Annual Disclosure Statement

The attached annual report serves as Bank of Tennessee's 2022 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.

<u>Contact Information</u>

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Darla M. Scott

Bank of Tennessee
EVP and CFO

Annual Report 2022

BANCTENN CORP.
AND SUBSIDIARY

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2022

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated financial statements of BancTenn Corp. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income (loss), 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of BancTenn Corp. and Subsidiary as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

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 to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9SP) as of December 31, 2022, based on criteria established in *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, 2022, based on criteria established in *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. 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 audit. 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.

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 generally accepted auditing standards will always detect a material misstatement or a material weakness when it exists.

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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 generally accepted auditing standards, 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 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 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9SP). 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 entity; (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 23, 2023

BANCTENN CORP. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2022 and 2021
(amounts in thousands, except share data)

	2022	2021
ASSETS		
Cash and due from banks:		
Noninterest-bearing	$ 40,203	$ 65,095
Interest-bearing	28,266	108,139
Total cash and due from banks	68,469	173,234
Federal funds sold	30,585	47,455
Certificates of deposit with other financial institutions	2,000	-
Securities available for sale	211,733	217,270
Securities held to maturity (fair value of $13,113 in 2022 and $6,884 in 2021)	14,298	6,800
Equity securities	-	20,115
Restricted equity investments, at cost	6,370	8,285
Loans, net of allowance for loan losses	1,371,952	1,242,801
Premises and equipment	33,700	35,142
Accrued interest receivable	3,927	3,176
Cash surrender value of life insurance	28,781	27,905
Annuity contracts	15,573	15,970
Other assets	12,252	7,759
Total assets	$ 1,799,640	$ 1,805,912
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 548,980	$ 550,362
Interest-bearing	1,051,018	1,051,827
Total deposits	1,599,998	1,602,189
Securities sold under agreements to repurchase	27,412	12,802
Subordinated debentures	15,465	15,465
Accrued interest payable	202	92
Accrued expenses and other liabilities	19,960	15,733
Total liabilities	1,663,037	1,646,281
Stockholders' equity:		
Common stock, $8 par value, 6,000,000 shares authorized, 2,539,304 shares issued and outstanding in 2022 and 2021	20,314	20,314
Additional paid-in capital	9,027	8,960
Retained earnings	134,930	129,929
Accumulated other comprehensive income (loss)	(27,668)	718
Unallocated ESOP shares	-	(290)
Total stockholders' equity	136,603	159,631
Total liabilities and stockholders' equity	$ 1,799,640	$ 1,805,912

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, 2022 and 2021
(amounts in thousands)

	2022	2021
INTEREST INCOME		
Loans, including fees	$ 60,956	$ 58,345
Securities	5,074	4,121
Federal funds sold and other	1,255	260
	67,285	62,726
INTEREST EXPENSE		
Interest on deposits	3,599	3,505
Interest on other borrowed funds	614	559
	4,213	4,064
Net interest income	63,072	58,662
Provision for loan losses	400	580
Net interest income after provision for loan losses	62,672	58,082
NONINTEREST INCOME		
Customer service fees	2,270	1,939
Loan origination and settlement fees	2,104	5,952
Gain on sales of securities	999	424
Change in value equity securities	-	5,222
Other	7,438	5,228
	12,811	18,765
NONINTEREST EXPENSES		
Salaries and employee benefits	28,823	27,895
Occupancy expenses	4,457	3,988
Software and digital services	5,228	5,048
Other operating expenses	10,869	9,090
	49,377	46,021
Income before income taxes	26,106	30,826
Income tax expense (benefit)	(198)	215
Net income	$ 26,304	$ 30,611

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, 2022 and 2021
(amounts in thousands)

	2022	2021
Net income	$ 26,304	$30,611
Other comprehensive loss net of tax:		
Unrealized loss on securities -		
Unrealized holding loss arising during the year, net of tax benefit of $1,973 and $291 in 2022 and 2021, respectively	(28,386)	(4,190)
Total other comprehensive loss	(28,386)	(4,190)
Comprehensive income (loss)	$ (2,082)	$26,421

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, 2022 and 2021
(amounts in thousands, except share data)

	Total Stockholders' Equity	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unallocated ESOP Shares
BALANCE, December 31, 2020	$ 143,819	$ 20,314	$ 8,957	$ 109,962	$ 4,908	$ (322)
Net income	30,611	-	-	30,611	-	-
Other comprehensive loss, net of tax	(4,190)	-	-	-	(4,190)	-
Employee stock ownership plan:						
Shares released to participants	35	-	3	-	-	32
Distributions to unallocated shares	21	-	-	21	-	-
Distributions to stockholders	(10,665)	-	-	(10,665)	-	-
BALANCE, December 31, 2021	159,631	20,314	8,960	129,929	718	(290)
Net income	26,304	-	-	26,304	-	-
Other comprehensive loss, net of tax	(28,386)	-	-	-	(28,386)	-
Employee stock ownership plan:						
Shares released to participants	357	-	67	-	-	290
Distributions to unallocated shares	27	-	-	27	-	-
Distributions to stockholders	(21,330)	-	-	(21,330)	-	-
BALANCE, December 31, 2022	$ 136,603	$ 20,314	$ 9,027	$ 134,930	$ (27,668)	$ -

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, 2022 and 2021
(amounts in thousands)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 26,304	$ 30,611
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,121	2,355
Provision for loan losses	400	580
Deferred income taxes	(926)	328
Net amortization on securities	311	519
Change in value equity securities	-	(5,223)
Other gains, net	(999)	(443)
Non-cash contribution	-	1,620
Change in operating assets and liabilities:		
Accrued interest receivable	(751)	987
Accrued interest payable	110	(59)
Other assets and liabilities	1,789	(3,096)
Net cash provided by operating activities	28,359	28,179
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales, maturities, prepayments and calls of securities	56,802	54,927
Purchase of securities	(68,321)	(115,418)
Proceeds from redemption of restricted stock	1,915	160
Purchase of restricted stock	-	-
Decrease in federal funds sold	16,870	9,190
Purchase certificates of deposit with other financial institutions	(2,000)	-
Proceeds from sales of foreclosed real estate	-	75
Net (increase) decrease in loan originations and principal collections	(129,551)	15,111
Proceeds from sales of premises and equipment	-	-
Purchase of premises and equipment	(678)	(467)
Proceeds from payment of annuity contracts	366	295
Net cash used in investing activities	(124,597)	(36,127)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits and NOW, money market, and savings accounts	11,267	203,107
Net decrease in time deposits	(13,458)	(48,814)
Net increase in securities sold under agreements to repurchase	14,610	2,048
Decrease in Federal Home Loan Bank advances	-	(31,575)
Net ESOP transactions	384	56
Distributions to stockholders	(21,330)	(10,665)
Net cash (used in) provided by financing activities	(8,527)	114,157
NET (DECREASE) INCREASE IN CASH AND DUE FROM BANKS	(104,765)	106,209
CASH AND DUE FROM BANKS, beginning of year	173,234	67,025
CASH AND DUE FROM BANKS, end of year	$ 68,469	173,234
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for income taxes	$ 122	$ 120
Cash paid during the year for interest	4,103	4,123
NONCASH INVESTING ACTIVITIES		
Real estate acquired in settlement of loans	$ -	$ 56

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. (Company) is a bank holding company whose principal activity is the ownership and management of its wholly-owned Subsidiary, Bank of Tennessee (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 loan losses, other-than-temporary impairments of securities, and the fair value of financial instruments.

The determination of the adequacy of the allowance for loan 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 23, 2023, 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 evaluates investment securities for other-than-temporary impairment using relevant accounting guidance specifying that (a) if the Company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless a credit loss has occurred in the security. If management does not intend to sell the security and it is more likely than not that they will not have to sell the security before recovery of the cost basis, management will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income (loss).

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances less the allowance for loan losses and deferred PPP fees. Interest income is accrued on the outstanding principal balance. Except for PPP fees, the Company does not defer loan fees and related loan origination costs. Based on management's assessment, except for PPP fees, the difference between deferral and immediate recognition of such fees and related costs is not material.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, or at the time the loan is 90 days past due, unless the loan is well-secured and in the process of collection. Other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal and interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income or charged to the allowance unless management believes that the accrual of interest is recoverable through the liquidation of collateral. Interest income on nonaccrual loans is recognized on the cash basis or cost recovery method, 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 the loan has been performing according to the contractual terms generally for a period of not less than six months.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Confirmed losses are charged off immediately. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the uncollectibility of loans in light of historical experience, the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrower's ability to pay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses, and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For impaired loans, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for other qualitative factors. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data. An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified at the borrower's request, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest when due.

Loans that experience insignificant payment delays and payment shortfalls are not classified as impaired. Impaired loans are measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

The Company's homogeneous loan pools include residential real estate loans, commercial real estate loans, construction and land development loans, commercial and industrial loans, and consumer and other loans. The general allocations to these loan pools are based on the historical loss rates for specific loan types and the internal risk grade, if applicable, adjusted for both internal and external qualitative risk factors. The qualitative factors considered by management include, among other factors, (1) changes in local and national economic conditions; (2) changes in asset quality; (3) changes in loan portfolio volume; (4) the composition and concentrations of credit; (5) the impact of competition on loan structuring and pricing; (6) the impact of interest rate changes on portfolio risk and (7) effectiveness of the Company's loan policies, procedures and internal controls. The total allowance established for each homogeneous loan pool represents the product of the historical loss ratio adjusted for both internal and external qualitative risk factors and the total dollar amount of the loans in the pool.

Troubled Debt Restructurings

The Company designates loan modifications as troubled debt restructurings (TDRs) when, for economic or legal reasons related to the borrower's financial difficulties, it grants a concession to the borrower that it would not otherwise consider. TDRs can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accrual status, depending on the individual facts and circumstances of the borrower. In circumstances where the TDR involves charging off a portion of the loan balance, the Company typically classifies these restructurings as nonaccrual.

In connection with restructurings, the decision to maintain a loan that has been restructured on accrual status is based on a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation includes consideration of the borrower's current capacity to pay, which among other things may include a review of the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations, a debt to income analysis, and an evaluation of secondary sources of payment from the borrower and any guarantors. This evaluation also includes an evaluation of the borrower's current willingness to pay, which may include a review of past payment history, an evaluation of the borrower's willingness to provide information on a timely basis, and consideration of offers from the borrower to provide additional collateral or guarantor support. The credit evaluation also reflects consideration of the borrower's future capacity and willingness to pay, which may include evaluation of cash flow projections, consideration of the adequacy of collateral to cover all principal and interest, and trends indicating improving profitability and collectability of receivables.

(amounts in thousands, except share data)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Troubled Debt Restructurings (Continued)

Restructured nonaccrual loans may be returned to accrual status based on a current, well-documented credit evaluation of the borrower's financial condition and prospects for repayment under the modified terms. This evaluation must include consideration of the borrower's sustained historical repayment for a reasonable period, generally a minimum of six months, prior to the date on which the loan is returned to accrual status.

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.

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 $1,919 and $3,652 for the years ended December 31, 2022 and 2021, 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 loan 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, 2022 and 2021, respectively.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 loan losses and accumulated depreciation.

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 $620 and $463 for the years ended December 31, 2022 and 2021, respectively.

Stock Compensation Plan

At December 31, 2022 and 2021, there were no 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Compensation Plan (Continued)

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.

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 (Loss)

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 (loss).

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.

(amounts in thousands, except share data)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards

On January 1, 2022 the Company adopted ASU No. 2016-02 "Leases (Topic 842)" and subsequent amendments thereto, which requires the Company to recognize most leases on the consolidated balance sheets. The standard was adopted under a modified retrospective approach as the date of adoption and the Company elected to apply several of the available practical expedients, including:

- Carry over of historical lease determination and lease classification conclusions
- Carry over of historical initial direct cost balances for existing leases
- Accounting for lease and non-lease components in contracts in which the Company is a lessee as a single lease component

Adoption of the leasing standard did not have a material impact to the Company's consolidated financial statements.

New Accounting Standards That Have Not Yet Been Adopted

Financial Instruments - Credit Losses (Topic 326)

The Financial Accounting Standards Board (FASB) issued new guidance (Topic 326) to replace the incurred loss model for loans and other financial instruments with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loans receivable and held-to-maturity 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 certain leases recognized by the lessor. In addition, the amendments in Topic 326 require credit losses on available-for-sale securities to be presented as a valuation allowance rather than as a direct write-down. Topic 326 will be effective for fiscal years beginning after December 15, 2022. Management is currently evaluating the impact of Topic 326 and believes the impact will not be material to the Company's results of operations or financial position.

NOTE 2. SECURITIES

The amortized cost and fair value of investment securities at December 31, 2022 and 2021 are as follows:

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities available for sale:				
U.S. Government-sponsored enterprises (GSEs)	$ 41,940	$ -	$ (4,580)	$ 37,360
Obligations of states and political subdivisions	61,475	33	(8,814)	52,694
Mortgage backed securities:				
Government National Mortgage Association guaranteed	27,737	-	(4,558)	23,179
GSE residential	96,341	-	(10,743)	85,598
U.S. Treasury	13,832	-	(930)	12,902
	$241,325	$ 33	$(29,625)	$211,733

(amounts in thousands, except share data)

NOTE 2. SECURITIES (Continued)

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities held to maturity:				
Obligations of states and political subdivisions	$ 1,850	$ -	$ (145)	$ 1,705
Mortgage backed securities:				
GSE residential	12,448	-	(1,040)	11,408
	$14,298	$ -	$(1,185)	$13,113

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities available for sale:				
U.S. Government-sponsored enterprises (GSEs)	$ 42,046	$ 734	$ (217)	$ 42,563
Obligations of states and political subdivisions	61,827	1,249	(647)	62,429
Mortgage backed securities:				
Government National Mortgage Association guaranteed	28,889	117	(427)	28,579
GSE residential	77,805	564	(587)	77,782
U.S. Treasury	5,935	-	(18)	5,917
	$216,502	$2,664	$(1,896)	$217,270

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities held to maturity:				
Obligations of states and political subdivisions	$1,885	$ 55	$ -	$1,940
Mortgage backed securities:				
GSE residential	4,915	112	(83)	4,944
	$6,800	$167	$ (83)	$6,884

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

(amounts in thousands, except share data)

NOTE 2. SECURITIES (Continued)

The scheduled maturities of securities available for sale and securities held to maturity at December 31, 2022, are as follows:

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$ 1,822	$ 1,814	$ -	$ -
Due from one to five years	27,084	25,809	760	739
Due from five to ten years	41,621	36,926	1,090	966
Due after ten years	46,720	38,407	-	-
Mortgage-backed securities	124,078	108,777	12,448	11,408
	$241,325	$211,733	$14,298	$13,113

During the years ended December 31, 2022 and 2021, proceeds from sales of securities available for sale and other equity investments were $21,114 and $260, respectively. The Company recognized gross gains of $999 and $20 for 2022 and 2021, respectively.

Temporarily Impaired Securities

The following tables show the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2022 and 20210.

	Less Than 12 Months		12 Months or More		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Unrealized Losses
December 31, 2022:					
Available for sale securities:					
U.S. Government-sponsored enterprises (GSEs)	$ 25,249	$(2,229)	$12,103	$ (2,351)	$ (4,580)
Obligations of states and political subdivisions	29,796	(2,497)	18,531	(6,317)	(8,814)
Mortgage-backed securities-Government National Mortgage Association guaranteed	7,638	(719)	15,541	(3,839)	(4,558)
GSE residential	43,113	(3,346)	42,471	(7,397)	(10,743)
U.S. Treasury	7,453	(428)	5,449	(502)	(930)
	$113,249	$(9,219)	$94,095	$(20,406)	$(29,625)
Debt securities held to maturity:					
Obligations of states and political subdivisions	$ 1,705	$ (145)	$ -	$ -	$ (145)
Mortgage-backed securities-GSE residential	9,772	(605)	1,636	(435)	(1,040)
	$ 11,477	$ (750)	$ 1,636	$ (435)	$ (1,885)

(amounts in thousands, except share data)

NOTE 2. SECURITIES (Continued)

Temporarily Impaired Securities (Continued)

	Less Than 12 Months		12 Months or More		
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Total Unrealized Losses
December 31, 2021:					
Available for sale securities:					
U.S. Government-sponsored enterprises (GSEs)	$ 14,129	$ (208)	$1,029	$ (9)	$ (217)
Obligations of states and political subdivisions	23,728	(622)	495	(25)	(647)
Mortgage-backed securities-					
Government National Mortgage Association guaranteed	23,480	(427)	-	-	(427)
GSE residential	56,261	(587)	-	-	(587)
U.S. Treasury	5,917	(18)	-	-	(18)
	$123,515	$(1,862)	$1,524	$(34)	$(1,896)
Debt securities held to maturity:					
Mortgage-backed securities- GSE residential	$ 2,114	$ (83)	$ -	$ -	$ (83)

For U.S. Government-sponsored enterprises, U.S. Treasury, and mortgage-backed securities, the unrealized losses on the securities shown above were caused by changes in interest rates. For obligations of states and political subdivisions, the unrealized losses were caused by the interest rate environment and reduced desirability for long-duration obligations of states and political subdivisions. It is expected that the securities would not be settled at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2022.

Securities with a carrying value of approximately $45,133 and $83,630 at December 31, 2022 and 2021, respectively, were pledged to secure various deposits and borrowings.

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

	2022	2021
Federal Home Loan Bank stock	$6,268	$8,183
Pacific Coast Bankers Bank stock	102	102
	$6,370	$8,285

(amounts in thousands, except share data)

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES

Portfolio Segmentation

At December 31, 2022 and 2021, the Company's loans consist of the following:

	2022	2021
Commercial real estate	$ 519,087	$ 470,282
Residential real estate	546,535	494,688
Construction and land development	133,599	103,084
Commercial and industrial	171,686	171,493
Consumer and other	13,621	15,116
Total loans	1,384,528	1,254,663
Less – Net unearned fees	(3)	(433)
Less - Allowance for loan losses	(12,573)	(11,429)
Net loans	$1,371,952	$1,242,801

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.

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.

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

Credit Risk Management

The Company employs a credit risk management process with defined policies, accountability and routine reporting to manage credit risk in the loan portfolio segments. Credit risk management is guided by credit policies that provide for a consistent and prudent approach to underwriting and approvals of credits. Within the Credit Policy, procedures exist that elevate the approval requirements as credits become larger and more complex. All loans are individually underwritten, risk-rated, approved, and monitored.

Responsibility and accountability for adherence to underwriting policies and accurate risk ratings lies in each portfolio segment. For the residential real estate and consumer and other portfolio segments, the risk management process focuses on managing customers who become delinquent in their payments. For the commercial and industrial, commercial real estate and construction and land development portfolio segments, the risk management process focuses on underwriting new business and, on an ongoing basis, monitoring the credit of the portfolios, including a third-party review of the largest credits on an annual basis or more frequently as needed. To ensure problem credits are identified on a timely basis, several specific portfolio reviews occur periodically to assess the larger adversely rated credits for proper risk rating and accrual status.

Credit quality and trends in the loan portfolio segments are measured and monitored regularly. Detailed reports, by product, collateral, accrual status, etc., are reviewed by the Senior Credit Officer and the Directors Loan Committee.

The allowance for loan losses is a valuation reserve allowance established through provisions for loan losses charged against income. The allowance for loan losses, which is evaluated monthly, is maintained at a level that management deems sufficient to absorb probable losses inherent in the loan portfolio.

Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses. The allowance for loan losses is comprised of specific valuation allowances for loans evaluated individually for impairment, general allocations for pools of homogeneous loans with similar risk characteristics and trends, and an unallocated component that reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The allowance for loan losses related to specific loans is based on management's estimate of potential losses on impaired loans as determined by (1) the present value of expected future cash flows; (2) the fair value of collateral if the loan is determined to be collateral dependent or (3) the loan's observable market price. The Company's homogeneous loan pools include commercial real estate loans, residential real estate loans, construction and land development loans, commercial and industrial loans, and consumer and other loans.

The general allocations to these loan pools are based on the historical loss rates for specific loan types and the internal risk grade, if applicable, adjusted for both internal and external qualitative risk factors. The qualitative factors considered by management include, among other factors, (1) changes in local and national economic conditions; (2) changes in asset quality; (3) changes in loan portfolio volume; (4) the composition and concentrations of credit; (5) the impact of competition on loan structuring and pricing; (6) the impact of interest rate changes on portfolio risk and (7) effectiveness of the Company's loan policies, procedures and internal controls. The total allowance established for each homogeneous loan pool represents the product of the historical loss ratio adjusted for both internal and external qualitative risk factors and the total dollar amount of the loans in the pool.

(amounts in thousands, except share data)

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

Credit Risk Management (Continued)

The following tables detail activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2022 and 2021. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Year Ended December 31, 2022						
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Unallocated	Total
Balance, beginning of year	$3,357	$3,091	$ 618	$2,241	$ 117	$2,005	$11,429
Provision for (reallocation of) loan losses	76	316	(420)	(953)	128	1,253	400
Recoveries of loans charged off	-	19	603	337	119	-	1,078
Loans charged off	-	(40)	-	(33)	(261)	-	(334)
Balance, end of year	$3,433	$3,386	$ 801	$1,592	$ 103	$3,258	$12,573

	Year Ended December 31, 2021						
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Unallocated	Total
Balance, beginning of year	$2,956	$3,146	$ 673	$1,519	$ 166	$2,691	$11,151
Provision for (reallocation of) loan losses	401	(11)	(159)	1,043	(8)	(686)	580
Recoveries of loans charged off	-	91	104	72	92	-	359
Loans charged off	-	(135)	-	(393)	(133)	-	(661)
Balance, end of year	$3,357	$3,091	$ 618	$2,241	$ 117	$2,005	$11,429

The composition of loans by primary loan classification as well as impaired and performing loan status at December 31, 2022 and 2021, is summarized in the tables below:

	December 31, 2022					
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Total
Performing loans	$508,917	$545,536	$133,599	$168,153	$13,621	$1,369,826
Impaired loans	10,170	999	-	3,533	-	14,702
Total loans	$519,087	$546,535	$133,599	$171,686	$13,621	$1,384,528

(amounts in thousands, except share data)

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

Credit Risk Management (Continued)

	December 31, 2021					
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Total
Performing loans	$459,088	$493,608	$103,084	$166,689	$15,116	$1,237,585
Impaired loans	11,194	1,080	-	4,804	-	17,078
Total loans	$470,282	$494,688	$103,084	$171,493	$15,116	$1,254,663

The following tables show the allowance for loan losses allocation by loan classification for impaired and performing loans as of December 31, 2022 and 2021:

	December 31, 2022						
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Unallocated	Total
Allowance related to:							
Performing loans	$3,081	$3,386	$802	$1,080	$102	$3,258	$11,709
Impaired loans	352	-	-	512	-	-	864
Total allowance	$3,433	$3,386	$802	$1,592	$102	$3,258	$12,573

	December 31, 2021						
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Unallocated	Total
Allowance related to:							
Performing loans	$2,964	$3,084	$618	$1,166	$117	$2,005	$ 9,954
Impaired loans	393	7	-	1,075	-	-	1,475
Total allowance	$3,357	$3,091	$618	$2,241	$117	$2,005	$11,429

A description of the general characteristics of the risk grades used by the Company is as follows:

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.

(amounts in thousands, except share data)

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

Credit Risk Management (Continued)

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.

Uncollectable: Loans in this risk grade are considered to be non-collectible and of such little value that their continuance as bankable assets are not warranted. This does not mean the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Charge-offs against the allowance for loan losses are taken in the period in which the loan becomes uncollectible. Consequently, the Company typically does not maintain a recorded investment in loans within this category.

The following tables outline the amount of each loan classification and the amount categorized into each risk rating as of December 31, 2022 and 2021:

	December 31, 2022					
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Total
Pass	$508,740	$542,179	$133,599	$167,776	$13,518	$1,365,812
Special mention	-	-	-	-	-	-
Substandard	10,347	4,356	-	3,910	103	18,716
Doubtful	-	-	-	-	-	-
Total	$519,087	$546,535	$133,599	$171,686	$13,621	$1,384,528

	December 31, 2021					
	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Commercial and Industrial	Consumer and Other	Total
Pass	$459,211	$489,654	$102,964	$166,081	$14,988	$1,232,898
Special mention	-	-	-	-	-	-
Substandard	11,071	5,034	120	5,412	128	21,765
Doubtful	-	-	-	-	-	-
Total	$470,282	$494,688	$103,084	$171,493	$15,116	$1,254,663

(amounts in thousands, except share data)

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

Past Due Loans

A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. Generally, management places loans on non-accrual when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. The following tables present the aging of the recorded investment in loans and leases as of December 31, 2022 and 2021:

	December 31, 2022					
	30-89 Days Past Due and Accruing	Past Due 90 Days or More and Accruing	Nonaccrual	Total Past Due	Current Loans	Total Loans
Commercial real estate	$ 661	$ -	$ 91	$ 752	$ 518,335	$ 519,087
Residential real estate	2,093	41	2,509	4,643	541,892	546,535
Construction and land development	-	-	-	-	133,599	133,599
Commercial and industrial	695	-	41	736	170,950	171,686
Consumer and other	96	-	19	115	13,506	13,621
Total	$3,545	$ 41	$2,660	$6,246	$1,378,282	$1,384,528

	December 31, 2021					
	30-89 Days Past Due and Accruing	Past Due 90 Days or More and Accruing	Nonaccrual	Total Past Due	Current Loans	Total Loans
Commercial real estate	$ 386	$ -	$ 177	$ 563	$ 469,719	$ 470,282
Residential real estate	2,866	-	2,678	5,544	489,144	494,688
Construction and land development	-	-	-	-	103,084	103,084
Commercial and industrial	470	-	354	824	170,669	171,493
Consumer and other	44	-	39	83	15,033	15,116
Total	$3,766	$ -	$3,248	$7,014	$1,247,649	$1,254,663

Impaired Loans

A loan held for investment is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

(amounts in thousands, except share data)

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

Impaired Loans (Continued)

The following tables detail impaired loans, by portfolio segment as of December 31, 2022 and 2021:

	As of December 31, 2022			For the Year Ended December 31, 2022	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:					
Commercial real estate	$ 7,937	$ 7,937	$ -	$ 8,274	$ 435
Residential real estate	999	999	-	1,023	335
Construction and land development	-	-	-	-	5
Commercial and industrial	654	654	-	726	74
Consumer and other	-	-	-	-	8
Total	9,590	9,590	-	10,023	857
Impaired loans with a valuation allowance:					
Commercial real estate	2,232	2,232	352	2,407	126
Residential real estate	-	-	-	16	-
Construction and land development	-	-	-	-	-
Commercial and industrial	2,880	2,880	512	3,442	138
Consumer and other	-	-	-	-	-
Total	5,112	5,112	864	5,865	264
Total impaired loans	$14,702	$14,702	$ 864	$15,888	$1,121

	As of December 31, 2021			For the Year Ended December 31, 2021	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:					
Commercial real estate	$ 8,611	$ 8,611	$ -	$10,669	$ 604
Residential real estate	1,047	1,047	-	820	346
Construction and land development	-	-	-	-	26
Commercial and industrial	799	799	-	843	106
Consumer and other	-	-	-	-	8
Total	10,457	10,457	-	12,332	1,090

(amounts in thousands, except share data)

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

Impaired Loans (Continued)

	As of December 31, 2021			For the Year Ended December 31, 2021	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with a valuation allowance:					
Commercial real estate	$ 2,583	$ 2,583	$ 393	$ 1,498	$ 30
Residential real estate	33	33	7	16	1
Construction and land development	-	-	-	442	-
Commercial and industrial	4,005	4,005	1,075	2,109	90
Consumer and other	-	-	-	1	-
Total	6,621	6,621	1,475	4,066	121
Total impaired loans	$17,078	$17,078	$1,475	$16,398	$1,211

Troubled Debt Restructurings

At December 31, 2022 and 2021, impaired loans included loans that were classified as Troubled Debt Restructurings (TDR). The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

In assessing whether or not a borrower is experiencing financial difficulties, the Company considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the debtor is currently in payment default on any of its debt; (ii) a payment default is probable in the foreseeable future without the modification; (iii) the debtor has declared or is in the process of declaring bankruptcy and (iv) the debtor's projected cash flow is sufficient to satisfy contractual payments due under the original terms of the loan without a modification.

The Company considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by the Company include the debtor's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan.

The most common concessions granted by the Company generally include one or more modifications to the terms of the debt, such as (i) a reduction in the interest rate for the remaining life of the debt, (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (iii) a temporary period of interest-only payments, and (iv) a reduction in the contractual payment amount for either a short period or remaining term of the loan. As of December 31, 2022, and 2021, management had $829 and $1,283, respectively, in loans considered restructured that are not on nonaccrual. Of the nonaccrual loans at December 31, 2022 and 2021, $217 and $325, respectively met the criteria for restructured. A loan is placed back on accrual status when both principal and interest are current and it is probable that management will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

There were no loans modified as troubled debt restructurings during the years ended December 31, 2022 or 2021.

(amounts in thousands, except share data)

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

Related Party Loans

In the ordinary course of business, the Company has granted loans to certain related parties, including same as rates prevailing at the time of the transaction and repayment terms are customary for the type of directors, executive officers, and their affiliates. The interest rates on these loans were substantially the loan. Changes in related party loans are as follows:

	2022	2021
Balance beginning of year	$ 13,098	$ 12,857
Advances	26,383	15,509
Repayments	(25,090)	(15,268)
Balance end of year	$ 14,391	$ 13,098

NOTE 4. PREMISES AND EQUIPMENT

A summary of premises and equipment at December 31, 2022 and 2021, is as follows:

	2022	2021
Land	$ 7,465	$ 7,465
Building and leasehold improvements	43,207	42,674
Furniture and equipment	17,398	17,310
Transportation equipment	1,107	1,107
Construction in progress	-	173
	69,177	68,729
Accumulated depreciation	(35,477)	(33,587)
	$ 33,700	$ 35,142

NOTE 5. DEPOSITS

The composition of deposits at December 31, 2022 and 2021, is as follows:

	2022	2021
Demand deposits, noninterest bearing	$ 548,980	$ 550,362
NOW accounts	301,215	284,944
Money market accounts	461,541	472,257
Savings accounts	208,409	201,316
Time deposits	79,853	93,310
	$1,599,998	$1,602,189

The aggregate amount of time deposits in denominations of $250 or more at December 31, 2022 and December 31, 2021 were approximately $19,634 and $24,229, respectively. At December 31, 2022 and 2021, the scheduled maturities of time deposits are as follows:

	2022	2021
Less than one year	$65,056	$63,280
One through three years	12,351	27,398
Three through five years	2,446	2,632
	$79,853	$93,310

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, 2022 and 2021, the Company had securities sold under agreements to repurchase of $27,412 and $12,802, 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 $608,819. 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 53% to 83%.

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, 2022, the floating-rate securities in BancTenn Capital Trust II had a 6.97% interest rate which resets quarterly at the three-month LIBOR rate plus 2.65% and BancTenn Capital Trust III had a 6.42% interest rate which resets quarterly at the three-month LIBOR 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, 2022 and 2021. The outstanding balance of the subordinated debentures was $15,465 at December 31, 2022 and 2021.

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 November 30, 2023, unless annually renewed thereafter. There were no amounts outstanding under the line of credit at December 31, 2022 or 2021.

NOTE 9. BORROWINGS UNDER LINE OF CREDIT (Continued)

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 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, 2022 and 2021, 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 $480 and $474 to the Plan for the years ended December 31, 2022 and 2021, respectively.

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 $781 and $1,018 for the years ended December 31, 2022 and 2021, respectively. Accrued deferred compensation of approximately $10,408 and $10,113 is included in other liabilities at December 31, 2022 and 2021, 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.

NOTE 10. EMPLOYEE BENEFIT PLANS (Continued)

Employee Stock Ownership Plan (Continued)

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 2022 and 2021 totaled $380 and $364, 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, 2022 and 2021, there were no repurchase obligations outstanding.

The fair value of allocated shares at December 31, 2022 is $75.00 per share as determined by the most recent stock trade date on December 27, 2022. The fair value at December 31, 2021 was $79.50 per share as determined by the December 31, 2021 stock valuation. The number of shares allocated, unallocated and committed to be released totaled 92,317, zero and zero, respectively, as of December 31, 2022 and 87,317, 4,500, and 500, respectively as of December 31, 2021.

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 190,00 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, 2022 and 2021, there are no options outstanding. There was no stock option activity in 2022 and 2021.

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.

(amounts in thousands, except share data)

NOTE 11. INCOME TAXES (Continued)

The income tax expense in the consolidated statements of income for the years ended December 31, 2022 and 2021, includes the following:

	2022	2021
Current tax expense (benefit):		
State	$ 728	$(113)
Deferred income taxes related to:		
Provision for loan losses	(74)	(18)
Depreciation	(10)	(5)
Deferred compensation retirement plans	(19)	(35)
Cash method of accounting	13	143
Equity securities fair value adjustment	(992)	274
Other	156	(31)
Income tax expense (benefit)	$(198)	$ 215

Deferred tax assets recognized for deductible temporary differences totaled $5,650 and $3,324 at December 31, 2022 and 2021, respectively. Deferred tax liabilities for taxable temporary differences totaled $533 and $1,539 at December 31, 2022 and 2021, respectively.

For the years ended December 31, 2022 and 2021, the Company's income tax expense differs from the amounts computed by applying the state income tax statutory rates to income before income taxes by $1,895 and $1,792 due primarily to state tax credits.

The income tax returns of the Company for 2021, 2020, and 2019 are subject to examination by the IRS, generally for three years after they were filed.

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:

	2022	2021
Commitments to extend credit	$325,051	$285,293
Financial standby letters of credit	2,203	2,374
Other standby letters of credit	1,251	914
	$328,505	$288,581

NOTE 12. COMMITMENTS AND CONTINGENCIES (Continued)

Loan Commitments (Continued)

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.

At December 31, 2022 and 2021, the carrying amount of liabilities related to the Company's obligation to perform under standby letters of credit was insignificant. The Company was not required to perform on any standby letters of credit during 2022 or 2021.

Contingencies

During the normal course of business, the Company is subject to various lawsuits and claims. As of December 31, 2022, 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, 2022, seventy-seven 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 $41,903.

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.

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:

(amounts in thousands, except share data)

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

Fair Value Hierarchy (Continued)

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, 2022	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)	$ 37,360	$ -	$ 37,360	$ -
Obligations of states and political subdivisions	52,694	-	52,694	-
Mortgage-backed securities:				
Government National Mortgage Association guaranteed	23,179	-	23,179	-
GSE residential	85,598	-	85,598	-
U.S. Treasury	12,902	-	12,902	-
Total securities available for sale	$211,733	$ -	$211,733	$ -

There are no Equity securities at fair value at December 31, 2022.

	Balance as of December 31, 2021	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)	$ 42,563	$ -	$ 42,563	$ -
Obligations of states and political subdivisions	62,429	-	62,429	-
Mortgage-backed securities:				
Government National Mortgage Association guaranteed	28,579	-	28,579	-
GSE residential	77,782	-	77,782	-
U.S. Treasury	5,917	-	5,917	-
Total securities available for sale	$217,270	$ -	$217,270	$ -
Equity Securities	$ 20,115	$20,115	$ -	$ -

(amounts in thousands, except share data)

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

Fair Value Hierarchy (Continued)

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, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Impaired loans	$4,248	$ -	$ -	$4,248

	Balance as of December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Impaired loans	$5,146	$ -	$ -	$5,146

Impaired Loans: Loans considered impaired under ASC 310-10-35, *Receivables*, are loans for which, based on current information and events, it is probable that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans can be measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent.

The fair value of impaired loans was primarily measured based on the value of the collateral securing these loans. 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. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors discussed above.

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, 2022 and 2021**.**

For Level 3 assets measured at fair value on a non-recurring basis as of December 31, 2022 and 2021, 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 - 2022:				
Impaired loans	$4,248	Appraisal	Appraisal discounts	39%
Nonrecurring - 2021:				
Impaired loans	$5,146	Appraisal	Appraisal discounts	43%

(amounts in thousands, except share data)

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, 2022, approximately $41,931 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, 2022 was 4.55%. Management believes, as of December 31, 2022 and 2021, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2022, 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.

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, 2022:						
Total capital to risk-weighted assets	$180,183	12.55%	$114,831	8.00%	$143,538	10.00%
Tier I capital to risk weighted assets	167,610	11.68%	86,123	6.00%	114,831	8.00%
CETI capital to risk weighted assets	167,610	11.68%	64,592	4.50%	93,300	6.50%
Tier I capital to average assets	167,610	9.36%	71,631	4.00%	89,539	5.00%
As of December 31, 2021:						
Total capital to risk-weighted assets	$165,402	12.65%	$104,599	8.00%	$130,749	10.00%
Tier I capital to risk weighted assets	153,973	11.78%	78,449	6.00%	104,599	8.00%
CETI capital to risk weighted assets	153,973	11.78%	58,837	4.50%	84,987	6.50%
Tier I capital to average assets	153,973	8.43%	73,037	4.00%	91,296	5.00%

(amounts in thousands, except share data)

NOTE 16. CONCENTRATIONS IN DEPOSITS

The Company had a concentration in its deposits to two customers totaling approximately $113,379 and $123,962 at December 31, 2022 and 2021 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, 2022 and 2021. Items outside the scope of ASC 606 are noted as such.

	2022	2021
Non-Interest Income		
Customer service fees	$ 2,270	$ 1,939
Loan origination and settlement fees (a)	2,104	5,952
Gain on sale of securities (a)	999	424
Change in value equity investments (a)	-	5,222
Other non-interest income	7,438	5,228
Total non-interest income	$12,811	$18,765

(a) Not within scope of ASC 606

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 non-interest income: 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, 2022 and 2021, these amounts totaled $2,281 and $2,245, 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, 2022, and have issued our report thereon dated March 23, 2023, 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 23, 2023

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BANCTENN CORP. AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET
December 31, 2022
(amounts in thousands, except share data)

	Bank of Tennessee	BancTenn Corp.	Eliminations	Consolidated
ASSETS				
Cash and due from banks:				
Noninterest-bearing	$ 40,203	$ 867	$ 867	$ 40,203
Interest-bearing	17,804	10,462	-	28,266
Total cash and due from banks	58,007	11,329	867	68,469
Federal funds sold	30,585	-	-	30,585
Certificates of deposit with other financial institutions	2,000	-	-	2,000
Securities available for sale	211,733	-	-	211,733
Securities held to maturity	14,298	-	-	14,298
Restricted equity investments, at cost	6,370	-	-	6,370
Loans, net of allowance for loan losses	1,371,952	-	-	1,371,952
Premises and equipment	33,700	-	-	33,700
Accrued interest receivable	3,927	-	-	3,927
Cash surrender value of life insurance	28,781	-	-	28,781
Annuity contracts	15,573	-	-	15,573
Other assets	11,480	772	-	12,252
Investment in subsidiary	-	143,489	143,489	-
Total assets	$ 1,788,406	$ 155,590	$ 144,356	$ 1,799,640
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits:				
Noninterest-bearing	$ 549,847	$ -	$ 867	$ 548,980
Interest-bearing	1,051,018	-	-	1,051,018
Total deposits	1,600,865	-	867	1,599,998
Securities sold under agreements to repurchase	27,412	-	-	27,412
Subordinated debentures	-	15,465	-	15,465
Accrued interest payable	96	106	-	202
Accrued expenses and other liabilities	16,544	3,416	-	19,960
Total liabilities	1,644,917	18,987	867	1,663,037
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	142,746	134,930	142,746	134,930
Accumulated other comprehensive loss	(27,668)	(27,668)	(27,668)	(27,668)
Total stockholders' equity	143,489	136,603	143,489	136,603
Total liabilities and stockholders' equity	$ 1,788,406	$ 155,590	$ 144,356	$ 1,799,640

BANCTENN CORP. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF INCOME
Year Ended December 31, 2022
(Amounts in thousands)

	Bank of Tennessee	BancTenn Corp.	Eliminations	Consolidated
INTEREST INCOME				
Loans, including fees	$ 60,956	$ -	$ -	$ 60,956
Securities	5,074	-	-	5,074
Federal funds sold and other	1,066	189	-	1,255
	67,096	189	-	67,285
INTEREST EXPENSE				
Interest on deposits	3,599	-	-	3,599
Interest on other borrowed funds	23	591	-	614
	3,622	591	-	4,213
Net interest income	63,474	(402)	-	63,072
Provision for loan losses	400	-	-	400
Net interest income (expense) after provision for loan losses	63,074	(402)	-	62,672
NONINTEREST INCOME				
Customer service fees	2,270	-	-	2,270
Loan origination and settlement fees	2,104	-	-	2,104
Gain on sales of securities	-	999	-	999
Change in value equity securities	-	-	-	-
Other	7,643	21	226	7,438
Equity in subsidiary's earnings	-	29,260	29,260	-
	12,017	30,280	29,486	12,811
NONINTEREST EXPENSES				
Salaries and employee benefits	27,001	1,822	-	28,823
Occupancy expenses	4,457	-	-	4,457
Software and digital services	5,228	13	13	5,228
Other operating expenses	9,145	1,937	213	10,869
	45,831	3,772	226	49,377
Income before income taxes	29,260	26,106	29,260	26,106
Income tax expense	-	(198)	-	(198)
Net income	$ 29,260	$ 26,304	$ 29,260	$ 26,304

Management's Assessment

Of Internal Control over Financial Reporting

BancTenn Corp's (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 (FRY-9SP). 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 FRY-9SP, as of December 31, 2022, 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, 2022, the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FRY-9SP, 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 instructions for the FRY-9SP, as of December 31, 2022 has been audited by Mauldin & Jenkins, LLC, an independent public accounting firm, as stated in their report dated March 23, 2023.

BancTenn Corp.

William B. Greene, Jr.

Chairman, CEO & President

March 23, 2023

Darla M. Scott

Chief Financial Officer

March 23, 2023