTRATIONS IN DEPOSITS

The Company had a concentration in its deposits to two customers totaling approximately $129,072 and $126,954 at December 31, 2024 and 2023, respectively.

NOTE 17. REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within non-interest income. The following table presents the Company's sources of non-interest income for the twelve months ended December 31, 2024 and 2023. Items outside the scope of ASC 606 are noted as such.

	2024	2023
Non-Interest Income		
Customer service fees	$2,547	$2,366
Loan origination and settlement fees (a)	2,058	1,847
Gain on sales of assets (a)	179	62
Other	5,667	5,739
Total non-interest income	$10,451	$10,014

(a) Not within scope of ASC 606

NOTE 17. REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

Customer service fees: Revenue from customer service fees is earned through cash management, wire transfer, overdraft, non-sufficient funds, and other deposit-related services. Revenue is recognized for these services either over time, corresponding with deposit accounts' monthly cycle, or at a point in time for transaction-related services and fees. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Other: Other non-interest income primarily consists of revenues generated from ATM fees and safe deposit box rentals. ATM fees are recognized concurrently with the delivery of service on a daily basis as transactions occur. Safe deposit box rentals income is recognized on a monthly basis as the Company's performance obligation for these services is satisfied. This category also includes interchange fees from consumer credit and debit cards processed by card association networks, as well as merchant discounts, and other card-related services. Interchange rates are generally set by the credit card associations and based on purchase volumes and other factors. Interchange fees and merchant discounts are recognized concurrently with the delivery of service on a daily basis as transactions occur. Payment is typically received immediately or in the following month. Also included in this category is wealth management revenue and revenue from bank owned life insurance and annuity contracts, which are not within the scope of ASC 606. For the years ended December 31, 2024 and 2023, these amounts totaled $2,050 and $1,944, respectively.

MAULDIN & JENKINS
CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT
ON CONSOLIDATING INFORMATION

To the Stockholders and Board of Directors
BancTenn Corp.
Kingsport, Tennessee

We have audited the consolidated financial statements of BancTenn Corp. and its Subsidiary as of and for the year ended December 31, 2024, and have issued our report thereon dated March 25, 2025, which contains an unmodified opinion on those consolidated financial statements. See page 1.

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

Mauldin & Jenkins, LLC

Chattanooga, Tennessee
March 25, 2025

200 W. MARTIN LUTHER KING BLVD, SUITE 1100 • CHATTANOOGA, TENNESSEE 37402 • 423-756-6133 • FAX 423-756-2727 • www.mjcpa.com

BANCTENN CORP. AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET
December 31, 2024
(amounts in thousands, except share data)

	Bank of Tennessee	BancTenn Corp.	Eliminations	Consolidated
ASSETS				
Cash and due from banks:				
Noninterest-bearing	$ 27,807	$ 336	$ 336	$ 27,807
Interest-bearing	350	10,196	10,196	350
Total cash and due from banks	28,157	10,532	10,532	28,157
Federal funds sold	29,615	-	-	29,615
Certificates of deposit with other financial institutions	1,250	-	-	1,250
Securities available for sale	196,955	-	-	196,955
Securities held to maturity	17,398	-	-	17,398
Restricted equity investments, at cost	5,620	-	-	5,620
Loans, net of allowance for credit losses	1,550,659	-	-	1,550,659
Premises and equipment	35,696	-	-	35,696
Accrued interest receivable	5,294	-	-	5,294
Cash surrender value of life insurance	30,686	-	-	30,686
Annuity contracts	14,030	-	-	14,030
Other assets	13,945	734	164	14,515
Investment in subsidiary	-	162,723	162,723	-
Total assets	$ 1,929,305	$ 173,989	$ 173,419	$ 1,929,875
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits:				
Noninterest-bearing	$ 508,933	$ -	$ 336	$ 508,597
Interest-bearing	1,223,450	-	10,196	1,213,254
Total deposits	1,732,383	-	10,532	1,721,851
Securities sold under agreements to repurchase	15,281	-	-	15,281
Subordinated debentures	-	15,465	-	15,465
Accrued interest payable	634	112	-	746
Accrued expenses and other liabilities	18,284	1,572	164	19,692
Total liabilities	1,766,582	17,149	10,696	1,773,035
Stockholders' equity:				
Common stock, no par value; 250,000 shares authorized; 209,148 shares outstanding	2,269	-	2,269	-
Common stock, $8 par value; 6,000,000 shares authorized; 2,539,304 shares outstanding	-	20,314	-	20,314
Additional paid-in capital	26,142	9,027	26,142	9,027
Retained earnings	156,965	150,152	156,965	150,152
Accumulated other comprehensive loss	(22,653)	(22,653)	(22,653)	(22,653)
Total stockholders' equity	162,723	156,840	162,723	156,840
Total liabilities and stockholders' equity	$ 1,929,305	$ 173,989	$ 173,419	$ 1,929,875

BANCTENN CORP. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF INCOME
Year Ended December 31, 2024
(amounts in thousands)

	Bank of Tennessee	BancTenn Corp.	Eliminations	Consolidated
INTEREST INCOME				
Loans, including fees	$ 87,437	$ -	$ -	$ 87,437
Securities	6,308	-	-	6,308
Federal funds sold and other	344	494	475	363
	94,089	494	475	94,108
INTEREST EXPENSE				
Interest on deposits	31,938	-	475	31,463
Interest on other borrowed funds	2,134	1,163	-	3,297
	34,072	1,163	475	34,760
Net interest income (expense)	60,017	(669)	-	59,348
Provision for credit losses	460	-	-	460
Net interest income (expense) after provision for credit losses	59,557	(669)	-	58,888
NONINTEREST INCOME				
Customer service fees	2,547	-	-	2,547
Loan origination and settlement fees	2,058	-	-	2,058
Gain on sales of assets	179	-	-	179
Other	5,922	30	285	5,667
Equity in subsidiary's earnings	-	21,141	21,141	-
	10,706	21,171	21,426	10,451
NONINTEREST EXPENSES				
Salaries and employee benefits	28,914	1,047	-	29,961
Occupancy expenses	4,323	-	-	4,323
Software and digital services	5,982	13	13	5,982
Other operating expenses	9,903	852	272	10,483
	49,122	1,912	285	50,749
Income before income taxes	21,141	18,590	21,141	18,590
Income tax benefit	-	(194)	-	(194)
Net income	$ 21,141	$ 18,784	$ 21,141	$ 18,784

Management's Assessment

Of Internal Control over Financial Reporting

BancTenn Corp and its subsidiary bank, Bank of Tennessee, (the "Company") internal control over financial reporting is a process designed and effected by those charged with governance, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes (FFIEC 41). The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management is responsible for establishing and maintaining effective internal control over financial reporting including controls over the preparation of regulatory financial statements. Management assessed the effectiveness of the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FFIEC's Consolidated Report of Condition and Income (call report instructions), as of December 31, 2024, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework. Based on that assessment, management concluded that, as of December 31, 2024, the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the call report instructions, is effective based on the criteria established in Internal Control - Integrated Framework. The following subsidiary institution of the Company that is subject to Part 363 is included in this assessment of the effectiveness of internal control over financial reporting: Bank of Tennessee.

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the call report instructions, as of December 31, 2024 has been audited by Mauldin & Jenkins, LLC, an independent public accounting firm, as stated in their report dated March 25, 2025.

BancTenn Corp.

William B. Greene

William B. Greene, Jr.

Chairman, CEO & President

March 25, 2025

Darla M. Scott

Darla M. Scott

Chief Financial Officer

March 25, 2025